

**Annual
Report
2001**

*10
years*



**SLOVENE
EXPORT
CORPORATION**

Export
Insurance
and Finance
Corporation
of Slovenia, Inc.,
Ljubljana

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Slovenska izvozna družba, družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana
(Slovene Export Corporation, Export Insurance and Finance Corporation of Slovenia, Inc., Ljubljana)
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In accordance with Art. 18 of the Law on Export Insurance and Finance Corporation of Slovenia (Official Gazette RS, Nos. 32/92, 37/95, 34/96, 31/97, and 99/99) the regulations applicable for banks shall also be applied for the Annual Report and Audit of Financial Statements of the Corporation. Supervisory Board shall give its opinion with respect to the Audited Annual Report, and according to the last changes of the Company Law (Official Gazette RS, Nos. 30/93, 29/94, 82/94, 20/98, 84/98 6/99 54/99 and 45/01) also adopt such Audited Annual Report and inform the Shareholders' Meeting about it. The Corporation reports also to the National Assembly of the Republic of Slovenia.

The Annual Report of SEC, Inc., Ljubljana for 2001, which is its ninth Annual Report since the establishment of the Corporation on 22 October 1992, includes Business Report and Financial Statements of the Corporation for the financial year 2001 ended on 31 December 2001, as adopted on the 38/III-5. Supervisory Board's Meeting and presented on the 12th Regular Shareholders' Meeting of the Corporation. The Annual Report was audited by the audit company PRICEWATERHOUSECOOPERS, Ltd., Ljubljana, which issued a positive report about it.

Vision, Mission and Activities

Successful and reputable financial institution - Slovene Export Credit Agency - ensuring to companies

**- economic safety,
- trade facilitation, and
- competitiveness on foreign and domestic market
by the quality offer of services and advanced financial products.**

“SEC, the Export Insurance and Finance Corporation of Slovenia, is a financial institution which provides insurance and finance of export transactions and performs other kinds of operations aimed at stimulating and promoting economic relations with foreign countries “(second paragraph of Art. 2 of the Law on Export Insurance and Finance Corporation of Slovenia, Official Gazette of the RS, Nos. 32/92, 37/95, 34/96, 31/97 and 99/99).

Ensuring Economic Safety, Trade Facilitation and Competitiveness of Slovene Economy

- by effective and successful provision of quality, internationally competitive and custom-made credit insurance services; thus offering to companies:
 - timely and quality insurance cover,
 - adequate protection against commercial and political risks,
 - conditions which enable them to offer competitive terms, increase sales and volume of business, and operate safely on their existing as well as new markets;
- by financing operations under conditions that enable Slovene companies to be competitive and successful exporting to and investing on foreign markets;
- by issuing high quality guarantees and other sureties, thus supplementing the offer of commercial banks and insurance companies and providing the beneficiaries safe business with Slovene companies, enabling at the same time the Slovene companies to take advantage of the business opportunities on foreign and domestic markets;
- by quality and up-to-date information, consultancy, assistance with debt collection, and other services that supplement insurance and finance facilities.

SEC offer of services is customer friendly and benchmarks the best comparable financial institutions.

SEC operates on the principles and strict professional standards of safety, liquidity and profitability, and considers also the internationally established rules and regulations on export credits.

Insurance conditions of cover performed on account of the State consider also the interests of taxpayers. Within the capacities for such insurance the companies are provided with an adequate economic safety whereby it is looked after that in the long-term the business result is at least at breakeven and paid and non-recovered claims as well as costs of such insurance are covered by the paid premiums and fees. Thus, an adequate support of State to the international trade of Slovene economy is secured in the long term.

Activities

- short-term export and domestic credit insurance against commercial risks
- financing
- issuing of bonds and guarantees
- export credit insurance against non-commercial risks
- medium-term export credit insurance against commercial risks
- outward investment insurance against political risks

1992

The Government, the economy and Slovene experts in banking and insurance, researchers and consultants set up the foundations for the establishment of the Slovene Export Credit Agency.

8.7. 1992 - 87 founding shareholders formally sign the Contract on Establishment of SEC.

The Law on the Corporation for Insurance and Financing of Export of Slovenia is adopted in the Assembly of the Republic of Slovenia on 17.7. 1992.

Comparative studies and analyses of international rules made.

22.10. 1992 - Founding General Assembly of SEC; SEC Inc., Ljubljana, is entered into the Court Register on 27.10. 1992.

Tolar becomes the new Slovene currency.

The Bank of Slovenia conducts the policy of managed floating Tolar exchange rate; the first Governor of the Slovene central bank is Dr France Arhar.

New passports, new car license plates.

The Republic of Slovenia is admitted to the membership of IMF, World Bank and other international organisations.

On May 22 Slovenia becomes member of the United Nations Organisation.

In June - the first celebration of Slovene independence.

Olympics - Barcelona. First medals for independent Slovenia - bronze double scull and the coxwainless four oars.

Dr Janez Drnovšek takes seat of Lojze Peterle as Prime Minister.





In Slovenia, before the independence, the insurance of short-term export credits against commercial risks was offered by only one Slovene general insurance company, albeit to a very narrow extent, as a marginal part of its insurance cover facility. Political risks of Slovene companies were until the independence covered only by the then Yugoslav Bank for International Economic Cooperation (JUMBES).

After the independence Slovenia too started building up its own system of insurance and financing of exports. Taking into account some expert proposals from the governmental bodies and the strongly expressed interest of the Slovene economy, on the initiative of some political parties and the Ministry of Foreign Affairs, which at that time covered also foreign economic relations, in autumn 1991 the project of building up a system of insurance and financing of exports started, thus also the establishment of the Slovene Export Credit Agency. Into the project group were included, beside the experts from the Ministry for Foreign Affairs, governmental economic bodies and the Bank of Slovenia, also some experts from banks, insurance companies, research and advisory institutions, the project group being supported by the then Government of Republic of Slovenia.

The drafting of the Slovene system of insurance and financing of exports was to a large extent crowned by the adoption of the Law on the Corporation for Insurance and Financing of Export of Slovenia. The project included also the paying-in of capital, establishment and registration, human resources and technological upgrading, and everything else that was necessary for the beginning of operation of this institution. This demanding and complex process, in spite of huge financial and personnel limitations, was finished within an extremely short period (in one year), the Slovene Export Corporation, Inc., Ljubljana (SEC) having been immediately after its establishment on 22 October 1992 legally, financially, technically, staff-wise and professionally already ready to start its operation.

The Slovene system of insuring and financing of exports patterned after some related foreign agencies, but above all, it wanted to be flexible and ready for future development and changes of the environment, to which it has to adapt regularly.

In light of the fact that the Slovene economy is small and since it was desired, that, in addition to respecting the principles of safe operation, SEC operates from the very beginning also profitably, SEC was designed as one-stop ECA. As such, SEC could operate with lower costs, use the synergy of various activities and fully service the transactions of Slovene companies with its diverse financial and other facilities.

SEC was created as a shareholding company in order to take into account the principles of economic efficiency, the role of the Government in insuring and financing of exports, but also the privatisation trends and the trend of withdrawal of governments from marketable activities, the possibilities available at that time and the needs for sufficient capital funds, subsequent increases of SEC capital, the need for additional sources for financing of SEC operations, the ever greater internationalisation of financial institutions and of Slovene companies, and last but not least, the necessity to acquaint as fast as possible Slovene companies with the facilities of the newly established ECA. The State was to have an adequate role in the operation for account of the State, however, the State's ownership and managerial role in the operation of SEC for own account, were planned to be gradually abandoned.

The basis for the start of SEC operation was, to a large extent, adequate. This is proven by current trends, rapid development the credit insurance in Slovenia, throughout successful operation and development of SEC and its services in the course of the first ten years of its existence.

*Dr Miran Jus
Executive Director for Research and Strategy of SEC*

Slovene Export Corporation - An Overview

Status

- Slovene Export Corporation, Inc., Ljubljana (SEC) is a Slovene export credit agency (ECA). It was established on 22nd of October 1992 as a special private-law financial institution for insurance and financing of exports, in accordance with the special law, i.e. Law on Export Insurance and Finance Corporation of Slovenia (Official Gazette RS, Nos. 32/92,37/95,34/96,31/97 and 99/99).
- The Corporation was registered at the Court Register of the District Court in Ljubljana by the Resolution No. SRG 8069/92 as of 27th of October 1992, under Registration No. 1/19966/00.

Shareholders

- The majority shareholder of the Corporation is the Republic of Slovenia (at the end of year 2001 its share amounted to 91.15 per cent). Other shareholders of SEC are banks, insurance companies, Chamber of Commerce, and numerous other Slovene companies (on 31st of December 2001 there were altogether 81 shareholders).

Activities

(Art. 5 Law on SEC)

- SEC is registered for a broad spectrum of activities providing promotion of sale of goods and services and investments of Slovene companies abroad.

On **its own account**, SEC:

- insures short-term export and domestic credits against commercial risks;
- finances international trade and investment transactions;
- issues bonds and guarantees for transactions of companies on foreign and domestic markets;
- provides credit rating information, business and legal consultancy, assistance with debt collection and other supplementing services.

On **account of the State**, SEC performs:

- short-term and medium-term export credit insurance against non-commercial risks;
- outward investment insurance against political risks;
- medium-term export credit insurance against commercial risks;
- short-term export credit insurance against commercial (non-marketable) risks in non-OECD countries;
- insurance against exchange rate risks;
- in addition, SEC (as the agent of the State) also performs some other activities according to special authorization.

Principles of Operation and Supervision

The operating principles basically consider security, liquidity and profitability. With respect to the standards of safe business operations, reporting, and supervision, practically the same regulations apply for SEC as they do for banks, and with respect to marketable risks insurance SEC performs on its own account the regulations, which apply for insurance companies. Banking operations are supervised by the Central Bank of Slovenia, whereas insurance operations performed on its own account are supervised by the Insurance Supervision Agency. Additionally, SEC is also under supervision of the Ministry of Finance.

Operations on Account of the State and the Role of the Exports Promotion Commission

Separation of Operations on State Account

The operations performed on account of the Republic of Slovenia are from the point of view of business, management and accountancy transparently separated from the operations performed on own account.

Exports Promotion Commission

(Art. 27 of Law on SEC)

Conditions for the insurance cover provided on State account, and the insurance limits for transactions insured in individual countries, require the approval of the inter-ministerial Exports Promotion Commission. The Commission also approves financial transactions exceeding 5 per cent of the capital of the Corporation, as well as insurance transactions and guarantees exceeding 10 per cent of the Corporation's capital.

Precautionary Reserves for Insurance on State Account

(Art. 12 of Law on SEC)

Precautionary reserves, and special precautionary reserves for insurance against exchange rate risks, which, besides the funds of the State budget, represent an important insurance capacity for insurance against non-marketable risks before indemnities from insurance on the State account are paid out of the State budget funds (the initial funds for these precautionary reserves were provided by the Republic of Slovenia according to the special law from the proceeds from privatized socially-owned companies), are formed out of insurance premiums, recovered paid claims, and other income, which the Corporation makes by operations in the field of insurance and reinsurance against non-marketable risks (non-commercial risks, medium-term commercial risks, and other short-term commercial (non-marketable) risks).

These precautionary and special precautionary reserves are, on the basis of long-term contracts between SEC and Ministry of Economy, used in particular to settle liabilities towards the insured and for covering of potential losses arising from insurance transactions performed on account of the State. According to the Law on SEC, the Republic of Slovenia shall ensure funds for payment of claims arising from the insurance against non-marketable risks, should these claims not be settled from these reserves.

[“The Republic of Slovenia guarantees for the contractual obligations of the Corporation arising from issuing guarantees and insurance exceeding Corporation's capital. By special laws, the Republic of Slovenia guarantees for liabilities of the Corporation which exceed the Corporation's capital arising from raising of loans, issuing of guarantees abroad and issuing of securities” \(Article 17 of the Law on SEC\).](#)

[Borrowings on international markets with State guarantees are also regulated by the Law on Guarantees of the Republic of Slovenia for Loans Hired for Export Financing \(Official Gazette RS No. 20/98\).](#)

1993

The business policy of SEC finalized and approved.

Approval of internal rules of SEC, selection of staff.

Beginning of operation of the Slovene Export Credit Agency.

Finnish technical support to SEC financed by EBRD.

Designing of the first policy for insurance in those countries, which were at that time of greater importance for Slovene exports.

Beginning of refinancing of export credits.

Determining the role of the State in the operation of the Corporation on account of the State.

Selection and purchase of the needed computer equipment.

Severe ethnic conflicts on the territory of former Yugoslavia continue.

Lively diplomatic activity: visit of the Czech President Vaclav Havel, the Israeli Foreign Minister Shimon Peres, Milan Kučan's official visit to Pope John Paul II, Dr Janez Drnovšek meets the US president Bill Clinton.

Slovenia accepted as full member in the Council of Europe.

Weapons found at the Maribor airport.

Museum in Kobarid chosen as the best European museum.

One million tulips in "Arboretum", Volčji potok; first McDonald's in Ljubljana, first heart transplantation in Slovenia.

First encouraging signs of growth of the Slovene economy.

Yehudi Menuhin in Ljubljana, the most distinguished music event of the year.





After the official start in 1992 SEC devoted its energy to elaborating business papers and documents - and to personnel policy, particularly with regard to employing young experts. Today, it is evident that this business vision and strategy were the right decisions, since they stipulated growth of capital, development of services and human resources and especially the development of the volume of operation.

Already in the business policy for the year 1992 the insurance of export transactions against non-commercial risks was determined as the priority task. The insurance companies were not capable to take it over. It was determined, that SEC shall, with the assistance of the banks, refinance only capital goods, i.e. primarily export of equipment, transport means, building of complete structures abroad, carrying out of capital investment works and assembling, lease of equipment and purchase of goods and services abroad to settle credits to foreign countries.

In 1993 when the legal framework of operation was already settled and the criteria for the business decision-making respecting the principles of safety, liquidity and partly also profitability were determined, the majority of basic conditions for the beginning of activity were made. Analyses of the broader financial and economic environments, in which Slovene exporters were doing business, relative stability of the Tolar, reduction of inflation, decrease of industrial production and of the gross domestic product, increase of foreign exchange reserves and reduction of short-term indebtedness, these were the attributes, which SEC took into account when preparing its business policy.

One of the elements of monitoring risks was also setting of upper limits of insurance in individual countries, whereby in addition to the risk assessment of countries also levels of their trade, experience of exporters and the interstate relations were taken into account. SEC introduced its own system of monitoring and assessing of country risks. The business policy in 1993 was not restricted only to non-commercial risks but also to the insurance of commercial risks. An agreement with the reinsurance company "Sava" was signed.

The Corporation stated, that it would refinance and recourse those loans of the banks, which they would grant to domestic exporters for exports of capital goods on credit for periods of over two years. Refinancing agreements stipulated, that throughout the whole loan period the interest rate remained fixed, with a foreign currency clause in the currency of the principal loan to the foreign customer. The essential advantage of refinancing was, that such refinanced loans made access to cheaper domestic financial funds possible. When determining the methodology for SEC interest rates for refinancing of export loans, the standpoint was taken into account, that for promoting exports, in the long run it is better and more stimulating to decrease the interest rates of Tolar loans rather than to change the Tolar exchange rate.

At the end I would add, that it would not have been possible to establish SEC without the support of the State and of all political parties, the Ministry Foreign Affairs, the President of the State, the Prime Minister, and the "Nova Ljubljanska banka", and later on, of the Ministry of Economy. Thanks go to all SEC employees, especially to my successor, all of them continuing my work, so that SEC became one of the most successful companies in Slovenia.

Each time when a person looks back at the path he walked, memories come to mind - we made a pioneer work in our new State, there are countless memories and the majority of them are nice.

Dr Zlatko Muršec
First General Director of SEC

Services

Insurance and Financing of International and Domestic Trade

Compared to other export credit agencies in other countries, SEC is a one-stop agency, that offers their customers for their operations on foreign and home market a wide and complete range of various financial services and products of:

- insurance,
- financing and
- issuing of guarantees,

complemented by some additional services like information on credit rating of companies and banks, country credit risks, legal and business advice, assistance with debt collection, etc.

Complete Offer of Services

SEC is the only financial institution in Slovenia which insures export credits against commercial as well as non-commercial risks, including exchange rate risks, and at the same time insures outward investments of Slovene companies against political risks. Thereby, SEC is, from the insurance point of view, completely attending the transactions of sale of its clients. Besides insurance of export credits SEC offers also the possibility of indirect or direct financing in domestic or foreign currency, including the purchase of receivables, and issuing of various guarantees. SEC does not only support its customers in entering into foreign markets. It also insures their domestic credits against short-term commercial risks. By providing comprehensive insurance cover, SEC can cover their whole turnover. The same is true for SEC guarantees which are issued for foreign beneficiaries and also for business transactions on domestic market.

Trade Promotion and Risk Management

With its advisory and preventive function of insurance SEC supports the Slovene companies when entering into their sales markets, recovers their claims at the occurrence of insured events, and thereby insures them against the risks of non-payment of their domestic and foreign buyers, debtors or guarantors, irrespective if the ground for non-payment was commercial or non-commercial risk. SEC also assists them with collection of debts, provides credit rating information and legal and business advice.

Export and domestic credit insurance and insurance of investments, through assignment of insurance rights to commercial banks, also makes bank and other loans necessary for business more readily available to exporters.

With its services SEC:

- enables and makes easier companies' external financing of operations, which
- provides possibilities for successful entering into markets with competitive sales terms and thereby
- increasing their sale whereby with quality insurance products, SEC
- covers risks of non-payments of their buyers due to insolvency or political risks in their environment, and thereby
- improves their risk management, and
- provides economic safety of their operations on foreign and home markets.

Statement of the Management

The Board of Directors is pleased to inform the Supervisory Board, shareholders, business partners and other interested public, that in its 10th year of existence the Corporation has again

- successfully managed business operations
- achieved the set goals and
- additionally strengthened foundations for future development of the Corporation, its services, and the system of insurance and finance of international trade of the Republic of Slovenia, as foreseen and adopted by the Development Strategy.

Last year was again extremely dynamic for SEC, especially with respect to the increase of business volumes and quality of services.

In 2001 SEC insured already 13 percent of total Slovene exports and financed 4.5 percent of them. The result ranks SEC among the more active export credit agencies also on the worldwide scale. It is evident that SEC is becoming an important business partner for Slovene companies and banks in supporting their operations on foreign and home market.

Insurance of credits and outward investments against commercial or non-commercial risks has gradually become not only necessity but also standard for an effective risk management. We are, therefore, trying to fulfill the requirements of our clients, who are already well informed about the importance of such services, as well as of those, who are only getting acquainted with them and still do not consider economic safety and effective risk management priority factors in defining main reasons of their business. We are pleased to see that our clients consider such services not only a rational form of protection against risks but also a quality instrument, which supports their offer of competitive terms as well as increase of their sales at home and abroad.

Financing of exports and issuing guarantees supplements our offer with financial sources at favorable terms. SEC, that has already gained its position in re-financing of banks' loans in domestic currency, has been increasingly active in providing long-term sources for financing of Slovene exports and outward investments also in foreign currency.

Last year SEC achieved the planned profit and also a positive result in the State account business, thus providing necessary insurance capacities for Slovene exporters also in future.

Past results, along with the well-developed insurance and finance facilities, make achieving of the planned strategic goals possible. Our endeavors and business

activities will be oriented towards supplementing and integrating our offer. Besides “pure” insurance and finance facilities our range will include also quality supplement services, such as provision of credit rating information, assistance with debt collection, and other legal services; all of them supported by our on-line E-business system SEC-NET.

Future years will most probably increase risks of operations, conditioned by the expected recession on our important markets and an increased number of bankruptcies and payment defaults. The need for greater economic safety will become even more obvious; the companies will be compelled to manage their risks using tools that are used also by companies in other developed countries. We see this situation a great challenge to assist Slovene companies and also to use the opportunity to achieve our goals.

Marjan Kramar
Chairman of the Board of Directors



Statement of the Supervisory Board

Members of the Supervisory Board of the Slovene Export Corporation Inc., Ljubljana: Darko Tolar, M.Sc., Chairman, Janez Lotrič, Deputy Chairman, and Pavel Demšar, Janko Deželak, Ivan Ferme, Mateja Mešl, M.Sc. and Jože Stanič were appointed on the 11th regular Annual Shareholders' Meeting, on July 19, 2001. Newly appointed Supervisory Board met at three regular meetings, whereas Supervisory Board in the previous composition met at two regular and one correspondence meeting.

Supervisory Board worked in line with the Rules of Procedures of the Supervisory Board and the Statute of the Slovene Export Corporation Inc., Ljubljana, which all define its competences regarding supervision of the business management.

Last year Supervisory Board regularly followed and supervised the operations, especially in view of achieving goals set for the year 2001 and during its meetings discussed in particular:

- periodical business reports
- regular quarterly reports of Internal Audit and Controlling and its plan of work for 2002
- business policy for the year 2002 and
- borrowings on international markets.

Supervisory Board was also informed about the findings of the regular partial review of the Corporation's operation, carried out by the Central Bank of Slovenia in September 2001.

Supervisory Board discussed in detail the report on development strategy of the Corporation and realization of the main strategic goals on the basis of which it approved directions and proposals regarding future activities, in particular:

- dynamic development of business and quality of individual insurance and banking services
- future strengthening of business and financial credit rating of the Corporation and
- assuring reputation of SEC in domestic and foreign (business) public.

Supervisory Board had all the requested data available and was thus able to regularly assess the achieved results and work of the Board of Directors and make decisions within its competence.

At its correspondence meeting on March 27, 2002 Supervisory Board also accepted the proposal of the Board of Directors that 50 percent of the net profit for the year 2001 in the amount of 81,435,154 SIT would be allocated to the reserves.

At its regular meeting on April 18, 2002 Supervisory Board discussed the Annual Report of the Corporation for the year 2001 and reports of the authorized auditor and actuary, made by the audit company Pricewaterhousecoopers and by authorized actuary Mr. Matjaž Musil.

When examining reports, Supervisory Board ascertained, that in the year 2001 the Corporation successfully carried out the planned policy and achieved considerable growth of business. The Auditor's Report confirmed appropriate management of business activities and successful management of Corporation's assets, which further strengthened financial credit rating of the Corporation serving as a solid basis for the foreseen future developments.

After examination the Supervisory Board accepted the Annual Report of the Slovene Export Corporation, Inc., for the year 2001.

In line with the provision of Article 274.a of the Company Law, Supervisory Board also examined the proposal for the use of the net profit and Auditor's Report, with both of which it fully agreed and had no objections whatsoever to any of them.

The adopted Annual Report for 2001 along with the Report of the Supervisory Board on Annual Report was also presented to the Regular Shareholders' Meeting.

Darko Tolar, M.Sc.
Chairman of the Supervisory Board



Highlights - Operations in 2001

- At the end of 2001 the share capital of SEC amounted to 9,323,540,000 SIT, i.e. 42.1 million EUR* (it is divided into 932,354 shares of face value 10,000 SIT per share).
- At the end of the year the capital of Corporation amounted to 17,999,640,591 SIT (81.3 million EUR);
- The audited book value of a share, as of 31 December 2001, was 19,305.59 SIT.

SEC, Inc. ended the financial year 2001 with profit before tax in the amount of 211,318,526 SIT (954,424 EUR).

The net profit for the last year was 162,870,309 SIT (735,607 EUR), the unallocated net profit for the business year 2001 amounted to 81,435,154 SIT (367,803 EUR). With approval of the Supervisory Board the Board of Directors allocated 50 percent of the net profit into reserves, i.e. 81,435,154 SIT.

Despite large investments in development, personnel, training, and information system the corporation has operated with profit all years since its establishment. Apart from the principal of profitability, which reflected in the planned positive financial results, SEC took into account also the principles of security and liquidity of its operations, which ensures the Corporation a good credit rating.

- With the big increase of the volume of business and by that also exposure, the fact that the Corporation takes care of security of operation is evident also through the level of long term provisions, which as per 31 December 2001 amounted to 4,573,396,495 SIT (20,655,828 EUR).
- **The result of insurance for account of the State for the last year was positive again, since the premiums for this insurance (2.77 million EUR) exceeded the paid claims (160,571 EUR) by 2.61 million EUR**, thus, the precautionary reserves for this insurance increased and on 31 December 2001 amounted to 67.97 million EUR (in addition to that a special precautionary reserves for insurance against exchange rate risks amounted to 4.48 million EUR).

Table 1:
An Overview (1997-2001)
in EUR

	1997	1998	1999	2000	2001
No. of shareholders	92	87	84	83	81
Share capital	49,125,000	49,350,000	47,251,000	44,082,000	42,110,000
Capital	67,562,000	73,677,000	76,442,000	78,807,000	81,296,000
Profit	581,000	736,000	633,000	919,000	954,000
Profit/Share capital	1.2	1.5	1.3	2.1	2.3
No. of employees	39	42	47	50	56

* Note: Where not specifically indicated otherwise, SIT equivalents in EUR are used for showing SEC figures, calculated for financial statements at the end of each calendar year in accordance with middle (final monthly) exchange rates of the Central Bank of Slovenia on the last day of each calendar year (the conversion rate of ECU to EUR being 1: 1). Thus the following EUR exchange rates have been used for expressing the data in EUR: 31.12.1997 :1 ECU =186.7334 SIT; 31.12.1998 :1 EUR =188.9271 SIT; 31.12.1999:1 EUR =197.3215 SIT; 31.12.2000:1 EUR =211.5062 SIT; 31.12.2001: 1 EUR = 221.4095 SIT. For other operational figures the values expressed in EUR have been calculated from the average monthly exchange rates of the Central Bank of Slovenia in individual calendar years (1997 :1 ECU =180.3985 SIT; 1998: 1 EUR =186.2659 SIT; 1999: 1 EUR =193.6253 SIT; 2000 : 1 EUR =205.0316 SIT; 2001 : 1 EUR =217.1851 SIT). For figures concerning the growth of operations and comparisons of business volumes by individual years, as well as for calculation of various indexes figures in SIT have been used, unless specifically indicated otherwise in the text.

Last year SEC increased heavily its business volumes in both main fields of operation, insurance and financing.

- The total value of insurance transactions increased by almost 40 percent, and in 2001 amounted to 1,624 million EUR (which is according to the provisional official data already 13 percent of the whole Slovene exports);
- The volume of transactions on account of the State increased by almost 14 percent and amounted to 936.3 million EUR.
- The volume transactions on own account increased by 42 percent and amounted to 1,219 million EUR in the last year.

- The premiums for the insurance in whole have also increased (by 18 percent) and amounted to 6.7 million EUR, in addition the volume of all paid claims also increased (by 37 percent) and amounted to 2.46 million EUR. This reflects considerable reduction of paid claims from insurance on account of State, if compared to the last year, whereas claims from insurance against short-term commercial (marketable) risks on own account increased extensively (68 paid claims in the total amount of 2.3 million EUR). Nevertheless, the result of insurance on own account was again positive. (The paid claims represented already 59 percent of the premiums for this insurance).

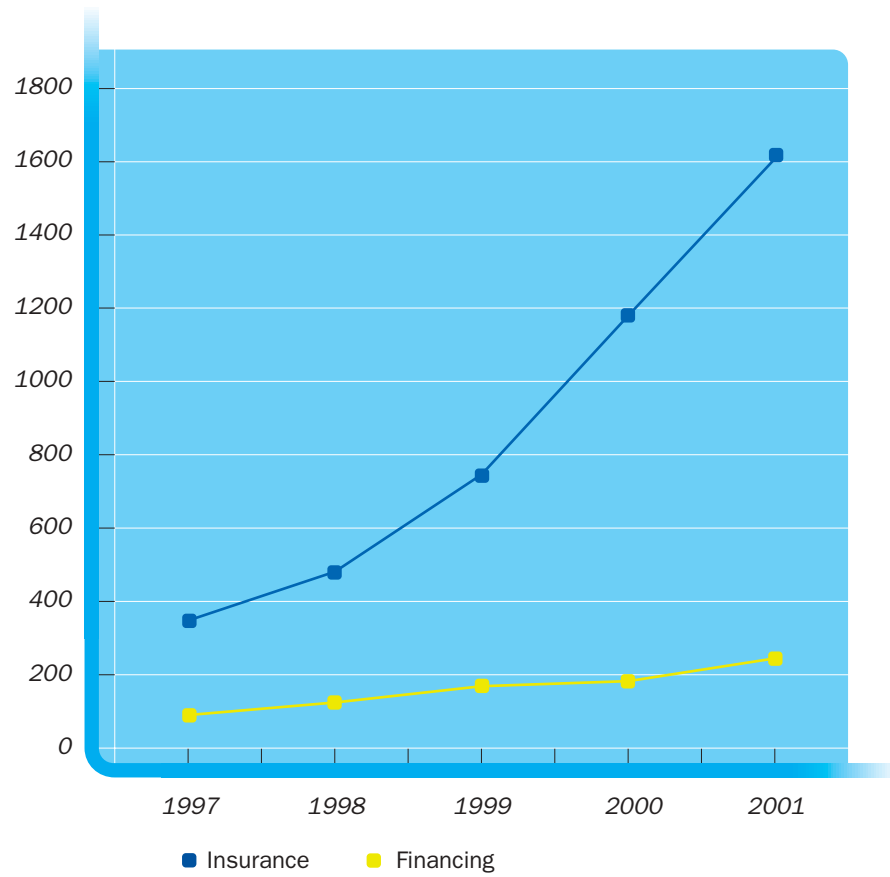
In addition SEC increased the volume of business also in the field of financing of export transactions and investments abroad. Last year SEC financed 1117 transactions of 398 companies,

- whereby the financing of SEC as per 31 December 2001, if compared to last year, increased by almost 30 percent and
- amounted to 50.6 billion SIT (228.8 million EUR).

SEC offered to Slovene companies and banks funds for financing international business transactions under favorable conditions also in the last year. This enabled the said companies and banks a competitive operation on demanding foreign markets.

Last year SEC continued with the implementation of programme of borrowings on the international financial market that started already in 1999. With the raised syndicated loans and with the guarantees of the State SEC provides favorable long term sources of funds and enables Slovene companies financing international business transactions also in foreign currency.

Figure 1:
Volume of Insurance
and Financing
(as per 31.12)
in million EUR



1994

Marjan Kramar becomes member of the Board of Directors along with its Chairman, Dr Zlatko Muršec

Beginning of the rapid growth of the insurance volume.

Initial capital of SEC (third instalment) fully paid in.

Targeted and accelerated training of the employees.

Intensive contacts with the members of the Berne Union.

Volume of the issued guarantees exceeds 200 million USD.

Low percentage of refinancing due to limited funds.

Second opinion poll among Slovene exporters.

First compensation paid out; later, the first loss paid out in Iran.



Winter Olympic games - Norwegian Lillehammer. Three bronze medals - Katja Koren in slalom, Alenka Dovžan in alpine combination and Jure Košir in slalom.

Affair "Depala vas". Successful parliamentary interpellation against the Defence Minister Janez Janša, demonstrations in front of the Parliament.

Jure Šterk, the solitary sailor, sails around the world.

"Smelt Olimpija" basketball team wins European Cup.

Britta Bilač wins gold medal at the European Athletic Championship.

Donation of the sculptor Janez Boljka to the gallery "Božidar Jakac" in Kostanjevica na Krki.

Summit of the presidents of Hungary, the Czech Republic and Slovenia: Goenz Arpad, Vaclav Havel and Milan Kučan.

Each Beginning is Hard



At the time, when SEC Management Board had twice as many people than were employed at SEC, decision making on insurance of transactions was twice as hard. The first problem was, that in spite of lingering memories on JUMBES, the knowledge about SEC was modest, and due to the troubles of some giant companies, like "TAM", "Hidromontaža", "Metalna", "Litostroj" and others, there were no real transactions. The second problem was, that even those, who came to SEC, either already were in some kind of trouble or expected it with a great certainty.*

The circumstances are best illustrated by some of the first insurance policies issued, which all covered the risks of non-honouring of letters of credits by Iranian banks. At that time, due to balance of payment difficulties in Iran the banks were late with payments even more than six months.

As SEC had no experience of its own, and since kindred agencies (HERMES, SACE, COFACE) were rather reserved with advice in light of their own difficulties with Iran, SEC had no other choice but to emulate the private insurance market (Lloyds).

Due to already registered delays, the insurance policies consequently contained the provisions of two times longer waiting period (12 months), increased self-retention (30% instead of 15%) and a premium, that was then charged by the private insurance market and which amounted, from the present perspective the incredible 6% (for short-term transactions).

Interestingly, an Austrian bank, the then Handelsbank, financed the two insured transactions, and has as the first also checked the quality of the insurance policy. The smaller of the two insurance policies was also the first loss and a few months later, the first real recourse, too. Namely, in final end the Iranian bank paid the whole amount due.

Three policies and one claim - that was the result, which in a blacker scenario could have endangered the entire insurance scheme.

A lot of explaining and many answers were needed to questions such as, why at all have you insured such risky transactions or, why don't you rather insure letters of credits of better banks, etc.

Such collecting of experience was of course very useful to SEC, since one can remember better that, what happened to him, than what is written in the handbook. If I may cite the answer of Ms. Chantal Dutheil given to the question of colleagues from the newly established agencies at the COFACE seminar, which was: "How are we to do this, if we have no experience?" Her answer was: "We can give you some basic principles here, but your experience will come!"

Lado Artnik

Member of the Board of Directors of SEC

Development Strategy

The development strategy of the system of insurance and finance of exports in the Republic of Slovenia and SEC strategic documents and development plans, discussed in 1997, 1998, 1999 and 2001 also by the Supervisory Board, were adopted by the Government of the Republic of Slovenia already in 1999.

Compliance with International Rules on Export Credits

For the development of export insurance and finance system in the Republic of Slovenia the following is undoubtedly very important: the international agreements made within the World Trade Organization (WTO), rules and understandings of the International Union of Credit and Investment Insurers (the Berne Union), and the rules on export credits of organization for economic cooperation and development (in particular the so called OECD Consensus which rules are followed also by SEC, although Slovenia is not yet the member of this international organization, and also the last Knaepen package and the process of harmonization of OECD premium rates) which are together with its other rules also accepted into the rules of European Union / *acquis communautaire*.

SEC development strategy considers *inter alia* also the needs and possibilities of Slovene economy. The development of domestic financial sector, the present and future national legislation, already mentioned international regulations in the field of export credits, modern world practice and trends in the field of insurance and financing of international business transactions, and future Slovene EU membership, for which there is an estimation to be effected in 2004.

On the basis of the above strategy SEC is intensively preparing for the complete harmonization of the insurance and export financing system with the rules, which will be applicable for Slovenia after its accession to EU. Within this framework the professional preparations have been going on in SEC in order to prepare some necessary changes of insurance and financing of exports, especially in the field of insurance of medium-term credit conditions, trade in the common market, co-insurance with other ECAs, exchange of information within EU, etc.

The development strategy includes objectives and tasks, which could be roughly summed up into 5 items:

Growth and Development of Services

◆ Adequate increase of volumes and quality of business in the domestic and foreign markets and quality and development of services in the field of the main as well as other activities, including some new activities, is put in the forefront of the development strategy as a condition for further dynamics and modalities of development of SEC.

Within the future development of the electronic business SEC will

- develop its offer in the direction of service - based credit insurance, which will in addition to taking over of risks of non-payment provide also quality and up-to-date credit information, collection of debt, advising in the field of risk management and other supplementary business services,
- whereby SEC will develop also synthetic product of insurance and assignment/taking over of trade receivables which will be available to the clients as a hybrid product and also by modules,
- and the offer of modern and sophisticated financial instruments custom-made for special customer needs and requirements.

Transfer of Marketable Insurance into Specialised Insurance Company

- ◆ The next objective of strategy is transformation of the existing export insurance and finance system in Slovenia and gradual withdrawal of the State from the field of insurance of marketable risks which may generally be insured on the private (re)insurance market; this will require a gradual transformation of SEC and establishment of a specialised credit insurance company with selected key or strategic domestic and foreign partners;

SEC operations on account of the State are already for a number of years transparently separated from operations on its own account; for its insurance operations, performed on its own account SEC applies regulations from the Insurance Act, and for its other financial operations it applies in particular regulations applicable for banks. The new Insurance Act (Official Gazette of RS Nos. 13/00, 91/00 and 21/02) determines, that the new credit insurance company will operate entirely according to this law. In the given transitional period, which will last until accession of Slovenia to EU, the rules of the new Insurance Act shall apply for the insurance operation of SEC, performed on its own account mutatis mutandis (Art. 335).

Privatization and Increase of Precautionary Reserves

- ◆ In the adopted strategy a gradual privatization of SEC, Inc., Ljubljana, is also planned. This will, in line with the Law on the execution of budget of Republic of Slovenia for the year 2002 (Official Gazette of RS No. 103/01), and according to the decision of its shareholders, in the first phase begin by selling part of shares owned by the Republic of Slovenia, to key domestic partners, predominantly banks and insurance companies and/or to present shareholders and possible institutional investors.

According to recent modifications of the Law on SEC (Official Gazette of RS No. 99/99), the proceeds of SEC shares sold by the State will be used to increase precautionary reserves (according to the said law (Art.12) and Agreement with the Ministry for Economic Affairs they represent long -term liabilities of SEC, Inc., Ljubljana, towards the State) for coverage of claims arising from insurance against non-marketable risks performed by SEC on account of the State. Herewith SEC insurance capacities and possibilities will be increased.

***New Law on Insurance
and Financing of
International Economic
Transactions***

◆ Additionally and in accordance with the adopted strategy there are preparations going on for adoption of the new law on insurance and financing of international economic transactions, which is now still in governmental procedure and which will also replace the present Law on SEC and the Law on Guarantees of the Republic of Slovenia for Loans Hired for Export Financing.

***New Agency Contract
between SEC and the
State***

◆ On the basis of the said law a new long-term agreement will be made between the competent ministry and SEC on performing insurance services on behalf and on account of the State.

World Economic Trends

The trends in the global economy or in the majority of Slovenia's most important economic partners were not favorable in 2001. OECD countries suffered from constant slowdown in economic growth, import demand dropped, high prices of primary commodities started to fall only after the events of September 11th. According to the IMF estimates, GDP growth in the world calmed down to only 2.5 percent last year, which is the lowest rate after the years 1973-74 when the increase of oil prices caused a slowdown. The world trade in goods and services have risen by 2.7 percent last year (drop in USD by 2.3 percent), whereas in developed countries it experienced an advance of merely 1.7 percent. Current account deficits increased to 0.6 percent of the world GDP. Decline in growth, problems and crises in some countries (e.g., Turkey, Argentina), increased uncertainty and resort to safer investments led to smaller extent of capital flows into developing countries (USD 163 billion) as compared to outflows for the first time in 17 years (by USD 1.5 billion).

Numerous reasons are behind the slowdown of global economic growth and they are closely interlinked. The roots go back at least to 2000 as entrepreneurial profits saw a decrease, whereas overvalued stocks, especially of the IT companies, recorded a fall. Oil prices rose substantially for a long-term period, meanwhile monetary policies in USA and in the European Union (EU) shifted to restrictive due to buoyant domestic demand and fear of inflation. The implications of globalization showed their true colors, with recession expanding from USA to other regions, especially to those economies, which traditionally have stronger ties with the USA (the EU, Latin America and Japan, in which case even greater problems are posed by bad bank loans, high public debt, deflation etc.).

As regards the most important Slovenian economic partners, assessments show a rise in the GDP of the EU by merely 1.5 percent in 2001 (Germany saw an increase of solely 0.6 percent, USA advanced by 1.2 percent and CEFTA countries by 2.3 percent). South-East European countries or the Western Balkans were marked by the termination of armed conflicts at the end of the last year and the GDP growth totalled to 3.5 percent. In the following years, sustainable peace in the region of South-East Europe could result in economic growth at a relatively high level, however, in many places foreign aid will be required for their development. If successful economic restructuring and adequate macroeconomic policies are not pursued, these countries could face serious balance of payments problems in the long-term period. Russia, at least according to statistics, managed to resolve its crises, and recorded 5 percentage growth of GDP.

Developed countries responded rather quickly to the slowdown in economy, this phenomenon being especially pronounced in the aftermath of September 11th that threatened with the escalation of armed conflicts, crises, particularly in aviation, insurance and tourism industries, high oil prices, sharp decline in consumption,

market instability and uncertainties affecting the rise in risk premiums and decline in loans and investments. Macroeconomic policies were less restrictive after the second half of 2001; interest rates dropped (on world average, by 232 basis points) and have reached a record, the lowest in this generation. Tax and other fiscal incentives were under way or in preparation, meagre industrial production growth in the period from January 2001 to January 2002 resulted in the reduction of oil prices by 34 percent and the decline in prices of other primary commodities by 14 percent. Later on, those prices, notably the price of oil recovered again.

**Some effects of
September 11th**

The events like the terrorist attacks on New York and Washington on September 11th 2001, response in the Middle East and uncertainties connected with a probable escalation of violence had a profound effect on the global economy, as well as on the insurance sector. The world underwent a transformation in the perception of risks, which gave rise to a strongly pronounced need for economic safety on behalf of the individuals involved in business transactions.

Direct damages inflicted on some insurance and re-insurance companies in the light of tragedies (they could amount to USD 40 billion, some sources indicate USD 50 billion or even USD 75 billion) can hardly be compared even to catastrophes like hurricane Andrew almost ten years ago. Consequently, we are witnessing the erosion of capital in affected insurance companies, issuance of new shares, lower capacities in private co-insurance market and limitations in supply of insurance cover, which is being reflected in the rise in premium rates and thereby connected entrance of new players on the market, and especially in limitations on types and extent of available insurance cover. Therefore, the market is no longer soft and premiums should have reached lower limits in many cases even before. Premium increase does not prove helpful in many cases since when bad risks are involved, the demand for insurance show low price elasticity. The debates on the role of the state in assuming certain risks - *insurer of the last resort* - are beginning, while in many cases, the past saw an increasing role of private credit and political risks (re)-insurance market despite of its cyclical nature and a gradual state withdrawal from insurance against marketable risks.

Similar to deteriorating payment discipline, chain of bankruptcies (domino effect) or companies' problems and collapses (Enron and some other instances), such events sadly alter perception and risk awareness with insured, hence influencing a greater need for economic safety. To some extent, these events make "good news" for those insurance companies involved in insurance against such "exotic" risks. Usefulness of this service - economic safety granted by insurance - is undoubtedly rising for demanders, which also influences the demand increase in credit and investment insurance on the Slovenian market. On the other hand, it also depends on the disposable income of demanders, whereby the insurance stands as a superi-

or “commodity” (demand increases in line with disposable income), therefore possible recession and pressure on companies costs do not produce a favourable effect on the increased demand for insurance cover.

These influences and their net effect will certainly have a considerable effect on further development of the insurance market in Slovenia. An even greater influence will be exerted with post-transition phase and ownership consolidation in the Slovenian companies, when in time a responsible management, clear and appropriate private ownership structure will acquire a greater significance for risk management comparable to the role in other developed economies.

Economic growth in USA started to revive before the end of 2001, however, in line with predictions favorable trends will have reached Europe by the end of the second quarter this year. Contrary to USA, business profits are not yet advancing, employment rates are not increasing, and wages are still on the rise, resulting in lower investments, lower productivity and reduced competitiveness. In accordance with estimates, import demand in Slovenia’s most important trade partners should advance by 2.9 percent in 2002, whereby predicted revival of production and imports in Germany and countries of former Yugoslavia as well as the maintenance of the current level of imports in Austria and Russia will be of outmost importance. The majority of analysts believe that global economy will not enter the phase of the more rapid growth before 2003.

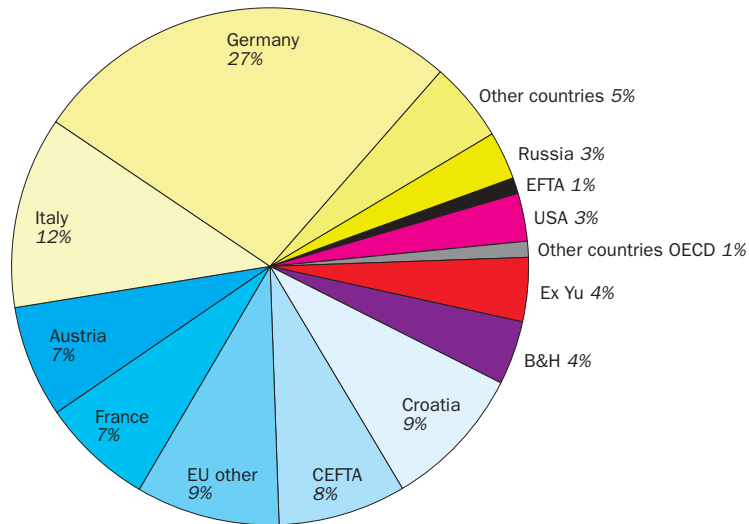
***Slovenian Economy
in 2001***

The Slovenian economy, which is fairly well developed (Slovenian GDP per capita is comparable to less developed countries of the EU and amounts to 71 percent of the EU average), again experienced a solid growth despite of some unfavourable trends in the global economy in 2001. Not completely final data yet indicate the growth of 3 percent; growth in manufacturing production ran at 2.9 percent, thereby ranking Slovenia among highest in Europe. Due to a small and open economy, the strongest impetus is provided by foreign demand or exports. Decline in foreign demand led to drop in the growth of exports last year, however, real export growth was maintained at a high level of 7.2 percent. This phenomenon was on the one hand a consequence of a typical six-month lag of actual decrease in foreign orders behind the slowdown of the world economy and on the other hand a result of an increase of exports to the markets in South East Europe and Russia.

Export - Growth and Expansion to New Markets

The Slovenian trade is quite diversified both in commodities structure and in regional structure. The biggest importance among export markets is attributed to the markets of the EU member states (3.2 percent growth of exports to these countries in 2001), with more than 62 percent share of the Slovenian exports in 2001. The most important foreign trade partners within the EU are Germany, Italy, Austria and France. Apart from some other OECD countries, the markets of particular importance to Slovenia are primarily Croatia (8.6 percent) and other states in the territory of former Yugoslavia, Russia and CEFTA. These countries gained on importance for the Slovenian economy, as their trade shares increased in last two years. Aside from downturn in the business cycle on the EU markets, this regional reorientation of the Slovenian exports was stimulated by favorable economic trends in the countries of Central Europe and Russia, as well as by political and economic stabilization in South- East Europe, thereby also providing incentives for the Slovenian direct investments to these countries. FDI are becoming an increasingly significant factor in further internationalization of the Slovenian economy and in return of Slovenian companies to the markets of South-East Europe. Apart from a significant rise in foreign inward investments, the year 2001 was also marked by a considerable advance in outward investments with a record of USD 176 million. Thus, accumulated outward investments came close to USD 800 million by the end of 2001.

Figure 2:
Regional Structure of Slovenian Commodity Exports (2001)



In 2001, the economic trends in Slovenia were marked by slowdown of the world economic growth, as well as a meagre domestic consumption, and for the first time after the 1992, a slowdown in domestic investment activity, which played an important role among the factors of economic growth in the second half of the nineties.

Since 1995, the share of investments in GDP increased from 21.4 to 27.4 percent in 1999, in the next year the investment activity calmed down while 2001 saw a decrease of 3.5 percent. According to the growing imports of capital goods in the final quarter of the year 2001, the moderate optimism of Slovenian entrepreneurs regarding revival of the economic activities in the second half of the year, and foreseen budget investment expenditure for 2002, the year 2002 can expect a stoppage of unfavorable trends and a revival of investment growth.

After 1999, last two years witnessed a continuation in employment growth (it amounted to 1.7 percent in 2001). On average, the rate of registered unemployed declined to 11.6 percent of active population, while the survey unemployment rate (based on ILO methodology), dropped to even 6 percent in the second half of 2001.

Table 2:
Slovenian Economy -
Selected Economic
Indicators
(1999 - 2002)

	1999	2000	2001*	2002*
<i>GDP</i>				
- (in USD million)	20,071	18,122	18,840	20,412
- per capita (in USD)	10,109	9,105	9,443	10,257
- (real) growth rate (in %)	5.2	4.6	3.0	3.3
<i>Exports</i>				
- real growth rate (in %)	1.7	12.7	7.2	4.7
- goods (in USD million)	8,623	8,808	9,342	10,015
- services (in USD million)	1,899	1,886	1,946	1,936
<i>Current account</i>				
balance (in USD million)	-782.6	-611.5	-66.9	-253
Current account balance as % of GDP	-3.9	-3.4	-0.4	-1.2
Unemployment rate (ILO definition; in %)	7.6	7.0	6.3	6.1
Inflation (CPI; yearly average; in %)	6.1	8.9	8.4	6.4
General government deficit as % of GDP	0.6	1.4	1.4	2.6

Favorable Balance of Payment

In 2001, the external imbalance improved significantly due to improvement of terms of trade, maintenance of dynamic export growth as well as moderate domestic consumption. Trade deficit was reduced to USD 622 million and the current account deficit from USD 612 million in 2000 to only USD 67 million due to surpluses on the balances of services and current transfers.

In 2001, the structure and inflows on capital and financial accounts improved significantly, indebtedness increased less dynamically as a year before (indebtedness of companies and banks abroad was even lower), foreign direct investments grew substantially, reaching the record amount of USD 442 million (particularly in banking sector, telecommunications and food industry). Capital outflows noted a sharp rise (payments of Euro bonds issued in 1996, higher volume of commercial credits hired abroad, larger inward direct and portfolio investments in connection to liberalisation of

Sources: Statistical Office of the RS,
Bank of Slovenia, UMAR.
* Estimates and forecasts.

capital flows). Almost levelled balance of the current account and the relatively high net capital inflows enabled the rise of foreign exchange reserves to more than USD 5.7 billion at the end of December 2001, i.e. USD 1.4 billion more than at the end of the year 2000. Reserves were sufficient to cover a six-month imports. Rising foreign exchange reserves improved also the ratio foreign exchange reserves/total external debt from 70.4 percent in 2000 to 85.4 percent in 2001. At the end of the year 2001, total foreign debt amounted USD 6.7 billion and the debt service ratio 9.3. percent.

Monetary Policy

Favorable position of the current account, substantial currency inflows derived from the sales of capital stakes in domestic companies, and the currency conversion of the twelve European currencies into the Euro had a great impact on the exchange rate of Tolar in 2001. Within the system of managed float exchange rate by using different instruments, the Bank of Slovenia dealt with sterilization of foreign currencies, whereby with the excess supply of foreign exchange, the appreciation of Tolar would imperil the competitiveness of exporters. Foreign currency inflows also influenced the growth of monetary aggregates. The rise in monetary aggregate M3, immediate target of the monetary policy, early reached the upper aim limit for 2001 (the increase between 11 and 17 percent) and afterwards also exceeding it, in the last quarter by already 6.9 percent.

The average yearly inflation persisted at the rate of 7 percent in 2001. External factors (growing prices of oil and other raw materials on the world market, strengthening of USD) influenced more profoundly the price growth in the first half of 2001, however, in the course of the year internal factors gained on importance because they influenced the inflation of food and public utility service as well as fuel for transportation and for central heating due to rising excises. As a result of the high inflation rate and indexation clause for operations in domestic currency, the interest rates on the Slovenian market are still high despite a decrease (in December 2001, real interest rates for short-term and middle-term credits amounted to 6 or 7.9 percent, nominal ones 13.7 or 15.8 percent).

Fiscal Policy

Trends in general government revenues for the year 2001 were influenced by only moderate domestic consumption, higher export and low import, therefore the VAT revenues were lower and the excise duties higher than anticipated. On the other hand, the general government revenues dependent on increasing wages were higher. As regards general government expenditure, the results achieved were lower than estimated at the time of drawing up the budget. Above all, expenditure for pensions and health insurance were higher than foreseen. In line with the estimates, the public finance deficit in 2001 totalled 1.4 percent of GDP, which was equal to 2000. With the low public debt (in 2001, debt amounted to 25.9 percent of GDP) Slovenia meets both fiscal convergence criteria for the accession to the European

Monetary Union, which would most likely be possible in two years after the accession to the EU, if the inflation and interest rates are lowered, the exchange rate of SIT fixed and SIT entered in ERM-2 acceded.

Slovenian Banking and Insurance Sectors

There is an increasing number of modern financial products, regulations, standards of safe operations and control on the market, which are almost completely adapted to demands of the EU *acquis communautaire*. Also, successful bank rehabilitation, liberalization of financial services, free movement of capital and higher competitiveness according to European standards have been implemented on the Slovenian financial sector. However, the sector still needs a faster development (concentration and deepness) in order to be able to offer quality financial services and to successfully compete on the joint European market.

Banking sector, comprised of 20 commercial banks and one (foreign) branch at the end of 2001, registered a 5.4 percent decrease in net interest revenues, a 10.4 percent rise in expenses, net reservations were up by 21.2 percent and a revenue before taxation declined for more than a half. Foreign competitive forces are already gaining on power, and the banking sector continues to consolidate. With adopted privatization program of the two remaining largest state banks, the government follows the aims of greater efficiency of domestic banks as well as their penetration to foreign markets.

The situation on Slovenian fast growing and relatively developed and concentrated insurance market is quite similar. Penetration rate (in 2000 - 4.8 percent) has already reached the level of some EU countries while premiums grow faster than GDP (in 2001 by 19.5 percent), faster growth being seen above all in the sector of life insurance (33 percent). With the adoption of new insurance regulations in compliance with the EU regulations, the privatization of some insurance companies, especially the leading Slovenian general insurance company (having 40 percent of market share) is in a delay, which could hinder the growth and development of the Slovenian insurance sector and have a negative influence on other financial sectors.

Credit Insurance Market

Together with a fast increase in life insurance growth, the previous years saw a fast and continuing growth of credit insurance, particularly in short-term credit insurance. It can be said today that this market developed successfully in less than ten years, as the Slovene Export Corporation (SEC) was established, although the total credit insurance amounts to only 2.4 percent in all premiums invoiced. Credit insurance is already recognized, esteemed and accepted by numerous Slovenian companies and banks as an efficacious instrument of risk protection against default which enables companies competitive offer and sales growth on deferred payment terms with the required economic safety. On Slovenian market, this service is offered by three local insurance companies, the SEC being the leading and the only one specialized in the insurance of this type; other two are general insurance companies with credit insurance (except for consumer credits) being only a complementary service to their main services and therefore represents a marginal part of their total portfolio.

Insurance

With its insurance services and pro-active marketing approach SEC has managed in ten years of its existence to develop domestic market and demand of the companies for credit insurance.

More and more often and in greater extent the Slovene companies use SEC services. The majority of major Slovene exporters give special place and importance to credit insurance among instruments of risk management. This is the result of intensive structural changes in Slovene economy, which is successfully passing out of transition. Risk management will become even more important in the future, when companies and their management will not only take care of production and sales, but also of adequate protection against risks. These are represented by more and more often demand on domestic and foreign markets that sales on credit and/or deferred payment are performed under competitive conditions and also on open account without additional expensive warranties for adequate performance of debtors' obligations.

Comparatively developed economy and relatively favorable trends in Slovene economy contributed also to the fact that in the field of insurance the trend of growth from previous years has been preserved, whereby the growth of SEC business was still considerably higher than economic growth rate in Slovenia in the last five years and also higher than the growth of exports.

- The total value of insurance transactions of SEC again increased considerably in the last year (by almost 40 per cent) since
- in year 2001 the total volume of insured transactions of SEC already amounted to 1,624 million EUR;
- so that the value of transactions insured by SEC now represents already 13 percent of the whole Slovene export of goods and services which is quite good result also if compared with other ECAs in the world.

The share of exports insured by SEC out of the total Slovene exports to individual foreign markets has also gained on importance. A considerable part of Slovene exports, especially to more risky markets, would most certainly not be realized without SEC insurance and the exporters could not offer competitive finance conditions in selling their products. Thus SEC plays a very important role in opening some of the markets for Slovene economy thus contributing to a more favorable balance of payments and better employment in the country as well.

Table 3: Insurance:
Business Insured,
Premiums, Claims -
Values (1997 - 2001)
in million EUR

	1997	1998	1999	2000	2001
Insurance -					
business insured	343.2	493.4	738.5	1,191.6	1,624
<i>short-term transactions</i>	321.4	423.9	719.4	1,154.3	1,561.3
<i>medium-term trans.</i>	21.7	69.5	19.1	37.3	62.7
Premiums	1.4	2.7	3.7	5.6	6.7
<i>short-term transactions</i>	1.2	1.8	2.8	4.8	5.3
<i>medium-term trans.</i>	0.2	0.9	0.8	0.8	1.3
Claims	0.3	0.6	2.5	1.8	2.46
<i>short-term transactions</i>	0.3	0.4	0.5	1.4	2.46
<i>medium-term trans.</i>	-	0.2	2.0	0.4	0
Recoveries	-	-	-	0.4	0.2
<i>short-term transactions</i>	-	-	-	0.1	0.2
<i>medium-term trans.</i>	-	-	-	0.3	-

The majority of all transactions insured in the last year were also short-term. The value of insured medium-and long-term transactions began, after considerable decrease in 1999, to increase again in 2000 and in the last year amounted to 62.7 million EUR if not taking into account given offers. Regarding the fact that the most important foreign trade partners of Slovenia are EU Member States and other developed countries, members of OECD, the majority of insured exports were to these countries. In line with the increased export to the countries of SE Europe, CEFTA and Russia, the volume of insured transactions with these countries also increased considerably in the last year.

- The growth of business volume in the field of insurance reflected also in total premium income, which increased by almost 18 percent, if compared with the year before, and in the last year already amounted to 6.7 million EUR.

(This growth considerably exceeds the growth of paid insurance premiums of the whole credit insurance in Slovenia (1.4 percent). The share of SEC in all premiums for credit insurance in the State in the last year increased again, but today SEC business involves only export credit insurance and insurance of trade receivables of companies on domestic market, where SEC has by far the largest market share among all insurance companies. The business of SEC does not involve consumer and other credits.)

- The volume of all paid claims in 2001, if compared with the year before, increased by 37 percent so that they amounted to 2.46 million EUR (result premiums/claims - 37.3 percent).

Such total insurance-technical result is a consequence of quite lower value of paid claims for insurance on account of the State, whereas the paid claims for insurance of short-term export credit against commercial (marketable) risks, which SEC performs on its own account, almost doubled.

1995

Amendments to the Law on SEC - coverage of buyer credits included - introduction of the medium-term insurance against commercial risks.

Law on the Use of Funds, Acquired from the Proceeds on the Basis of the Ownership Transformation Act - increase of SEC capital.

EBRD finances the technical assistance, which Austrian advisers offer to SEC.

Adoption of the medium-term business plan of SEC.

Short-term commercial insurance - apart from permanent insolvency of the buyers, protracted default is also covered.

Refinancing also of durable goods exports, investments, marketing activities.

Guest performance of some famous names from the world of music in "Cankarjev dom": Polish composer Krzystof Penderecki, Russian cellist Mstislav Rostropovich, US singer Joan Baez and Spanish tenor Jose Carreras

Slovenia becomes full member of the Central European Free Trade Agreement - CEFTA.

146 women participate in the traditional march to the top of Triglav.

7700 pupils make renewed graduation examination in 5 subjects.

Dušan Mravlje wins the Transamerica ultra-marathon.

Big exhibition "Gothic Art on Slovene Territory".





Already from the very beginning of SEC operations there was, apart from insurance of credits also financing of exports in offer. However, the major part of financing was oriented towards depository operation with the Slovene banks and less towards refinancing of export credits of banks, which financed Slovene exporters. In the year 1995 the ratio structure of deposits compared to refinancing was 80 percent of the former and 20 percent of the latter.

In the year 1995 SEC actually redefined the strategy of financing of Slovene exports. In its business policy it defined the tenors of financing, which were comparable to those in the rest of the banking system, described precisely the priorities in the list of goods and services, which are the subject of financing, clearly set the relation between the shares of financing, that are to be provided by SEC and those to be provided by Slovene banks from their own funds. In addition, the contents of credit insurance and financing were linked by using the list of goods and services, subjects of export financing, which followed the rules of the Berne Union and the OECD Consensus. Thus the descriptions of goods and services as well as the tenors were finally adjusted to those from the field of credit insurance. Mutadis mutandis, the rules of the Berne Union were applied also for the financing of less than two years.

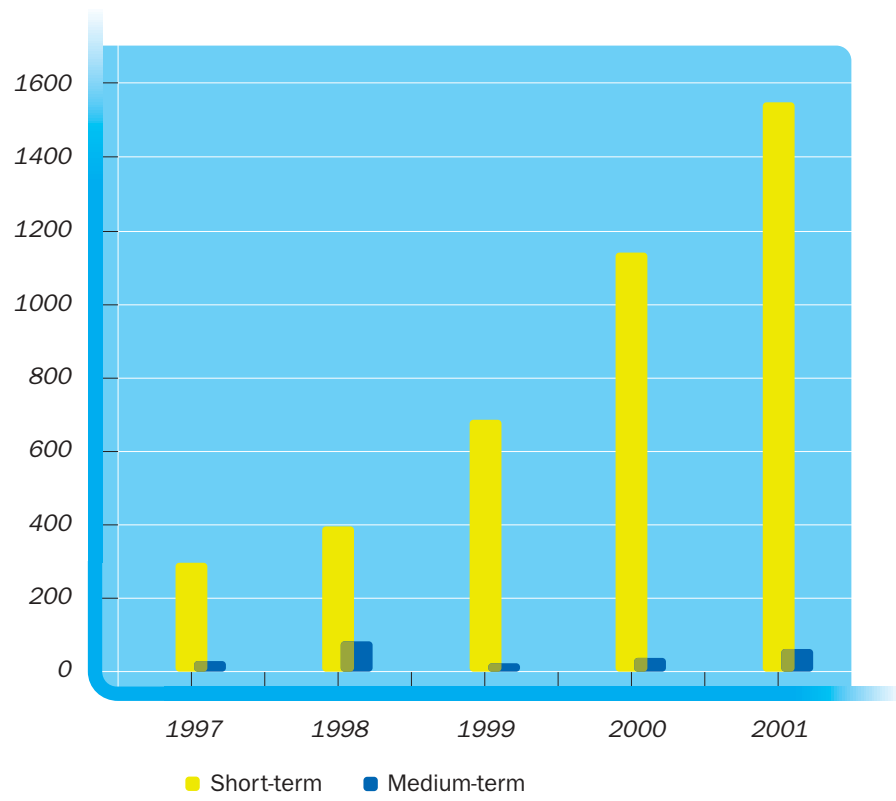
We have been informing the banks at traditional seminars and during our regular visits to them on changes regarding our clear-cut financing rules, which are supplemented and improved each year. A few years ago we introduced the practice of December Joint Seminars for banks, where we acquaint the participants with the novelties regarding financing and insurance applicable in the following year, and the practice of Spring Visits to banks in Slovenia, where we provide education of bank employees, and sometimes at their request, also of their clients.

Our clear-cut policy towards the banks regarding determining of interest rates for export credits and our recommendations regarding the highest interest rate, which the banks may charge to their clients, have most certainly led to the decrease of nominal interest rates for export credits. Thus we helped, above all, those companies, which the banks did not include in the best credit rating classes, to achieve via SEC refinancing of credits such interest rates like the best companies.

Marko Plahuta

Member of the Board of Directors of SEC

Figure 3:
Insurance -
Business Insured
1997 - 2001
(in million EUR)



Insurance of Credits against Short-Term Commercial Risks

This insurance that today is still performed by SEC, Inc. will later on (at the latest on the accession of Slovenia to EU) represent the main activity of SEC daughter company, a specialized credit insurance company. Today there are 14 employees working in this insurance.

Insurance of short-term credits to private buyers in developed countries (as a rule these are supplier credits with maturity up to 180 days, exceptionally up to 1 year) against commercial (marketable) risks, is a basic facility of SEC services offered to Slovene companies selling abroad or at home at deferred payment and, as a rule, on open account, and have with SEC concluded whole-turnover revolving contracts covering risks of non-payment on foreign and/or home markets. In this field SEC is the leading Slovene insurer.

Growth of Volumes

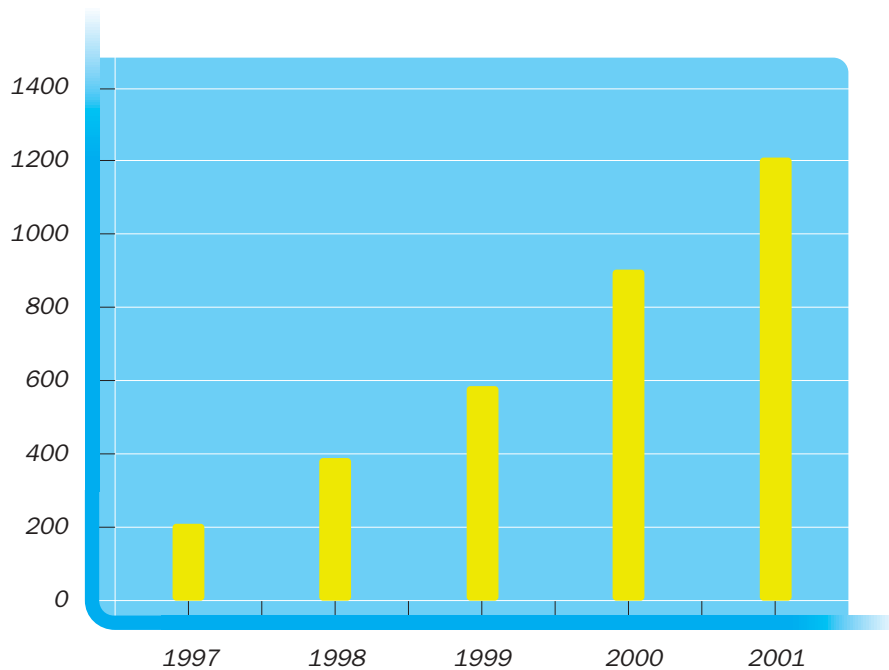
In the field of insurance of short-term credits against commercial risks the volume of operations increased considerably also in the last year, and new customers were won (an overall number of insurance contracts increased by almost 30 percent).

The value of transactions of insurance against short-term commercial (marketable) risks, which are insured on own account and which are also reinsured on the private market with the first class reinsurers, increased considerably also in 2001 (if compared with the year before, by 42 percent), and in the last year for the first time exceeded 1 billion EUR, i.e.

- **it amounted to 264.6 billion SIT (1,219 million EUR).**

The volume of business increased heavily, in particular in the field of insurance of domestic credits - by more than three times.

Figure 4:
Short Term Commercial
(Marketable) Risks
- Business Insured
1997-2001 (in million EUR)



Slovene foreign trade is very diverse: as to products and sectors of economy as well as to partnership relations, although the majority of export is to developed EU Member States (in particular to some neighboring ones) and other neighboring countries, and still minor part of exports also goes to the countries of SE, C, and E Europe. The majority of the insured (policyholders) are from paper industry followed by companies of household appliances industry, machine, chemical, electric, timber industry, leather, textile industry, metal and metal-working industry. A lot of important large Slovene exporters are already insured with SEC. In addition, the insured are also numerous medium and small companies, which are with respect to the access to SEC products given entirely equal treatment as large ones.

In addition, according to the special Medium and Small Size Companies Programme the Corporation has been providing easier access to insurance and financing facilities to small and medium sized companies. Thereby, SEC prepared a specially tailored offer providing favorable business environment with the emphasis on the simplification of process, which is conditioned by the needs and abilities of small and medium sized companies. Within this service the commercial banks play a special role by providing the so-called group policies.

In future SEC shall devote even more of its attention to the small and medium sized companies, since these companies need financing, as well as effective liquidity and assets management, whereby among risks of their operation the risks of non-payment and delays in payment of their buyers are of great importance, as receivables represent a considerable portion of assets of the companies.

Slovene companies are becoming more and more aware of the need for financing of their export and sales on deferred payment. They are also aware of advantages of export credit insurance and the advantage of this insurance compared to other instruments dealing with protection against risks of non-payment in their operation on foreign as well as domestic market. Namely, insurance of credits is a safe, price-competitive and relatively simple instrument of protection against risks of non-payment, which enables companies easier risks management and it also enables them to make competitive sale on credit and on open account, without additional warranties, which would otherwise have to be provided by their buyers. Slovene companies are also becoming more and more aware, that non-payment and insolvency risks exist also on the markets in developed countries and that these risks, if a company is not protected against them, may seriously jeopardize the profitability of their business and even their existence. The increased volume of this type of credit insurance is also the result of SEC extensive marketing activities and increased interest of commercial banks and other financial institutions in additional forms of security when financing their clients. Therefore, in the tenth year of SEC existence we may ascertain, that the Corporation succeeded in developing Slovene market of credit insurance, which is becoming more and more important for all companies at their risks management.

With its services of credit insurance SEC is not limited only to Slovene market. Last year SEC concluded a contract on quota reinsurance of short-term export credits with the Macedonian Bank for Development Promotion (MBDP). The bank insures credits of Macedonian exporters against commercial risks of private buyers from developed countries. In this project, SEC offered to MBDP professional support - advising in the field of insurance and information system technology; the assessments of risks for individual buyers and decisions to enter into particular insurance or not, is within the authority of SEC. The contract is an active reinsurance contract, with which SEC is reinsuring the export of Macedonian companies mostly to countries of Western Europe. Due to the situation in Macedonia the volume of this operation was still limited in the last year.

- SEC exposure against the risks of short term commercial insurance increased significantly in the last year and on December 31, 2001 amounted to 115,0 billion SIT, i.e. 520 million EUR. The highest exposure was towards buyers from Germany, Slovenia, which in the last year took the second place, followed by the buyers from Croatia, Italy, Austria, Great Britain, Poland and France. SEC insured exports against short-term commercial (marketable) risks to 63 countries.

Table 4:
Insurance: Business
on Own Account 1997-
2001
(in million EUR)

Short-term commercial risks	1997	1998	1999	2000	2001
<i>business insured</i>	216.6	389.7	571.9	914	1,219.0
<i>exposure (31.12.)</i>	92.3	141.9	255.3	384	520
<i>premium</i>	0.8	1.4	2.2	3.3	3.9
<i>claims paid</i>	0.3	0.4	0.5	1.3	2.3
<i>no. of claims</i>	4	13	28	66	68
<i>recoveries</i>	-	0.1	0.08	0.08	0.19

Positive Insurance Result

The growth of volume of insurance against short-term commercial risks in 2001 reflected also in the invoiced premium. It increased by 25 percent if compared with the previous year and

- **amounted to 840.3 million SIT (3.9 million EUR).**

In the last year some political events, recession on the important markets, worse payment discipline, which is a huge problem in many places, and bankruptcy of also very eminent companies, influenced the perception of risks by Slovene companies, which are more and more aware of them, as well as of the importance of effective risks management and instruments of protection, among which the insurance of credits is especially important.

- Due to the recession on some important markets and some other reasons claims paid from insurance of short-term credits almost doubled. In 2001, 68 claims arising from the insurance against short-term commercial risks were paid
 - **in total amount of 504.4 million SIT, i.e. 2.3 million EUR.**

(Most claims were paid for the transactions in Italy, followed by transactions in Croatia, Poland, Austria, Slovenia, USA, Germany, Great Britain, Ireland, Slovakia, Netherlands, Czech Republic, Hungary, Turkey, Peru, and United Arab Emirates).

- Business result for this insurance (measured with the ratio between premiums and claims, recoveries not taken into account) in the last year was positive, in the amount of 1.6 million EUR (claims paid represented almost 60 per cent of premiums for this insurance, invoiced in that year).

Besides, in the last year SEC was more successful in collection, if compared with the year before last, and therefore the volume of recoveries in year 2001 arising from insurance against short-term commercial risks increased, if compared with the year before. There were 7 recoveries of paid claims in the total amount 190,000 EUR (2 recoveries in Germany and also 2 in Italy, 1 recovery in Austria, Poland and Hungary).

E - Business

On-line Business Brings Big Changes

E - business (B₂B and B₂C) is not only the future that will certainly gain on importance also in Slovene economy and with financial intermediaries, it is already the fact. E - commerce brings major changes also in the field of credit insurance and other activities of export credit agencies. The roles and meaning of various participants of business transactions are namely changing, financial products are also adjusting to the changed situation due to the development of E-business in the world. Communication between customers and offer of services by the companies for insurance and for financing of business transactions are experiencing changes. Suppliers of financial services and some insurers in the world are beginning, as the answer to the challenges brought about by on-line business, to offer new products and/or to break the existing products to pieces and also separately offer risk management, insurance covers, credit rating and other information as well as other additional services such as invoicing and collection of debts. Their offer, marketing of services, collection and processing of information is made easier by internet and contemporary tools; in addition their costs of operation are lower, response time is shorter and they are able to offer higher quality services which are adapted to the needs of customers.

Quick and Safe Access to the SEC Facilities

To challenges, which are put in front of export credit agencies with the development of E-business, SEC answered with the development of the system called SEC-NET, through which the companies will be able to perform business via internet providing safe, fast and effective on-line access to SEC services.

Easier Operation and Better Risks Management

To the customers, registered users with a user name and password, E-business with SEC (primarily in the field of short-term commercial insurance), will represent a new distribution channel, which will give them a possibility of:

- fast and safe acquisition of quality and up-to-date credit rating information on buyers, debtors and guarantors from numerous databases and with additional analytical work, which will be based on the high professional standards, which are used by the experts of credit rating department of SEC,
- credit rating information supported also by credit limit of buyers (discretionary limit) and "guaranteed" with the limit of insurance cover, up to which SEC is prepared and willing to insure the credits to individual debtor.

SEC-NET will also make possible the following:

- via E-business the companies will have an automatic access to their data
- individual company will have the possibility to perform business transactions with SEC in all the fields, which are covered by SEC activities,
- with the use of simple software and without additional costs for the software the users will have the access to all the relevant data from their operation with SEC.

1996

Establishment of precautionary reserves for the State insurance account.

Introduction of new facilities: refinancing of export credits is expanded also to financing of outward investments; insurance of unfair calling of bank guarantees and honouring of bank guarantees due to non-commercial risks.

Building up of a new, own integral information system (SEC IS).

Enlargement and strengthening of the Legal and Claims Department.

Establishment of the own Credit Rating Department.

SEC authorized to provide opinion with respect to issuance of State guarantees.

SEC cooperates with the Secretary General of the Berne Union at meetings of the newly established ECAs.

EU Phare program finances technical assistance offered to SEC by COFACE.

Signing of the Association Agreement between Slovenia and the European Union.

Olympics in Atlanta, USA; silver medals to the athlete Brigita Bukovec and to the kayak canoeist Andraž Vehovar.

Plečnik's exhibition at Hradčani in Prague.

Pope John Paul II visits Slovenia for the first time.

Exhibition of the painter Marc Schagall in the gallery of the "Cankarjev dom".

Third democratic elections in the independent Slovenia. Coalition between LDS and the surprise of the elections - the SLS.

450.000 pensioners in Slovenia.





SEC experienced its true value, but also recognition, when confronted for the first time with an event, for which the insured actually conclude insurance agreements i.e. policies. After the conclusion of an insurance agreement for insurance of export credits against non-commercial risks, the first compensation was paid out in October 1994. The Slovene exporter did not receive the payment from the Iranian debtor, due to transfer restriction of monies by the country of the debtor. The compensation was remitted to the insured in accordance with the policy in the amount of 70 percent of the pending claim, which at that time represented the maximum possible cover, agreed by the insurance policy. Naturally, the insurance conditions have in the meantime improved substantially, so that, for example, SEC now covers already up to 95 percent of the claim i.e. credit.

Even before paying the compensation, right from the moment, when SEC was informed about the delay in payment, we cooperated with the insured and the Slovene Embassy in Iran and carried out numerous activities, directed to one single goal - payment of the debt. Knowing that success of an export credit agency is not measured only by the volume of concluded transactions and the insured's portfolio, but also by successful recourse of the paid compensations, in that particular case the insured and SEC collected the debt in the full amount. Even today we firmly believe, that only with calculated and well-deliberated measures for prevention and reduction of loss, we can contribute to the payment of a debt, be it prior to compensation payment or in recourse proceedings. Nowadays, when the insurance market is faced with the reality of the growing number of loss events, SEC pays special attention to this segment of its activity.

Unfortunately, some companies become aware of the importance of insuring credits only then, when the need to finally write off a claim to a particular debtor becomes evident. With a timely insurance and conclusion of an adequate insurance agreement with SEC, the seller is insured against financial loss.

However, the advantage of insurance is not only in receiving a compensation, which replaces the debtor's final failure to pay, but also in supplementary services of SEC. SEC cooperation in collection proceedings (with the consent of the insured) has in practice already proved to be an adequate instrument of pressure on the debtor with the final effect of the debt redemption. Advice regarding the appropriate collection agency, attorney or other methods (negotiations, reprogramming, insurance of future deliveries, provided certain conditions are met, etc), all SEC clients can expect.

Unfortunately, not all precautionary measures do always lead to success. There are more and more unexpected bankruptcies even of those companies, which were proverbially good standing, and where even the best experts of the creditor cannot do anything to reduce the loss. In such cases, only an insurance concluded beforehand and compensation, paid out by the SEC to the creditor - the insured - is of help. The process of handling such an application and proving the existence and extent of a claim is simple and short, provided the required documents are presented.

Different to the process of handling a claim, the so-called recourse proceedings last long. Here the insured and SEC, after the compensation is paid, endeavour to collect from the debtor as much debt as possible. Most of such cases are dealt with by specialized agencies or attorney offices often at home, though mostly abroad, whereby SEC ascertains to the insured decision-making, appropriate to the course of individual proceedings. For illustration let us mention the case of a debtor in bankruptcy, who settled part of his debt at the end of 2000 whereby the claim came up in 1995.

Bojan Pecher
Director of the Legal and Claims Department of SEC

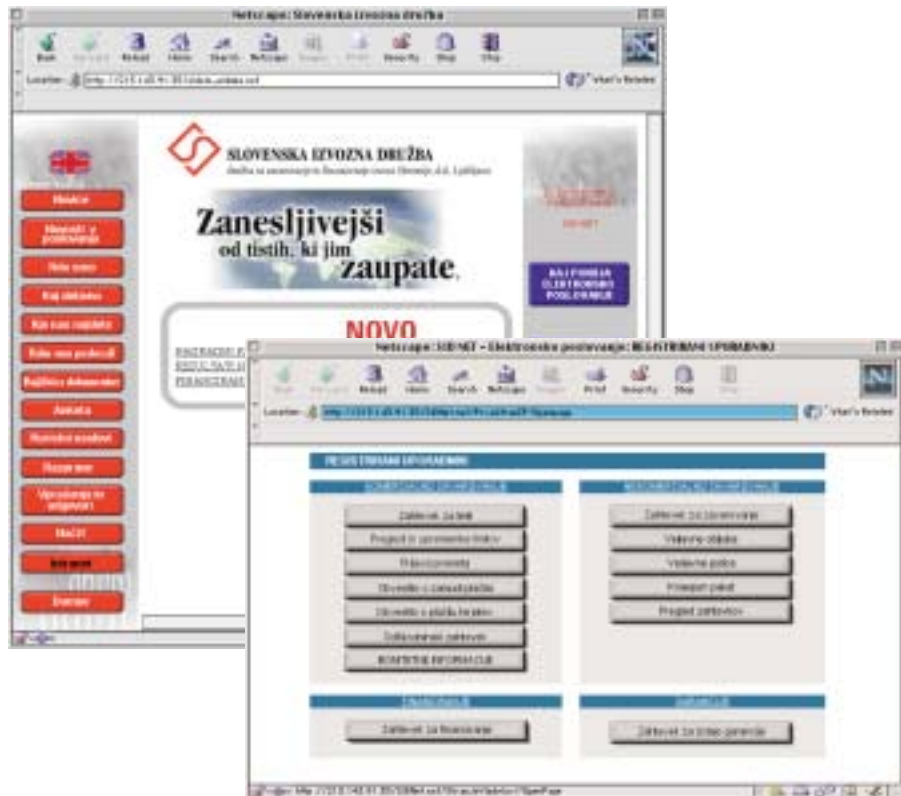
Advantages of SEC-NET are important for the companies, since

- the response time of the companies shall shorten, since via SEC-NET they will receive answers to their demands in insurance and financing of their transactions faster;
- their operations will be performed faster and with less costs;
- in addition, keeping of documents will be much easier since they will have daily insight into their operation with SEC in all phases (e.g. insurance application, offer and entering into insurance contract, declaration of credits, payment of premiums, monitoring of risk, handling with and liquidation of claims, collection of debts, recoveries, etc.),

Thereby, risks management of the companies will be made much easier, whereas the personal contacts with the insured and external provider of funds will not loose on their importance;

the companies - customers of SEC - will in this way have access to services under conditions as offered by other developed export credit agencies and other financial institutions in the world.

SEC-NET
www.sid.si



Credit Rating and Other Information

Insurance of export and domestic credits and investments abroad, issuing of guarantees and financing of international trade transactions - considering the fact that transactions supported by SEC involve risks already according to the definition - require appropriate databases, country risk ratings, credit information and credit ratings of buyers, debtors and guarantors in order to assure successful operation of export credit agencies.

Quality Credit Information Databases and Credit Rating Analysis

Nowadays, the companies and financial institutions are operating in a highly competitive, dynamic, rapidly changing and uncertain environment, which all requires from them - in order to have effective risk management - to be well informed and to make rapid and adequate reaction to the changed situations on the market.

Therefore, in 2001 SEC continued to develop its own credit rating department. The department uses up-to-date professional methodology of risk assessment, information system built up by SEC, already existing and regularly up-dated internal databases, and reliable credit information and analyses of domestic and foreign external institutions, as well as information on foreign markets, paid and potential claims, and buyers, debtors and guarantors, which are exchanged, also among the members of the Berne Union.

In assessing country risks of foreign markets, SEC, in cooperation with some ministries and diplomatic-consular representatives, works closely in particular with the Center for International Co-operation and Development, which provides SEC with the basic country-risk reports for individual markets. SEC internal credit rating department prepares credit rating reports and credit information on domestic and foreign companies and banks. In accordance with the adopted methodology, the credit rating department also regularly up-dated the lists of acceptable banks in individual countries and their approved limits, and, for internal use for the purpose of issuing guarantees and some forms of insurance, as well as for external users of such information, prepared credit rating reports on companies with proposals for their credit rating and limits. SEC provides information also for other domestic and foreign financial institutions; these were especially interested in information on individual markets, companies, and banks in Slovenia and in those countries of SE, C and E Europe, where Slovene industry has more experience, and for which SEC can provide specific information and has more insurance experience.

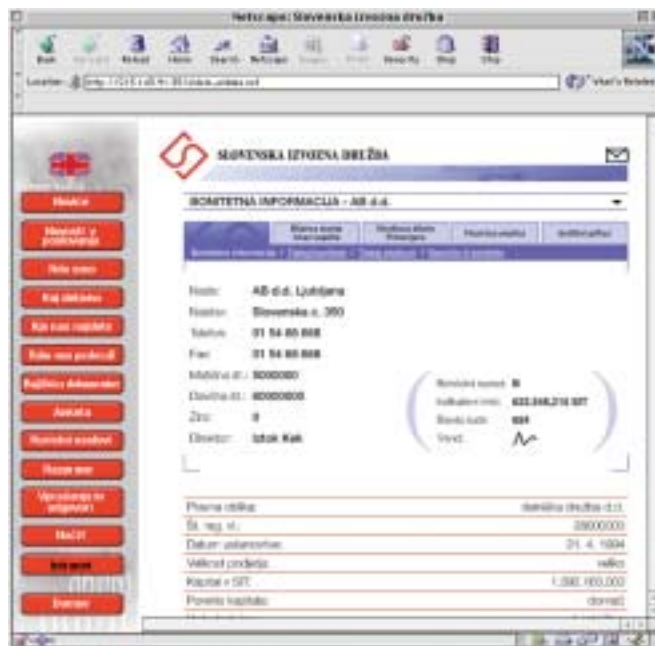
Offer of Credit Rating Information on Companies and Banks

In addition to country risk ratings and information on individual markets customers and other external users may obtain the following information:

- **credit rating information on Slovene companies,**
- **credit rating information on Slovene banks,**
- **credit rating information on foreign banks, in particular in SE, C and E Europe,**
- **credit rating information on foreign companies, in particular in SE, C and E Europe.**

**Access to Credit
Information via Internet**

The services of credit rating department are also the basis for the Corporation's transfer to E-business, when registered users will have access to the mentioned credit rating information also on-line. Within SEC-NET the credit rating department developed the system of databases with credit ratings of domestic companies and companies from those countries, which represent important export markets for Slovene economy. The project demanded links with the best providers of credit rating and other information for individual markets and establishment of complete and up-to-date databases and links, which are additionally supported with the analytical work of experts from the credit rating department. Therefore, via SEC-NET the users will have the possibility of fast and safe access to quality and regularly up-dated databases. This will, together with the use of appropriate software, provide the companies - clients of SEC - more efficient operation, faster decision-making process within the companies and also faster decisions of the insurers when insuring risks and determining underwriting terms and monitoring risks.



Insurance of Credits and Investments against Non-Commercial, Medium-Term Commercial, and Other Non-Marketable Risks

Growth of Volumes

The growth of insurance, which SEC as the Slovene export credit agency is, due to the special nature of political and other non-marketable risks and limited capability and readiness of private reinsurance sector to cover such risks, performing on account of the State, continued also in 2001. However, this growth is, if compared to the so far existing rapid growth of volume of insurance transactions, slowly starting to calm down, since the annual rate of growth if compared to the previous year, amounted to 14 percent.

Therefore, the rate of growth of volume of insurance on account of the State is still considerably higher than the level of growth of the whole Slovene exports (7.2 per cent). In addition, the rate of growth of insurance on account of the State also by 10.3 percent exceeded the level of growth of Slovene economy, which in the last year amounted to 3 per cent. In spite of the fact, that the growth of cumulative insurance on account of the State is obviously calming down, this slower growth is in particular the result of reduced need for covering the short-term export credits against political risks on markets of developed countries, where these risks are in fact minimal; on the other hand, the growth of volume of insurance of medium-term credits against commercial risks was quite high (200 percent). This is true even more for the growth of the volume of insurance of short-term export credits against commercial (non-marketable) risks in more risky less developed countries (in 2001 if compared to the year before the growth was 236 percent)

The volume of operations of SEC in the field of insurance of export and investments against non-commercial risks, medium-term commercial and other non-marketable risks, which SEC insures on account of the State, further increased also in 2001, and

- **amounted already 936.3 million EUR.**

This means that the Republic of Slovenia insures, indirectly via SEC, according to the official preliminary estimations 7.3 percent of the Slovene export of goods and services. With this, i.e. with the state insurance capacities in taking over the risks, foreign markets are opened to the Slovene economy. Furthermore, with this insurance the needed economic safety is given to the companies, and in addition, the financing of international business transactions is made possible, so that the necessary conditions for competitive offer of Slovene exporters to demanding foreign markets is ensured as well as promotion of exports and investments. Without adequate protection against commercial and political risks companies would not be able to take advantage of business opportunities to the full extent, and a lot of transactions also could not be concluded and executed.

SEC entered into 36 new policies and 52 new insurance contracts last year for insurance on account of the State. At the end of last year, 191 insurance contracts were concluded by SEC on account of Republic of Slovenia against non-commercial risks; in addition export transactions were insured against non-commercial and medium-term commercial risks also with 87 insurance policies, issued for the cover of individual transactions, 79 of which were medium-term.

The large volume of transactions, insured by SEC on account of the State is in any case the result of SEC marketing activities towards companies and banks, also at insurance of their whole turnover, where for example short-term export credits are insured in package against both commercial and non-commercial risks, and better information of exporters about SEC offer and services. At the same time the increase of SEC operations volume in the field of insurance on account of the State is partly also the result of growth of volume of refinancing export credits since credits, which are refinanced by SEC, has to be - as a rule - also insured with SEC at least against non-commercial risks.

Short-Term Credits

Due to the structure of Slovene economy, which has relatively few equipment and other capital goods producers, and due to the fact, that the performers of investment projects are mainly concentrated on taking advantages of opportunities, which are given to them with the big investment projects on domestic market (in particular the building of the so called highway cross, and also investments in energetics and other infrastructure), the consumer and durable consumer goods are prevailing in the structure of export insurance transactions that are normally sold on short-term credits. Therefore, also in SEC short-term credit insurance is prevailing, in particular in developed countries. These insurance transactions represented 93.3 per cent of all insurance transactions performed by SEC on account of the State, and they amounted to 873.5 million EUR. Due to the geographical distribution of Slovene exports, which is oriented mainly to the EU markets and markets of some other developed countries, and due to the fact, that these transactions (in particular those, which are also refinanced by SEC) are many times also included in the so called comprehensive cover against commercial risks together with non-commercial risks (the latter is insured by SEC on account of the State), it is also logical, that the majority of insured short-term credits are given to the buyers in the developed countries.

Last year increased mostly the volume of short-term export credits insurance against commercial (non-marketable) risks in some risky countries, non-members of OECD. These insurance transactions amounted to 216.6 million EUR (236 percent growth), whereby exports to the following countries were insured according to this scheme: Belarus, Bulgaria, B&H, Macedonia, Iran, Kazakhstan, Russian Federation, Ukraine, Algeria, Syria, Moldavia, Libya, Yugoslavia, Jordan, Azerbaijan and

Romania. Exposure against these risks amounted already to 47.1 million EUR as of December 31, 2001, which is an increase of almost 30 percent if compared to the same date the year before.

Medium-Term Credits

Medium-term export transactions still did not significantly contribute to the growth of SEC insurance business on account of the State, since the value of 21 new credit insurance contracts against medium-term risks amounted to only 38 million EUR in 2001, despite the fact that their volume increased by almost two times.

Medium-term export transactions were insured against commercial as well as against non-commercial risks in Croatia, B&H, Russia, Macedonia, Iran and Yugoslavia. Political and economic situation on these markets, which are, in particular with respect to the insurance of medium-term credits, key markets for Slovene economy, influenced a relatively minor growth of this insurance (e.g. slower economic growth and reduced level of donations to B&H, armed conflicts and difficult economic situation in Macedonia, reduced demand for insurance of exports in oil-producing countries, etc.)

Insurance of Investments

Along with considerable growth of direct inward investments, the value of which is expected to grow in future, also Slovene companies more intensively invest abroad, in particular to the countries of SE and C Europe, such as Croatia, B&H, Yugoslavia, Macedonia, Poland, Slovakia and Ukraine. However, this growth of investment activity by Slovene companies abroad is not reflected in the growth of insurance of these investments against political risks. Last year the growth was even negative. On the other hand, it is true, that the demand exists, and that SEC is handling quite a lot of demands for investment insurance, which shows, that the volume of insured investments will quite increase in the future. Evidently, the Slovene investors are, to a certain extent, still underestimating the political risks on these markets and are not insured against such risks. They regard premium, in accordance with the present still prevailing motive, as cost, which they are not prepared to pay. This is also reflected in under-insurance of insured investments and non-insurance of additional investments to extended project companies and reinvested profit in the so called reserved insured sums.

Beside credits for export of goods and services, and two issued policies for insurance of guaranties, SEC in the year 2001 insured against non-commercial risks only two direct investments of Slovene companies abroad; one in B&H (banking sector) and one in Croatia (trade sector) in the total value of 3.5 million EUR (60 percent less than in previous year).

- At the end of 2001 SEC had in its portfolio eight insured investment of Slovene companies and banks in the total value of 20.1 million EUR.

1997

Development strategy of the system of insurance and financing of exports of the Republic of Slovenia prepared.

Increase of SEC capital by the State - 715 million SIT from the proceeds of privatised companies.

Amendments to the Law on SEC, which enable the insurance against exchange rate risks on account of the State.

New facility: insurance of credit lines.

Reform of facilities and adoption of new General Conditions for insurance of investments; growth of this insurance scheme.

Concluding of various agreements with other ECAs.

The Great Crystal Globe of Planica won by the ski jumper Primož Peterka, Dr Franc Rode becomes the new Diocesan Bishop of Ljubljana and the Metropolitan Bishop of Slovenia.

US aircraft carrier J.F.K. with 3000 men crew anchors in front of the Port of Koper and is crowded by visitors.

Professor Dr Jože Mencinger becomes the new Dean of the Ljubljana University.

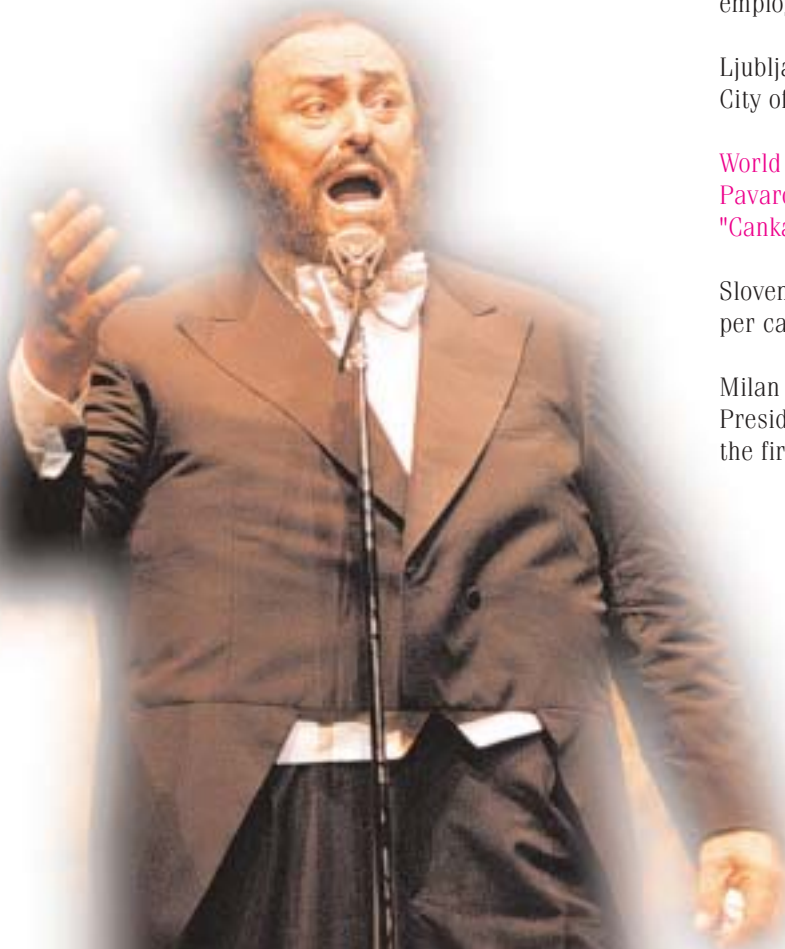
Signing of the general collective agreement between employers and employees.

Ljubljana livens up as the Cultural City of Europe.

World famous tenor Luciano Pavarotti elevates the audience at "Cankarjev dom".

Slovene GDP rises to 9,161 US\$ per capita, 125,000 unemployed.

Milan Kučan again becomes the President of the State already in the first round of the elections.





The role of the State and, in particular, the role of the Government, as initiators of the economic system creation by means of introducing instruments of the economic policy for realising the set goals, can be very big, even crucial, when institutions like SEC are being established.

Slovenia, a young State, has set itself already at its foundation the clear goal to be a democratic state with a developed market economy, which would be internationally oriented in its development, seek membership in international organizations introduce and respect internationally enforced and adopted rules, and advance its own development with active participation in the international division of labour. In this context, very soon we found out that for export promotion, being an important factor of economic development, we would also need an institution, which would adequately insure these exports. Self-initiative and creativeness of all of us, who at that time worked in the area of foreign economic relations and our desire to establish a system - which would in given circumstances optimally resemble to similar systems in developed market economies, all this was acknowledged by the Government and later also by the National Assembly. The result of this was the adoption of the Law on the Slovene Export Corporation, gradual provision of the initial capital, etc. ... in short, SEC was born, with a very small, but professional and enthusiastic group of people.

At the beginning the activities of SEC were very modest, but then in the courses of the years, with the active help of the employees and the understanding and support of the Government as well as the National Assembly of the Republic of Slovenia, the activities were growing from year to year, so that today the value of the insured transactions already exceeds 13 % of the total Slovene exports, whereby SEC has been operating with profit throughout its existence. Shareholders and the Government, as the biggest shareholder, have all these years been directing this profit into appropriate reserve funds of thus creating better and safer conditions for the operation. The Government has demonstrated its positive attitude towards SEC development by enabling SEC to invest large amounts particularly into its development, human resources and know-how as well as into its information system. In this SEC has followed the principles of profit-ability, liquidity and safety of operation thus strengthening the high financial credit rating of the incorporated company. In the course of its development, SEC has transparently separated the operation on account of the State from the operation on its own account.

Already some years ago the Government adopted a framework strategic document, the development plan of SEC, according to which SEC is intensively preparing for the full adjustment of the system of insurance and financing of exports to the rules, which will be applicable in Slovenia after its accession to EU. Central points of this development strategy are that adequate growth volume and quality of SEC services be ascertained and, that gradual privatisation of SEC is planned, in the sense that the State would withdraw from the area of the insurance of marketable risks, which in general can be insured on the private reinsurance market. This represents gradual transformation of SEC and establishment of a specialized credit insurance company with selected key domestic and foreign partners. This too is a step towards establishing a system, which is comparable to systems in EU member states.

At the 10th anniversary of SEC we can proudly look on the path laid behind and the achieved results, which would never have happened, if there was no cooperation, mutual understanding and trust among all those involved in this process - the employees of SEC, its Board of Directors, its Supervisory Board, its shareholders, the Government and the National Assembly. SEC is therefore a good example of such concrete and successful cooperation.

Vojka Ravbar, M.Sc.
Long standing President of the Supervisory Board of SEC

**Positive Result
of Insurance on
Account of the State**

Results of insurance on account of the State were (after 1999, which was the only exception to positive results so far) in 2001 again positive

- **premium exceeded paid claims by 2.61 million EUR.**
- In 2001, due to the growth of insurance volume, all invoiced premiums from insurance on account of the State increased by 13 per cent and amounted to 2.77 million EUR (half of which were premiums for medium- and long-term insurance).
- All together, paid claims for insurance on account of the State decreased and amounted to 160,000 EUR.

All in the year 2001 paid claims from insurance on account of the State were from the transactions of insurance of short-term export credits to buyers from non-OECD countries. SEC paid six claims from the insurance against short-term commercial (non-marketable) risks in the non-OECD countries (two claims were paid for transactions in B&H and Ukraine, one in Macedonia and Belarus), which together amounted 101,000 EUR, and one claim was from insurance against non-commercial risks in the amount of 59,000 EUR (for transaction in Russia). Due to the number and total amount of claims in process (approximately 1.2 million EUR; in B&H, Macedonia, Romania, Russia, Ukraine and Croatia) and in particular potential claims on the territory of Belarus, Russia, Ukraine, Macedonia, Romania, Kazakhstan, Iran, Bulgaria and B&H, the increase of paid claims is to be expected in the next year.

In spite of numerous activities of SEC and activities performed directly by the insured themselves against the buyers with respect to the paid claims and collection of debt, SEC was not successful in 2001 in collecting debts from those transactions, for which SEC in the past already paid claims from the insurance on account of the State. However, in the beginning of 2002 SEC successfully recovered from Bosnian bank the whole amount, i.e. 37.1 million SIT, of the claim paid on the account of the State in 2001.

Positive result of insurance on account of the State influenced the increase of precautionary reserves, which in the last year increased and on December 31, 2001 amounted to 67.97 million EUR.

Besides, special precautionary reserves for insurance against exchange rate risks (due to not enough capacities, SEC is not actively marketing this facility) amounted to 4.48 million EUR at the end of 2001.

**Insurance on Account of
the State - Exposure**

Last year SEC insured transactions on account of the State in 77 countries.

Due to considerable growth of insured export and due to long-term nature of some of these transactions, the exposure of SEC from insurance on account of the State at the end of 2001, also increased.

Exposure on account of the State against non-commercial and medium-term commercial risks and short-term commercial (non-marketable) risks in the non-OECD countries on December 31, 2001, including offers,

• **amounted to 86.3 billion SIT (390.1 million EUR).**

(Without offers for this insurance the exposure of SEC against all these risks amounted to 371 million EUR, which is by 4.5 per cent more than at the end of 2000).

Regional structure of insurance against non-commercial and other non-marketable risks is still relatively favorable for SEC and for the State, although it has been worsening for quite some years and is thus more and more resembling the structure of exposure of other export credit agencies. Taking into account valid and applicable division of countries and territories into different risk groups, which are according to SEC classification divided into seven groups (the first group being the least risky), the exposure to risks in the countries with the high risks level (countries from the group six and seven) at the end of 2001 represented only 25.7 per cent of the total exposure to the said risks (offers for insurance are not taken into account).

In addition, the concentration of risks and atomization of risks with respect to the exposure to individual countries is also still relatively favorable for SEC. Besides Germany, which on December 31, 2001 represented 18.2 percent of overall exposure against non-commercial and other non-marketable risks, and Italy (10.5 percent), this share is already for the next OECD country - Austria - only 4.3 percent, and the bigger share from Austria have only three non-OECD countries, namely Croatia (12.2 percent), Russia (10 percent) and B&H (7.2 percent); the shares of the first slightly diminished, and the shares of the rest (with the exception of Croatia) slightly increased.

Figure 5:
Exposure
- Insurance on Account of
the State
31 December 2001

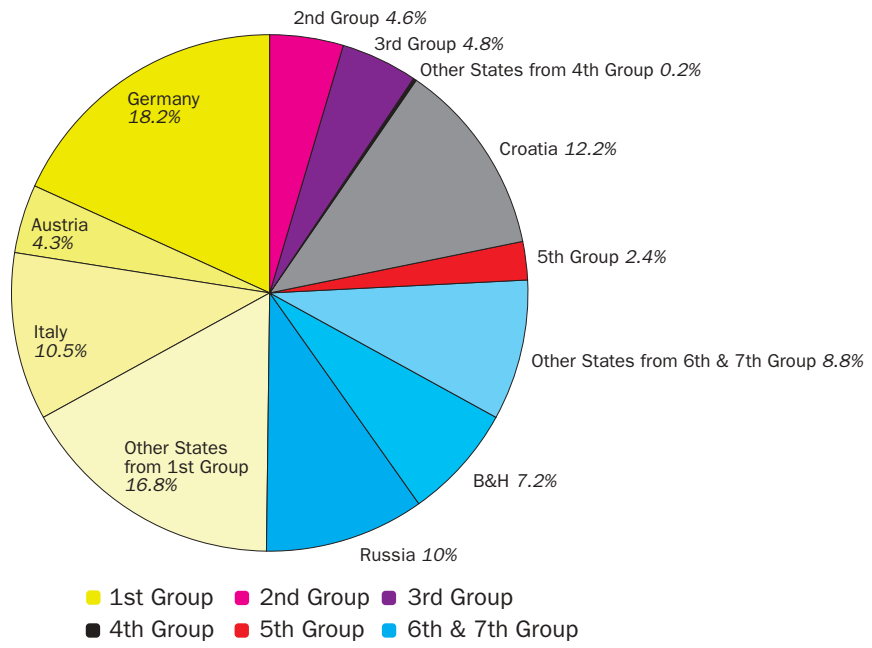


Table 5:*
Insurance:
Operations on Account
of the State 1997- 2001
in million EUR

	1997	1998	1999	2000	2001
Non-commercial risks					
<i>business insured</i>	343.2	493.4	554.4	821.4	936.3
<i>exposure (31.12.)</i>	143.7	196.5	256	355	371
<i>no. of new contract</i>	38	50	89	52	25
<i>no. of new policies</i>	40	65	82	81	36
<i>total no. of contracts</i>	219	272	309	289	191
<i>total no. of policies</i>					
<i>with regard to exposure</i>	45	70	90	100	87
<i>premium</i>	0.4	1.3	1.5	2.3	2.6
<i>paid claims</i>	-	0.2	-	0.5	0.16
<i>no. of claims</i>	-	1	-	7	7
<i>recoveries</i>	-	-	-	0.3	0
<i>no. of exporters</i>					
<i>according to policies</i>	21	31	47	39	16
<i>issued offers</i>					
<i>(as per 31.12.)</i>	8.4	17.4	49.6	45.3	23.6
Medium-term commercial risks					
<i>business insured</i>	17.2	66.6	12.9	19.0	38
<i>exposure (31.12.)</i>	19.8	35.0	33.2	33.9	44
<i>no. of contracts</i>	16	27	40	47	21
<i>no. of exporters</i>	13	18	21	23	8
<i>premium</i>	0.1	0,9	0.6	0.6	1.1
<i>claims paid</i>	-	-	2.0	0.4	0.1
<i>no. of claims</i>	-	-	2	2	0
Short-term commercial (non-marketable) risks					
<i>business insured</i>		8,9	29.3	92,7	216.5
<i>exposure (31.12.)</i>		3,2	17.0	36,7	47
<i>no. contracts and policies</i>		31	44	43	32
<i>no. of exporters</i>		37	83	45	31
<i>claims paid</i>		-	-	0,07	0.1
<i>no. of claims</i>		-	-	3	6

*Note: Premium and claims for insurance against non-commercial risks also include invoiced premium and claims for insurance against medium-term commercial and short-term commercial (non-marketable) risks in the non-OECD Countries.

1998

Marjan Kramar becomes Chairman of the Board of Directors, which from then on has only one member.

Law on Guarantees of Republic of Slovenia for the Loans Hired for Export Financing of Export is adopted thus enabling indebteding of SEC with State guarantees, which eases the access to loans from international financial markets.

SEC enters the international financial market and provides financing also in foreign currencies.

On October 12, at the 55th regular annual general meeting of the Berne Union (Cape Town, South African Republic), SEC is accepted into the International Union of Insurers of Credits and Investments (Berne Union). SEC is given the status of a member-observer for a two-year period.

SEC accepted as observer also in the Pan American Surety Association (PASA).

Introduction of SME program, which enables and eases the access to insurance cover and refinancing facilities by small and medium sized companies too.

Winter Olympics in Nagano, Japan. This time Slovenia without medals.

The oldest whistle in the world, found in the cave "Divje babe" was put on display in the National Museum.

Disastrous earthquake almost destroys the region of Posočje.

Manoeuvres of NATO forces in the region of Dolenjska.

Olympic Champion Leon Štukelj - centenarian.

Demand of Slovene intellectuals for adequate protection of the autochthon breed of Lippizaner horses, which originate from the world famous stud at Lipica.

Over 955.000 motor vehicles registered in Slovenia.





1998 saw what was, in export credit terms, a major development. SEC was elected by the 50 members to be an Observer Member of the Berne Union - the International Union of Credit and Investment Insurers. The Berne Union is the worldwide organization to which all of the major Export Credit Agencies belong.

This was both a major achievement for SEC and, at the same time, a natural development for an institution which, for as long as I have known it, has been both impressive and innovative, not least with a speed of action and adaptation which many much larger and older ECAs would envy.

Change - and very fundamental change at that - has been a constant theme of export credit over the last decade in most countries. Insurers have had to cope with globalization, financial crises in a number of importing countries and different risks in others, developments in world trade and investment flows, changes in international financial services and the growth of capital markets as banking faced pressures of all kinds and, of course, E-commerce and all its works.

But for Slovenia and for SEC, this took place against the backdrop of radical extra change due to the move from a planned economy to a market economy, with all the pressures and, indeed, pain and problems for companies and banks which this inevitably brought in the short run. In achieving all this SEC enjoyed - and still enjoys - strong, professional and dynamic leadership and management. This took the basic motivation of solving practical problems and looking to meet the needs of its customers. What had been done in the past or what was being done in other countries was not necessarily the best guide and, often, was simply irrelevant. Flexibility, innovation and very rapid progress up a steep learning curve were vital. And change had to be made at the same time as providing day-to-day help and support to Slovenian exporters.

In many ways, SEC was - and is - a model ECA and an example I very often quote as what can be achieved by determination, bravery, intelligent ability, a willingness both to copy and to invent and adapt and sheer hard work.

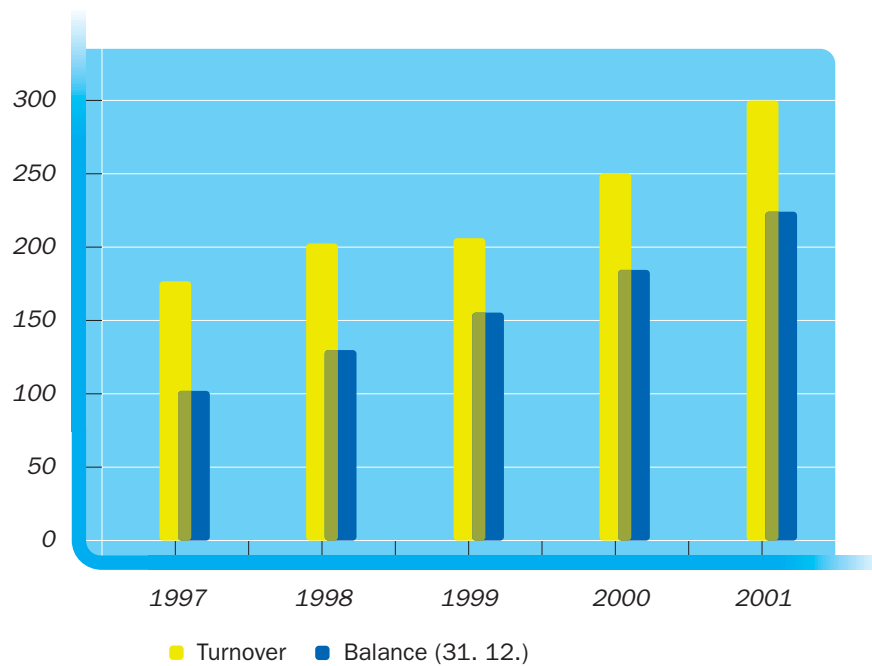
Against this background, membership of the Berne Union involving as it did joining the well and long established giants of export credit, was a clear demonstration of worldwide acceptance of a huge achievement in a very short time.

Malcolm Stephens

Former Secretary General of the Berne Union

Financing

Figure 6:
Financing 1997 - 2001
(in million EUR)



In 2001, financing of export transactions in domestic currency and, on the basis of borrowings with the guarantees of the State on international financial markets from 1999 onwards also in foreign currencies, was again one of the main SEC activities. Financing of export transactions was also mostly in the form of indirect financing of exports through refinancing of banks' export loans, due to greater multiplicative effect and due to desire for greater use of commercial banks' funds for export and outward investments financing. SEC provided favorable funds to banks for *supplier credits*, granted to Slovene exporters, and also for *buyer credits*, granted to foreign buyers of Slovene goods and services, foreign investors, or their banks. With this activity SEC contributed significantly to the increase of financing capacities of commercial banks for financing of exports and investments abroad. In financing of export transactions, like in insurance, SEC covers all phases of export of Slovene companies to foreign markets: pre-shipment and post-shipment financing.

In 2001 SEC continued with borrowings on international financial markets, with the purpose to offer to exporters and/or their commercial banks as favorable long-term sources of financing as possible. Thus, on international market of syndicated loans SEC last year again raised long-term loan in the amount of 50 million EUR. With the successful entering into international financial markets SEC established a closer cooperation with foreign financial institutions, it acquired *know-how* and *track-record*, which both will enable SEC to have also in the future access to the funds for financing of transactions in international trade under favorable conditions.

- In December 2001 SEC and Kreditanstalt fuer Wiederaufbau (KfW) signed a loan agreement in the amount of 15 million EUR. Funds involved are intended for financing of long-term investments of small and medium size companies and are according to the Program of Financial Assistance of CEB - Development bank of the Council of Europe, intended for the candidate States for the EU accession. The funds according to this loan agreement will be offered by SEC to the companies exclusively via selected Slovene banks.

Table 6:
Financing 1997-2001
(in million EUR)

	1997	1998	1999	2000	2001
<i>turnover of refinancing</i>	187.8	220.2	225.2	249.6	296.9
<i>balance (31.12.)</i>					
<i>of refinancing</i>	103.3	134.8	157.3	187.1	228.8
<i>no. of exporters</i>	297	322	343	420	398
<i>no. of banks</i>	27	27	23	22	22
<i>no. of contracts</i>	783	968	1043	1143	1117

Continued Growth

In the field of refinancing export credits SEC last year actively co-operated with 22 banks and 398 exporters. This increase of demand for SEC funds was mainly due to competitive export financing conditions, and due to the favorable offer of long-term sources of funds in foreign currency.

If compared with 2000, when Corporation's financing of Slovene economy transactions amounted to 39.1 billion SIT (187.1 million EUR), the financing of export and investments by SEC in 2001

- ***increased by almost 30 percent and***
- ***amounted to 50.6 billion SIT (228.8 million EUR) at the end of 2001.***

SEC financing portfolio is of high quality, since the portion of A-rated investments is over 99 per cent.

These figures show that growth of financing was more than four times higher than the last year's growth of Slovene exports, so that the value of financing of exports as per the end 2001 represents almost 2 per cent of the whole Slovene export of goods and services last year.

- The growth of financing was more than 2.6-times larger than real growth of all loans to Slovene economic sector (11.6 per cent) and the percentage of SEC financing in all loans given to Slovene economy last year was already 7.3 per cent.
- The value of transactions refinanced by SEC - under the presumption of an average 60 percent refinancing rate, paid advances, and average percentage of loans

from bank funds in export business - shows that by financing of international economic transactions, which in majority are also insured with SEC, SEC supported approximately 570 million EUR of exports, i.e. according to the estimations approximately 4.5 per cent of the total Slovene exports.

The main part of the whole refinancing of export credits in 2001 was short-term refinancing, which in the portfolio of SEC still represents more than 70 per cent of all placing, whereby the share of short-term credits with the maturity from 6 to 12 months reached almost 2/3 of all short-term placing of SEC.

If compared to previous years, there was a big growth of long-term financing in 2001 (bigger growth of long-term financing in foreign currency), so that there were by more than 50 percent more long-term credits at the end of this year, if compared to the year before.

Slovene economy orientation to export and direct outward investments in 2001 (the latter are growing in particular in the markets of SE Europe), is reflected also in the structure of financing of SEC according to the purpose of use of these funds, mainly through the high growth of financing for investment projects abroad and export of capital goods. The growth of volume of short-term financing in the field of services and transport in the last year was also very high (more than 300 percent), in the long-term financing, for example, there is a stable (46 percent) growth of financing of investments abroad.

Table 7:
Financing Long/Short-Term
(as per 31.12.1999/2001)

	1999		2000		2001	
	<i>bil. SIT</i>	<i>mio EUR</i>	<i>bil. SIT</i>	<i>mio EUR</i>	<i>bil. SIT</i>	<i>mio EUR</i>
<i>long-term</i>	1.7	8.5	3.4	16.6	14.6	66.0
<i>short-term</i>	42.0	216	47.8	233	36.0	162.8
<i>total</i>	43.6	225	51.2	249.6	50.6	228.8

**Favorable
Financing Conditions**

When providing favorable financing conditions for competitive operation of Slovene companies in foreign markets, SEC via interest rate policy endeavored to lower costs of exporters when raising banks' credits.

- As a rule, during the term of credit, the interest rates in real terms for export credits refinanced by SEC remained unchanged.
- Also during last year SEC currently adapted to the situation on the domestic money market, so that SEC interest rates, with regard to maturity of loans in domestic currency at the end of last year amounted to Basic Interest Rate (BIR) +2.5 - 5.25 per cent. Herewith the bank caps, i.e. the highest permitted banks' interest rate, for the total amount of export credit were conditioned by SEC, and at the end of the year they amounted to BIR +4.25 - 6.25 per cent, regardless of borrowers' credit rating.
- In the field of crediting in foreign currency SEC also limited the caps for final users, shown over the six-months EURIBOR. Thus, addition over EURIBOR amounted, depending on the term of loan, from 1.95 to 2.75 per cent p.a.

Guarantees

Quality Instrument of Protection against Risks

Bank guarantee are in business practice frequently used private-law instruments for the transfer of risks of business transactions to financial institutions. To the beneficiaries bank guarantees may provide an effective protection against risks, that their counter parties from various domestic and international business transactions will not fulfill their obligations from the underlying contract. In business practice bank guarantees appear in the form of various legal instruments, whereas they all have the same economic purpose. Bank guarantees are issued primarily by banks, in addition, they are also issued by insurance companies and other financial institutions. If issued by the first class financial institution, the participants of business transactions are of the opinion, that they may provide effective protection against various risks of domestic and international business transactions.

Guarantees of SEC are also of that quality. They are supplementing the offer of other financial services. If the credit rating of Slovene ECA is good and if there are adequate warranties of the State for the obligations of SEC, also the Bank of Slovenia and various public - and private law entities in the country and abroad consider SEC guarantees as first class guarantees.

With regard to the importance which issuing of guarantees or confirmation of guarantees of commercial banks has for Slovene companies, especially for equipment manufacturers and investment project contractors abroad and at home, SEC has supplemented its offer for Slovene companies in the field of insurance and financing and in enabling Slovene companies to acquire business transactions by issuing guarantees. For domestic and foreign beneficiaries these guarantees represent first-class and quality instrument of protection against risks of non-performance of various obligations of debtors from various underlying contracts. In providing guarantees, SEC gives priority to those export transactions which are also financed and insured by SEC. Guarantees, issued on request, may also be insured at SEC against non-commercial risks and risk of unfair calling.

Short Response Time and Competitive Offer

With issuing guarantees and counter-guarantees, where SEC pays special attention to specific needs of customers and to shortening response time, SEC reduces costs for Slovene companies and makes them more competitive, especially in foreign markets. SEC also strives for reduction of the costs of issuing of guarantees, and for better acceptance of directly issued guarantees abroad. Especially in those markets where SEC, as a relatively young institution, is not known or not sufficiently known, SEC also makes use of *fronting*, which is given for SEC guarantees by very respectable foreign financial institutions, this enabling Slovene exporters to make use of this service and realize transactions faster.

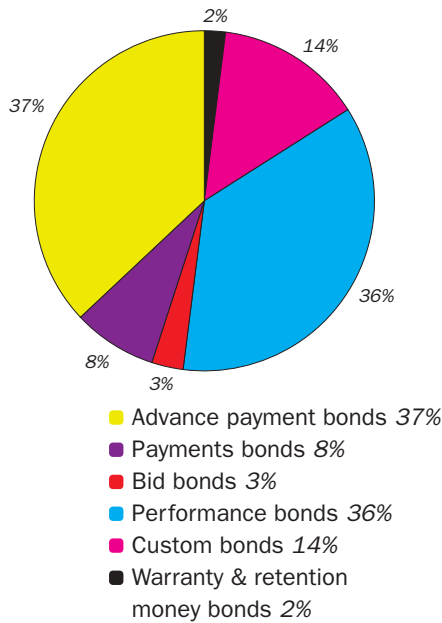
Considerable Demand

Guarantees were issued in the smaller extent as in the year before. They were mainly issued to cover obligations of producers of machinery and other equipment. In 2001 SEC guarantees were issued to beneficiaries in 19 countries. Most of them were from Canada (37 percent), Germany (14 percent), USA (7 percent), Austria (5 percent), Poland (3 percent) and followed by Romania, Yugoslavia (Montenegro), Belgium, B&H, Denmark, Switzerland, Egypt, Finland, Croatia, Macedonia, Great Britain, Poland, Kenya and Thailand.

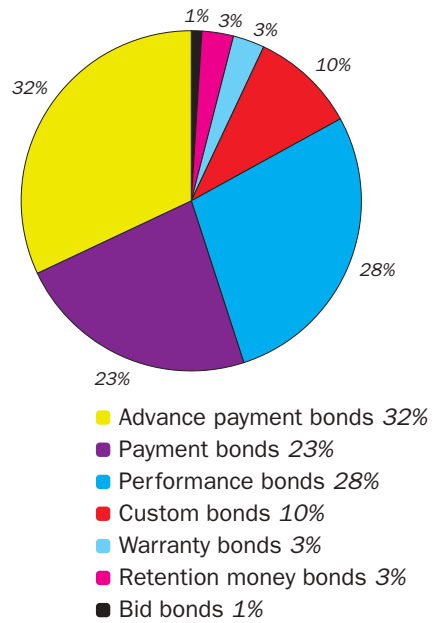
Also in 2001 SEC issued, if measured by their value, mostly advance payment bonds (37 percent of all guarantees issued by SEC), followed by performance bonds (36 percent); there were more customs guarantees issued than in previous year (these represented 14 percent of all issued guarantees), followed by payment bonds (8 percent), bid bonds, warranty bonds and retention money guarantees.

Figure 7:
Issued Guarantees
(Type of Guarantee-
Percentage)

Value of Issued Guarantees – 2001



Outstanding Commitments – 31.12.2001



At the end of 2001, the structure of outstanding guarantees, according to the type of guarantees, with respect to the balance of issued guarantees, was as follows: advance payment bonds (32 percent), performance bonds (28 percent), payment bonds (23 percent), customs guarantees (10 percent), warranty and retention money bonds (3 percent), and bid bonds (1 percent).

Safety of Operation

SEC to a large extent insured all its potential liabilities arising from issued guarantees. The majority of issued guarantees were secured by mortgages, deposits, guarantees of parent and other companies, counter-guarantees of financial institutions, various sureties and other instruments for security of payments.

In 2001 three guarantees were honored - two advance payment bonds, issued in 1998, and partly one payment guarantee issued in 2000. The liabilities of persons ordering guarantees (the debtors from these guarantees) were until now already partly recovered, i.e. in the 73 percent of the honored amounts.

In the period of SEC operation until 2001, 14 issued guarantees were called in/honored in total amount of 568 million SIT. Of the said amounts of called in/honored guarantees, 456.5 million SIT were recovered by the end of 2001, and as for now there are 111.5 million SIT still open.

Treasury and Management of (Non-Credit) Risks

Effective Risk Management

Within the process of liquidity management, the Treasury of SEC looked after, that the Corporation regularly performed all its obligations and had sufficient liquidity reserves in domestic and foreign currencies. Liquidity management in the year 2001 was normal; also due to the stable environment on the domestic money market and due to the added selection of instruments, which were available to the Treasury for liquidity management.

In spite of greater stability in the year 2001, there were occasions of short-term oscillation in demand and supply of domestic and foreign currencies. Due to the conditions prevailing on the money market the Treasury acquired short-term sources of funds necessary on the inter-bank market, and only to a smaller extent, also from non-banking sector.

Table 8:
Balance Sheet According
to the Maturity
as per Dec. 31, 2001

<i>Maturity</i>	<i>Assets</i>		<i>Liabilities</i>		<i>Spread</i>
	<i>in mio SIT</i>	<i>in %</i>	<i>in mio SIT</i>	<i>in %</i>	<i>in mio SIT</i>
<i>up to 1 month</i>	663.6	1	3,000.0	5	-2,336.4
<i>1 to 3 months</i>	1,236.0	2	1,987.2	4	-751.2
<i>3 months to 1 year</i>	40,761.6	73	1,896.1	3	38,865.5
<i>1 to 5 years</i>	103.1	0	0.0	0	103.1
<i>over 5 years</i>	12,993.5	24	48,874.5	88	-35,881.0
Total	55,757.8	100	55,757.8	100	0.0

Issues of SEC Bills

Due to very favorable structure of balance sheet according to maturity, in which there was a large portion of long-term funds, the Treasury has, for the management of liquidity, among others, realized also one of the first issue of short term bills in Tolars. Profitability of these bills with a nominal interest rate is linked to the profitability of three-month treasury bills of the Republic of Slovenia.

Effective exchange rate risk management is, due to the increased portion of assets and liabilities in foreign currencies, more and more important. For the management of these risks SEC uses financial instruments and techniques, which are, according to the rules for the management of these risks, used also by banks. Transactions in foreign currencies represent one fifth of SEC balance sheet.

Table 9*
Balance Sheet According
to the Currency Structure
as per 31.12 2001

	<i>Assets</i>		<i>Liabilities</i>		<i>Spread</i>	
	<i>in mio SIT</i>	<i>% balance sheet</i>	<i>in mio SIT</i>	<i>% balance sheet</i>	<i>in mio SIT</i>	<i>% capital</i>
<i>in SIT</i>	44,475.1	79.8	44,012.0	79	463.1	2.6
<i>in SIT with</i>						
<i>currency clause</i>	384.5	0.7	0.0	0	384.5	2.2
<i>in EUR</i>	10,898.2	19.5	11,745.8	21	-847.6	- 4.8
Total	55,757.8	100	55,757.8	100	0	0

* SEC is, as per Dec 31, 2001, showing a surplus of liabilities over receivables, which are denominated in Euros; the spread is 4.8 percent of the capital of the Corporation.

1999

In ten years the only year, when the result of the State insurance account was negative (two major losses due to bankruptcy of two banks in Croatia)

Once again SEC carries out an extensive biannual opinion poll among its business partners - the export companies.

Entry start onto the international financial market (loan from KfW) and a new facility offer for financing in foreign currencies. Successful beginning of insurance of domestic credits.

Amendments to the Law on SEC - privatisation made possible, whereby the sales proceeds are to be used for increasing the precautionary reserves for State insurance account.

Purchase of additional premises in the SEC building in the centre of Ljubljana.

On August 11 Slovenia experiences the total eclipse of the sun.

Attractive transport of giant evaporators for the nuclear power plant from Koper to Krško.

New shopping centres mushroom all over - BTC, Leclerc, Mercator. Top model Claudia Schiffer opens the fashion centre "Emporium" in BTC.

Ljubljana gets the equestrian statue of General Rudolf Meister, work by the sculptor Jakov Brdar.

President of USA, Bill Clinton visits Slovenia and by reciting our national anthem ("Zdravljica") delights the Slovenes.

One of the world best mountain climbers, Tomaž Humar performs the first solo climb at the southern face of Daulaghiri.

Slovene football team qualifies to the European Football Championship by defeating Ukraine.





In 1991 citizens of Slovenia decided to take its independent road, a road leading into a democratic society, towards basic civil rights and liberties and to a market organization of the economy. For Slovenes this decision was a challenge with many risks, but on the other hand, nevertheless the best way, to achieve, with hard work, permanent growth of welfare and social security in the country. For Slovene economy, small and open, foreign trade is of primary importance for a balanced economic development, a goal, that we have set ourselves in order to achieve these values. Intensive import and export activities, developed by the economy, are in our view, the key factors contributing to the implementation of the many comparative advantages of Slovene companies and are enabling their prosperity in the international environment. In a small economy only exports can ensure an economy of scale, needed to optimise the production and to foster growth of competitiveness. With the exchange of ideas and information, the international trade is strengthening the growth of productivity, which is the basis for a long-term development of a modern economy. Together with the possibility of intra-time exchange, it enables a more stable economic growth and absorption of asymmetric macroeconomic shocks, and, last but not least, it also alleviates the transition process, which our economy decided to go through at the beginning of the nineties. We could go on with listing the positive aspects of a balanced foreign trade, but this would obviously only lead us to the one logical conclusion: if we want to bring about a long-term economic upswing and welfare for the inhabitants of this State, the Slovene economy has to be export oriented.

Market rules, in which we believe in, are the main driving force for the future orientation of economic activities towards building up of a competitive, export oriented economy. However, we, the economists know, that leaving the economy only to market mechanisms often leads to undesired side effects and sometimes even to very bad economic results. A classic example of this is making of economic or business decisions in a risky environment.

If the risks are too high, which is mainly due to insufficient market information, then it is impossible to carry out some economic transactions, even though they would be useful from the economic and social point of view. The best evidence that these problems are of pivotal importance is, that last year the Nobel Prize for Economy was conferred to researchers active in these fields of the economic theory. They advocate the need to develop new institutions, which would enable the market to achieve better results in terms of economic and social effectiveness. In the concrete case of export risk, such an institution could be set up as an insurance company. Precisely this is the role of the Slovene Export Corporation. Issuing of insurance and guarantees and financing foreign trade transactions, this being just the vision and the mission of SEC, can, if well put up, be an important factor for fostering exports and thus the economic growth and welfare.

SEC fast growing results demonstrate evidently the importance of SEC in developing Slovene exports. Since its establishment on 22 October 1992 both the insurance as well as the financing facility of SEC have been constantly growing. In 2001 SEC has insured already more than 13 % of the total Slovene export and has financed 1117 transactions of 398 companies to the total value of over 50 billion SIT. The fact, that the demand for insurance transactions is extremely high is evidenced by the increase of the volume of insured transactions, which has grown more than five times in the years from 1997 to 2001. Continuously increasing the scope of operations since its inception SEC has regularly been making profits thus strengthening its capital basis.

All these results demonstrate a success story. Today, when Slovene companies advance onto the markets of Southeast Europe, where the processes of political and economic stabilization are not finished yet, the role of SEC is of primary importance. In the world of global economy, particularly SEC has a highly demanding and important role in fostering and enlarging exports of Slovene companies. This is for the small economy of Slovenia the best source of stable development and welfare.

Mitja Gaspari, M.Sc.

Governor of the Bank of Slovenia, long standing Minister of Finance

Marketing

Marketing of SEC products and services has already been mentioned several times when describing operations concerning diverse fields of SEC activities. SEC has also introduced integral marketing strategy, which is the core of its operations. Within the framework of its marketing strategy, SEC performed promotional and educational activities for the target public - especially exporters and banks, with which SEC also had regular joint meetings. Besides, SEC also appeared in domestic and foreign media and in various publications. In addition, it also used advertisements and economic publicity, press releases on important events and it convened regular and extraordinary press conferences, informing the public with its operations and services.

In domestic media, in particular, also in those, which are published in foreign languages, SEC has appeared quite regularly in the past year. SEC also took care of the increase of general level of knowledge on insurance and financing of export in Slovenia, whereby it cooperated closely with the educational and scientific research institutions.

SEC in 2001 also carried out public award competition on topics and studies in the field of insurance and financing of exports in order to stimulate students of economics, law and other faculties, to make scientific research also of this field.

Opinion Poll among Slovene Companies

In 2001 SEC performed the bi-annual opinion poll, for the fifth time during its nine years of existence. The poll resulted in a time - comparable picture about the needs and expectations of Slovene companies, their experiences with SEC, and their knowledge of services provided by SEC. The replies of companies regarding opinion poll help SEC with its marketing activities and in the development of its services and various financial products as well as with making strategy for future development.

Out of 626 sent questionnaires, there were 158 replies returned (25 percent), of which there were 60 percent of small and medium sized companies. Their total exports, which to a large extent follows the geographical destination of Slovene exports, amounts to over 3.7 billion EUR; their turnover to over 7 billion EUR. In the majority these were producers of consumer goods (32 percent), durable consumer goods (29 percent) and capital goods (15 percent).

Based on the results of the last year opinion poll, SEC is quite well known institution among Slovene companies; mainly due to direct contacts, banks, media and Slovene Chamber of Commerce. Very few inquired companies replied that they do not need SEC (2) or that they do not have sufficient knowledge of SEC (9). Few companies mentioned some obstacles when cooperating with SEC (unacceptable conditions - 7, price of insurance - 9, price of financing - 2 companies). Among services the inquired companies have the best knowledge of the insurance

of short-term credits, followed by good knowledge of the services of refinancing of export credits in domestic currency. Companies have less knowledge on relatively new financial services - refinancing, co-financing and direct financing of export transactions in foreign currencies. There is a pretty good knowledge of the possibility of quality credit rating information, whereas about some other supplementary services of SEC, which are part of the so called service credit insurance, there is still a pretty bad knowledge among Slovene companies. To a certain extent this is also true for the issuing of guarantees.

Also this time the companies have declared their appraisal of their attitude towards SEC, according to different categories (possible appraisal was from 1 to 5), as very good (average was 4). Relationship to clients was given average mark of 4.3; on the second place there was professionalism (4.2), followed by advising and assistance (4); understanding the customer needs was appraised by the average 3.9, followed by adequacy of the services offer (3.9), efficiency (3.8) and flexibility and adaptability (3.7). The promptness of handling claims was appraised as the least positive (3.6). This will improve with the development of electronic business (SEC-NET). Almost all inquired companies replied, that they are ready for on line operations with SEC.

The inquired exporters expressed a demand, that SEC should be more active in particular in the field of direct financing, insurance and in the field of acquiring credit rating information.

Co-operation with State and other Domestic Institutions

Export Insurance and Finance System

In performing its services and other activities SEC co-operated closely with numerous State and other institutions at home and abroad.

Co-operation with State authorities was in particular important in the field of implementation of adopted development strategy of the export insurance and finance system in Slovenia.

- Within this framework there was a creative co-operation of SEC, in particular in drafting new Insurance Act and its changes (Official Gazette of RS Nos. 13/00, 91/00 in 21/02), also within the Slovene Insurance Association.
- SEC brought its operation in line with the rules of new Insurance Act. In accordance with the adopted development strategy SEC is also preparing to set up a specialized credit insurance company, after the end of the given transitional period (until the EU membership of Slovenia) that will operate according to the provisions of the Insurance Act.
- According to recent modifications of Law on SEC the Corporation prepared the basics of the privatization program, with which the majority owner would ensure funds for in the law anticipated increase of the precautionary reserves for insurance against non-marketable risks, which SEC is performing on account of the State.
- With the competent governmental authorities SEC also worked on drafting of the new law on insurance and financing of international economic transactions, which will regulate the operation of authorized export credit agency, performing activities on account of the State.

State Budget

SEC operations and its plans were discussed several times by the Government of the Republic of Slovenia and competent committees and other bodies of National Assembly and National Council.

Besides cooperation in preparation of the Economic Development Strategy of Slovenia, SEC intensively worked on preparations for adoption of State budget for the years 2002 and 2003 and other budgetary documents. The following was adopted for the year 2002:

- for the upper limit of insurance exposure on account of the State the sum 253 billion of SIT (according to the middle exchange rate of the Bank of Slovenia as per 31.12 2001 approx. 1,143 million EUR) and for export transactions insured against exchange rate risks the upper limit of 143 billion SIT (approx. 646 million EUR);
- for the guarantees of State for SEC obligations arising from borrowings (principal amount) the sum of 30 billion SIT (135 million EUR).

SEC also co-operated with various governmental authorities, in particular with the Ministry of Finance, when implementing Law on Guarantees of the Republic of Slovenia for Loans Hired for Export Financing (OG RS No. 20/98). This law enabled SEC to acquire favorable funds for financing of export and already in 1999 it successfully introduced SEC to international financial markets. Within this framework SEC also co-operated in drafting regulations, which dealt with procedures for borrowing and issuing of State guarantees. With respect to borrowings abroad SEC also co-operated with the Bank of Slovenia. Raising loans and later on also issuing of debt securities on international financial markets will enable SEC, also in the future, to increase the volume of financing of Slovene export, in foreign currencies and under favorable conditions.

Supervisory Authorities

- SEC is closely co-operating with Bank of Slovenia, which in the last year also performed a regular review and control of SEC operations. Some time ago Bank of Slovenia adopted methodology and guidelines which gave guarantees and other insurance instruments of SEC the status of first-class instruments of insurance at classification of active balance and off-balance sheet items of banks. Thereby these instruments became even more attractive insurance instruments for Slovene banks, which are more and more demanding when granting loans to exporters and for which banks need not to built up special provisions. Additionally, Bank of Slovenia amended its Decree on additional conditions for granting loans abroad - with these amendments SEC is now able to grant financial loan to a foreign person. Bank of Slovenia also amended its Decree on introduction of deposits for financial loans and deposits taken abroad - SEC has now the possibility to raise loans for financing foreign buyers without being obliged to pay in Tolar deposit. Additionally, with the Decree on conditions for entering into loan agreements in foreign currency, SEC is able to refinance banks' export credits also in foreign currency.
- Besides, SEC is cooperating also with the Agency for Insurance Supervision. SEC is reporting to the Agency about its insurance operations, performed on its own account. In addition, SEC is cooperating with Agency in the field of forming of insurance-technical provisions, as well as in the development of credit insurance market in Slovenia.

Ministries and other Governmental Bodies and Organizations

- SEC as a Slovene export credit agency is performing certain transactions of insurance on account of the State. For these operations, the key factor is a mechanism for providing necessary liquidity if potential claims of insurance against non-commercial risks, medium-term commercial and other (non-marketable) risks, which SEC is insuring on account of the State, are realized. Therefore, special emphasis should be given to the Contract on precautionary and special precautionary reserves, concluded between SEC and

Ministry of Economic Affairs. With this contract the mechanism of building up and planning of precautionary and special precautionary reserves for the coverage of potential claims from the insurance against the said risks and the technique for paying claims, is defined.

- Apart from co-operation with various economic ministries and offices, SEC also closely co-operated with the Ministry of Foreign Affairs and diplomatic-consular representatives, in particular in more risky countries and in those countries, where exposure of SEC is higher. Regular exchange of information on individual markets involved, in addition to governmental authorities, also other institutions. SEC provided to Ministry of Economic Affairs and other ministries regular information on its operation and business policy, as well as proposals for the development of international economic co-operation (e.g. Stability Pact for SE Europe, co-operation with OECD and participation of Slovenia in the so called OECD Consensus and in the Group of export credit and credit guarantees of the OECD Trade Commission, etc), on visits of state delegations, and on proposals with respect to foreign trade and other legislation, which affects promotion of exports. Within the framework of financing of outward investments and within the financing of marketing and similar activities of Slovene companies on foreign markets, SEC was also successfully co-operating with the Agency for economic promotion of Slovenia and foreign investments.

SEC also intensively co-operated with the Slovene Chamber of Commerce, in particular at their activities towards exporters and regularly presented them the possibilities of SEC' s support in operation of Slovene companies on foreign markets. Vice-president of the Chamber is also member of the Exports Promotion Commission. Thereby, direct representation of interests of the economy in implementation of the State insurance and financing of exports policy via SEC and the said Commission, is ensured.

- As the member of Slovene Chamber of Commerce, Slovene Insurance Association and Slovene Banking Association, SEC is actively cooperating in many of activities of the said associations and the chamber.

International Co-operation

Berne Union

On the 57th Regular Annual Meeting in Amsterdam, the Netherlands (on 18 October 2000) and after the two years of observer status, SEC was accepted in the International Union of Credit and Investment Insurers (the Berne Union).

The Berne Union, which today has 51 members (export credit agencies, international financial institutions and some other insurance companies), from 42 countries is endeavoring to bring into force the principles of sound and prudent insurance operation and discipline in agreed rules on export credit and investment insurance. With this objective the export credit agencies within the Berne Union regularly exchange information on their operations and insurance policy, on individual markets, their experiences of operation with debtors and guarantors, and underwriting - technical issues regarding insurance and are co-operating also in other areas.

The Prague Club

Apart from its membership in the Berne Union, SEC is also attending the regular meetings of The Prague Club (regular meetings of the Secretary General of Berne Union with the newly-established export credit agencies (23 members), in particular from Middle and Eastern Europe; in addition SEC is co-operating with these ECAs also on bilateral level.

With some of these agencies SEC has also entered into co-operation agreements - (see table hereinafter), and cooperated in particular with Bosnian IGA which SEC has helped, according to its powers at introduction of services of insurance against commercial risks of short-term export credits, in particular with education in the fields of sales, marketing and assessing of credit rating of the companies. There was especially close co-operation with Macedonian bank for Development Promotion, whereby besides framework co-operation agreement, SEC also concluded a special agreement on co-operation and exchange of experience in the field of insurance of short-term export credits against commercial risks. SEC also offered technical support to this agency, which was within the framework of bilateral program of technical assistance with the funds of the Stability Pact for SE Europe, co-financed by the Ministry of Economic Affairs.

Cooperation and Agreements with ECAs and IFIs

SEC had close bilateral contacts, exchange of information, and frequent cooperation with other export credit agencies, especially with members of the Berne Union. Most intensive co-operation was with German Hermes, with which SEC entered into the co-insurance and reinsurance agreements, as well as the agreement on fronting of guarantees. Similar insurance, financing and co-operation agreements SEC also has with the Austrian agency ÖKB, British ECGD, Dutch NCM, US-EXIM, Swedish EKN and others. Last year, for example, SEC entered into framework co-operation agreements also with Romanian, Egyptian, Slovak and Croatian ECAs (R-EXIM, ECGE, EXIMBANKA-SR and HBOR), in addition SEC signed Memorandum of Understanding with MIGA, and Cooperation agreements with Russian Ingostrakh and

Ukrainian company LEMMA. The said agreements enable co-operation between insurers and/or export credit agencies (one-stop shop arrangements), are accelerating exchange of information and also opening possibilities for efficient mutual operation of Slovene and foreign companies and banks in third markets, which may be financed from more sources, which ECAs from various countries may support with their instruments.

Apart from obligatory proportional reinsurance (Quota Share Treaty) of its portfolio of short-term commercial (marketable) risks, which SEC insures for its own account and which is reinsured on private market at major and first-rate reinsurers, SEC has already concluded many other agreements with other ECAs and with IFIs (International Financial Institutions). Framework co-operation agreements, mutual and parallel insurance agreements, agreements on facultative reinsurance, fronting of guarantees and co-financing of projects; all these agreements may offer to Slovene economy the possibilities of successful operation with foreign companies in third markets. With its instruments SEC may effectively link with other financial institutions, which also offer sources for the financing of various projects and are also cover against commercial and non-commercial risks.

Table 10: List of Agreements

Country	ECA / IFI	Type of agreement	Signed
	EBRD	Framework Co-operation Agreement	8th May 1996
Belgium	OND	Mutual Insurance Agreement	Ljubljana,
		Parallel Insurance Agreement	20th Dec., 1996
United Kingdom	ECGD	Co-operation Agreement	London, 26th Feb., 1998
Austria	ÖKB	Co-operation Agreement	Vienna,
		Mutual Insurance Agreement	10th June 1998
		Framework Reinsurance Agreement	
Russia	Ros-EXIM	Co-operation Agreement	Ljubljana, 8th July 1998
	EXIMGARANT	Memorandum of Understanding	23rd July 1998
	Ingostrakh	Co-operation Agreement	23rd Dec., 2001
Germany	Hermes	Mutual Insurance Agreement	Hamburg,
		Fronting of Guarantees Agreement	10th Sep., 1998
B&H	IBF	Mutual Co-operation Agreement	Ljubljana, 26th Jan., 1999
Sweden	EKN	Mutual Insurance Agreement	Ljubljana/Stockholm,
			23rd April, 1999
USA	US-EXIM	Memorandum of Understanding	Ljubljana, 21st June 1999
Nederland	NCM	Reinsurance Agreement	Ljubljana,
			22nd June 1999
Macedonia	MBDP	Co-operation Agreement	Skopje, 20th July 1999
		Short-term commercial risks Agreement	Skopje, 1st Feb., 2001
Republic of Korea	KEIC	Co-operation Agreement	Istanbul, 13th Oct., 1999
Bulgaria	BAEZ	Co-operation Agreement	Ljubljana, 28th Oct., 1999

<i>Israel</i>	<i>IFTRIC</i>	<i>Co-operation Agreement</i>	<i>Tel Aviv, 7th March 2000</i>
<i>Turkey</i>	<i>Turk-EXIM</i>	<i>Co-operation Agreement</i>	<i>Amsterdam, 20th Oct., 2000</i>
<i>Italy</i>	<i>SACE</i>	<i>Reinsurance Agreement</i>	<i>Madrid, 28th March 2001</i>
<i>Ukraine</i>	<i>LEMMA</i>	<i>Reinsurance Agreement</i>	<i>Ljubljana, 8th June 2001</i>
<i>Romania</i>	<i>R-EXIM</i>	<i>Co-operation Agreement</i>	<i>Ljubljana, 6th Sept., 2001</i>
<i>Egypt</i>	<i>ECGE</i>	<i>Co-operation Agreement</i>	<i>Ljubljana, 2nd Oct., 2001</i>
<i>Slovakia</i>	<i>EXIMBANKA-SR</i>	<i>Co-operation Agreement</i>	<i>Ljubljana, 11th Oct., 2001</i>
<i>Croatia</i>	<i>HBOR</i>	<i>Co-operation Agreement</i>	<i>Cavtat, 30th Oct., 2001</i>
	<i>MIGA</i>	<i>Memorandum of Understanding</i>	<i>31st Dec., 2001</i>

In preparation there is, among others, also entering into optional reinsurance agreement with the affiliate of the World Bank - Multilateral Investment Guarantee Agency (MIGA).

At the 15th Regular General Assembly, held from 24 to 27 May 1998 in Vancouver, Canada, SEC acquired the status of observer in the Pan American Surety Association (PASA) and already made some contacts with financial institutions, which are members of this international non-governmental organization, and is exchanging information on issuing of guarantees and making arrangements with respect to the fronting of guarantees.

SEC co-operated also with other international governmental organizations (e.g. OECD and UNCTAD) and international financial institutions. It exchanged regular information with EBRD especially with respect to the projects in countries, recipients of EBRD support. SEC signed a co-operation agreement with EBRD, and EBRD provided SEC with technical assistance in the past.

SEC also exchanged experiences with respect to the investment insurance, in particular with MIGA. Last year SEC and MIGA, organized a seminar on reinsurance of investments and informed Slovene investors about possibilities of covering of their investments to foreign markets. SEC is also making arrangement with MIGA with respect to the entering into reinsurance for some investments on the markets of SE Europe.

SEC representatives actively participated at numerous international conferences, seminars, and workshops, especially on foreign trade, financing and insurance of export credits and investments.

2000

SEC accepted as full member into the Berne Union at the 57th regular Annual Meeting in Amsterdam (18.10.2000)

Volume of insurance for the first time over one billion Euro (1.192 Mio Euro).

Export financing and refinancing of export credits, also in foreign currencies, is becoming an ever more important SEC activity.

Close and continuous cooperation with related institutions worldwide and conclusion of bilateral agreements.

The degree of doctor conferred to 350 new scientists.

Svetlana Makarovič refuses the Prešeren Award.

Slovenia establishes diplomatic relations with the Federal Republic of Yugoslavia.

Slovene football team pleasantly stirs up the football crowd world over by qualifying and by playing well on the European Football Championship.

Olympic Games - Sydney 2000: Two gold medals: Iztok Čop and Luka Špik for rowing, and Rajmond Debevec for shooting.

Davo Karničar successfully and sensationally skies down from the top of Mount Everest.

Marjan Strel swims the whole length of the longest river in Europe - the Danube.

Terrible landslide devastates the village Log pod Mangartom, the area being already stricken by an earthquake some years before.

Vote of no confidence passed in the Government, the new Prime Minister Dr Andrej Bajuk forms the first right-wing Government. Autumn elections return Dr Janez Drnovšek to the top of the executive power.



Exceeded expectations



SEC was one of those institutions, which the newly established Slovenia urgently needed to carry out successfully the process of transition from planned to market economy, as well as for the entire integration of its economy into international trade and financial trends. That SEC was strategically important for our State and in particular for its economy, speaks the mere fact, that as a geographically small country and consequently a strongly export oriented one, Slovenia sells nearly 3/4 of all goods and services on the foreign markets.

Already at its foundation, SEC was conceived as an institution, which would carry out, besides activities in its own name and on its own account, also certain activities on behalf of the State. Among these, of particular importance were the insurance against non-commercial risks and the insurance against medium-term commercial risks. Throughout the ten years of SEC operation, both of these insurance facilities, which are complementary to those, offered by other institutions on the Slovene financial market, proved to be efficient instruments of economic policy for export promotion. The Exports Promotion Commission at SEC, as an operative body of the State in this field, has been, over the past years, directing the majority of its activities to designing and timely supplementing the policies regarding insurance facilities as well as to handling and decision-making in regard to all those individual transactions, carried out on account of the State, which could have had important budgetary consequences. In its work the Commission, like all other comparable bodies in the world, has always searched and is still searching for an optimal balance in achieving two, in fact contradicting goals. The first one is a development goal of the Commission, namely promoting of exports by means of insurance of export risks thus ensuring a higher degree of economic growth in the country. The second goal of the Commission is a goal of public finances, that is, ascertaining the lowest possible scope of risk, which the State is to cover with issued guarantees.

Whilst in the past a vast majority of Commission's work was directed to approving insurance for export credits, lately, also the insurance of investments is becoming more and more important. This is a clear evidence, that Slovenia is gradually changing from a State, a distinctive net receiver of direct foreign investments, into a State, where also outward investments are becoming an important element of the export orientation. Another important trend is discernible in the work of the Commission, namely the geographic concentration of risk to the countries of Southeast Europe and, to a lesser extent, also to the countries of the former Soviet Union.

As it is quite realistic to expect that this trend will continue also in the future, it is very important, that the State as a whole as well as SEC, as its specialized institution, prepare themselves very well for the increasing volume of transactions with this part of the world and thus also for taking over a wider scope of risks. From SEC point of view this concretely means: to continue strengthening its own expertise, which is needed for assessing country and business risks in the region and for legal attendance of transactions; to strengthen its position as a key institution for conceiving and implementing economic cooperation of Slovenia with the countries of the region; to continue and further forge the cooperation with the Berne Union, MIGA as well as with related institutions in the region.

In the first ten years of its operation SEC has fully met, and in many areas even exceeded the expectations, discussed at its establishment. Therefore, there is no reason why SEC should not look with optimism on its future.

Dr Mojmir Mrak
Deputy President of the Exports Promotion Commission

Information system

Integral IS

A well developed information system and quality databases (there are 84 of them today) and existing links with other institutions represent necessary tool for effective operation of financial institution, its management, supervision of its entire operation and planning. The whole development of information system is based on a gradual implementation into work and improvement of internal and external communication.

In order to perform effective support to its operations, which among others include insurance as well as financing of export, whereby the insurance operation is divided between insurance on the account of the State and insurance on own account, SEC in 1996 with the use of software called LOTUS NOTES started to systematically build its own and integral information system. Today this information system is a quality basis for the whole business operations and services of the Corporation. All the procedures are IT supported and to a large extent also automated. All documents, from the request of the client, its processing and approval, to the adequate contracts and invoices are made in an automated manner and at the same time all this data are also the basis for the analytical processing of data and for the Management Information System (MIS). Therefore, all the fields of Corporation's operation have adequate information support, and all the fields are also interconnected. With SEC IS we do not only master the management of entering and exiting documents and business processes, but also creating databases for it. Uniformed and standardized are also cumulative analytical reports on operations, the cumulative analytical forms for business partners of the Corporation are made, and in addition, computer network in the Corporation is connected with the CTI telephony, which enables the employed to get acquainted with the partners, with whom they are communicating, and at the same time to view all cumulative information, concerning the particular partner, on the computer screen.

IT Transfer and Technical Assistance

According to the new standards all the LOTUS NOTES databases are united in separate modules, which provides easier supervision over the development and changes of individual applications and gradual handing over of particular modules to outsourced computer company for the maintenance. Modular approach to the reorganization of database makes possible also their installation on other locations. SEC has already used this at the technical assistance project concerning Macedonian Bank for Development Promotion. Last year this project was co-financed by the Ministry of Economic Affairs with the funds from the Stability Pact in the SE Europe. By doing this Ministry also supported already started business cooperation between both agencies.

Major guidelines of information system development in the last year were in the filed of introducing uniform standards of applications development, electronic connections with business partners, in the field of even greater emancipation of the

system and building in of security (standard BS7799) and control mechanisms and in the building of a system, which enables maintenance of IS also by an outsourced computer company.

In development of IS in the past year continuation of standardization of processes, supplementing of documentation and improvement of the system protection processes could be observed. In addition, cumulative analytical forms and data collection for decision-making and management were also completed.

E-Business (SEC-NET)

Since for the contemporary financial institutions the electronic business is a must, as an answer to the challenges of operation the SEC-NET was developed. A real time and space electronic operations with clients were tested also with some business partners. Therefore, internal IS was reorganized and integrated with SEC-NET, so that SEC-NET is now ready for the intensive implementation in the operation of the Corporation in the year 2002. This will to a large extent make easier the operation with SEC through electronic channels. Via portal on the internet home page of SEC (<http://www.sid.si>), the clients will have an easier access to SEC services and to all information of SEC products and conditions of insurance and financing of transactions, as well as to the credit rating information, to the administration and to the follow up of Corporation's operation with clients.

Personnel

Employment (Structure and Trends)

In line with the employment plan the number of employees in 2001 increased from 50 to 56, and the average number of employees in that year was 54.

The new employees were employed in the Insurance department (2), Legal and Claims department (3) and in Credit Rating department (1). In addition, one person was hired temporarily in the Accounting Department, and two university degree economists and one secondary school administrative technician were given the opportunity to perform their apprenticeship in SEC.

In 2001, there was mutually agreed termination of employment for two employees, one retired on the grounds of disablement, and for one employee the apprenticeship period ended.

Comparison among individual organizational units shows that the biggest number of employees was in Insurance of Short-Term Credits Dept. (14), followed by Legal and Claims Dept. (7), Insurance of Credits and Investments Dept. (6) General Affairs and Personnel Dept. (6), Financing and Guarantees Dept., Accounting Dept. and IT Dept, all with 5 employees each and Credit Rating Dept. (4). The Management Board, Research and Strategy, Internal Audit and Controlling and Treasury Depts. had all one employee in 2001.

Figure 8:
Employees Educational
Structure
31 Dec. 2001

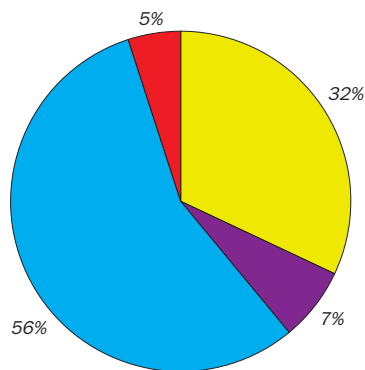
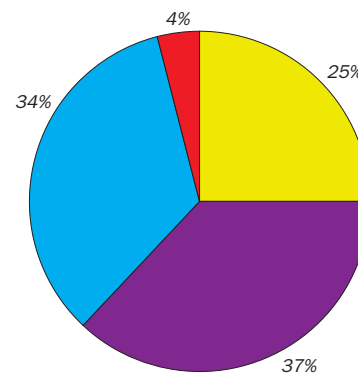


Figure 9:
Employees Age Structure
31 Dec. 2001



■ secondary
■ higher
■ university degree
■ master's/PhD

■ age 21 - 30
■ age 31 - 40
■ age 41 - 50
■ age 51 - 60

Personnel Policy

Rapid growth of operation and development of existing and implementation of new services of SEC were supported by the personnel policy, which based mainly on:

- acquiring of new employees with specific expert knowledge and experiences
- system of monitoring and establishing of working efficiency, achieving goals and determining tasks by annual interviews
- development of rewarding policy, in the form of money as well as other rewards and
- encouraging active cooperation of all employees in improving operations and processes.

In 2001 a special attention was given to the project way of working, which was performed by individual project groups in the field of development of electronic operation, credit rating information system, changes of premiums system, reinsurance arrangement and technical assistance to other export credit agencies.

In 2001 a system of forwarding proposals and new ideas was implemented with a view to improve working processes and services of SEC, to increase efficiency at work and to decrease costs. Employees submitted over 300 proposals via this system, of which almost 200 were approved for realization, and ten authors of proposals were given a special reward.

Training

Last year an opinion poll concerning work satisfaction and internal relations was performed, in which the employees assessed the employment and management policy of the Corporation, internal relations and communications, system of salaries and promotion, education and training, and information system. There were 32 questions and 96 percent of inquired employees answered. The analysis of opinion poll showed to which fields of personnel policy a special attention will be given in the future.

Considering the needed knowledge in the field of financing and insurance of economic transactions, SEC provided acquiring and transfer of knowledge, in particular in the individual professional fields (insurance, financing, treasury, legal matters, IT, accounting and internal audit). This was performed in the various forms of internal training and participation at lectures, workshops, seminars, postgraduate studies and similar, abroad and at home.

At the same time the employees also participated in various forms of training, where they acquired general (foreign languages, IT, goal setting, time management, and similar) and specific knowledge (sales and negotiations techniques, key-account management, and similar).

Internal Communication

In addition to the already established forms of providing information and communication via internal e-mail and access to the extensive number of databases (e.g. notes of business events, minutes and decisions of bodies of the Corporation, internal rules and documents, professional library, working procedures descriptions, proposals, ideas, etc.), the internal e-newspaper was introduced in 2001. It informs the employees about interesting events, and it also includes columns, where all employees may participate.

Trade Union

The majority of SEC employees are members of the SEC trade union, which is part of Trade Union of Banks and Savings Banks of Slovenia. With respect to the rights and obligations of employees SEC is fully honoring the provisions of Collective Agreement of Banks and Savings Banks of Slovenia, and with the annual allocation of funds SEC also makes possible the activities of the trade union (sports and recreation activities, cultural and many other events).

Working Environment

SEC is especially concerned with ensuring adequate working conditions. Last year SEC has in line with the provisions of the law on safety and health at work successfully implemented Declaration of safety with assessment of risk. In line with the said Declaration SEC will train its employees for safe and healthy work and protection against fires, provide medical examinations and perform all measures necessary for the optimum working conditions.

Internal Audit and Controlling

Internal audit in SEC is organized as an independent professional activity, which is subordinated directly to the Board of Directors and reports also to the Supervisory Board of the Corporation. Its organization and activities are defined by the Banking Act (Official Gazette of RS, Nos 7/99 and 59/01), which defines:

- professional knowledge required from the staff in internal audit,
- tasks and annual working program and
- reporting of internal audit.

Internal Audit of SEC performs all - inclusive and permanent supervision of the operations of the Corporation, and is taking into account all particularities of the Corporation's operations and all applicable regulations in the field of banking as well as insurance companies operation.

Internal Audit in SEC is, for example, examining if the Corporation is:

- performing financial services correctly and in line with the laws and regulations as well as internal rules, which are regulating operations of the Corporation.;
- maintaining the business books, drafting accountancy documents, making assessment of individual accountancy items and drafting accountancy and other reports in line with the Banking Act and Insurance Act, and all the regulations adopted pursuant to the both aforementioned laws, and in line with the internal rules, which are regulating operations of the Corporation.

Internal audit of the Corporation's operation is performed on the basis of the adopted annual plan and in line with the professional principles and standards of internal audit, code of professional ethics and rules of conduct, which are adopted by the Management Board and approved by Supervisory Board of the Corporation. A special attention is given to the risks management (credit-, non-credit-, and operational risks). Within the field of its activity the Internal Audit is co-operating with the Bank of Slovenia, Agency for Insurance Supervision, and also with the internal audit sections of banking and insurance companies associations.

During the last supervision of Corporation's operation, made by the Bank of Slovenia in November 2001, the operation of Internal audit was favorably assessed.

2001

SEC first steps on the foreign market of credit insurance.

New Supervisory Board confirms the strategy of SEC.

Privatisation program of SEC prepared.

Adjustment of the premium system regarding state insurance account (OECD - Knaepen package).

SEC for the first time active as advisor in an interstate program of technical assistance (Macedonia).

Providing of competitive and long-term sources of export financing in foreign currencies on the syndicated loan Euro market.

Some not very dangerous sharks, up to 15 meters in long, visit the Bay of Koper. Matjaž Hanžek becomes the new Ombudsman.

Agreement of the successor states of former SFRY reached in Vienna.

Breakthrough of Slovene investors on the markets of SE Europe.

The "KRIM" ladies' handball team wins the European Championship, the Slovene ice hockey team is qualified in the Group A of the World Championship.

Formal opening of the first modern multi-complex cinema "Kolosej" in BTC.

First meeting of the leaders of two superpowers - US President Bush and Russian President Putin at Brdo, Kranj.

Terrorist attack on September 11 destroys both WTC towers in New York, causes continuation of recession of USA economy and global uncertainty.

4000 high school graduates dance themselves with a quadrille into the Guinness Book of Records.





Marjan Kramar
Chairman of the Board of Directors

Mr Kramar, you have been heading SEC already since 1994. How would you concisely describe the business results during this period?

During this period we, the employees of SEC, but also the shareholders and of course our business partners too, have been concentrating on the quality of our services, the continuous business growth and on gaining even greater recognition of SEC at home and abroad.

As from 1994 we have increased the volume of our insurance business from **30 million USD to 1,630 million USD** and the volume of export financing from **10 million USD to 300 million USD**.

Financial Statements

Introduction

Business operations of SEC, Inc., Ljubljana for 2001, as described in the financial part of this Annual Report, are reflected in the Balance Sheet, Profit and Loss Statement and Statement of Changes in Financial Position for the same period.

The financial statements are prepared in accordance with Slovene Standards under consideration of international accounting standards.

Within the framework of the notes to the financial statements, the operations of the Corporation for that part of transactions, which are performed on account of the Republic of Slovenia should be mentioned. State guarantees for insurance transactions against non-commercial risks require special treatment when preparing financial statements since the financial result of the said transactions for the rest of the company should remain neutral.

Following are the financial statements of the Corporation (Balance Sheet, Profit and Loss Statement, and Statement of Changes in Financial Position) for the financial year 2001 with notes to the most important balance items.

**Balance Sheet as at
31 December 2001**
(in thousands of Tolars)

	2001	2000
ASSETS		
Cash and bank balances	3.600	8.495
Loans to banks	52.089.308	39.223.933
Loans to other customers	1.398.035	420.009
Dealing securities	766.766	63.499
Tangible fixed assets	646.862	644.745
Other assets	571.925	813.895
Deferred expenses and accrued revenues	281.297	83.284
Total assets	55.757.793	41.257.860
Off balance sheet assets	5.967.030	4.554.495
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Due to banks	14.746.331	6.158.960
Due to customers	915.896	916.643
Long-term liabilities due to Ministry of Economy	16.040.975	13.742.095
Debt securities in issue	980.160	-
Other liabilities	323.717	291.808
Accrued expenses and deferred revenues	177.678	11.488
Provisions for commitments and charges	2.004.286	2.061.379
Insurance technical provisions	2.569.110	1.407.274
	37.758.153	24.589.647
Total shareholders' equity		
Ordinary shares	9.323.540	9.323.540
Share premium	920.606	918.825
Reserves	1.267.880	1.031.291
Capital revaluation adjustments	6.406.179	5.246.125
Net profit for the year (unallocated)	81.435	148.432
	17.999.640	16.668.213
Total shareholders' equity and liabilities	55.757.793	41.257.860
Off balance sheet liabilities	5.967.030	4.554.495

Profit and Loss
Statement for the Year
Ended 31 December 2001

(in thousands of Tolars)

	2001	2000
<i>Interest income</i>	1.656.052	1.040.102
<i>Interest expense</i>	(648.939)	(228.883)
Net interest income	1.007.113	811.219
<i>Commission income</i>	213.568	156.429
<i>Commission expense</i>	(104.029)	(49.852)
Net commission income	109.539	106.577
Net income from insurance premiums	585.357	481.531
<i>Gain from trading operations</i>	146	-
<i>Loss from trading operations</i>	(10.506)	-
Net loss from trading operations	(10.360)	-
Revaluation result and other operating income	929.446	628.859
<i>General administrative expenses</i>	(697.642)	(602.827)
<i>Depreciation</i>	(69.737)	(59.392)
<i>Other operating expenses</i>	(235.352)	(94.583)
<i>Write-offs and provisions for bad and doubtful debts</i>	(20.568)	(229.196)
<i>Recovered write-offs</i>	-	31
<i>Provisions for commitments and charges</i>	(2.400.022)	(2.164.167)
<i>Recovered provisions</i>	1.011.407	1.309.804
Profit from operations	209.181	187.856
<i>Extraordinary net profit</i>	2.138	667
Profit before tax	211.319	188.523
<i>Income tax expense</i>	(48.449)	(40.091)
Net profit for the year	162.870	148.432

Statement of Changes in Equity for the Year Ended 31 December 2001 (in thousands of Tolars)

	Share capital	Capital surplus	Reserves	Revaluation adjustment	Retained earnings	Current year profit	Total
Balance at 1.1.2001	9.323.540	918.825	1.031.291	5.246.125	-	148.432	16.668.213
Transfer to reserves	-	-	155.154	(6.722)	-	(148.432)	-
Treasury shares sold	-	1.781	-	-	-	-	1.781*
Revaluation adjustment	-	-	-	1.166.776	-	-	1.166.776
Profit for the year	-	-	81.435	-	-	81.435	162.870
Balance at 31.12.2001	9.323.540	920.606	1.267.880	6.406.179	-	81.435	17.999.640

Revaluation adjustment

Balance at 1.1.2001	4.328.309	329.499	581.595	-	6.722	-	5.246.125
Transfer to reserves	-	-	-	-	(6.722)	-	(6.722)
Revaluation adjustment	955.629	87.384	123.763	-	-	-	1.166.776
Balance at 31.12.2001	5.283.938	416.883	705.358	-	-	-	6.406.179

Distribution of net profit for the year ended 31 December 2001**

(in thousands of tolars)

	2001
Net profit for the year	162.870
Portion of net profit for: Creation of other reserves	(81.435)
Unallocated profit for the year	81.435

*In January 2001 Slovenska izvozna družba d.d. (SID d.d.) purchased 18.447 treasury shares from Factor banka d.d. Ljubljana for SIT 250.000 thousand which represented settlement of claims from Nika Brežice.

In December 2001 treasury shares were sold by SID d.d. for SIT 269.262 thousand. At the date of the sale the revalued value of the treasury shares was SIT 267.481 thousand. The difference between the sales price and revalued value was recorded as capital surplus.

**The balance of retained earnings at 31 December 2001 amounting to SIT 81.435 thousand includes retained profit from current year and reserves created under par. 1 art. 228 of the Company Law. The allocation of profit will be determined by the shareholders at the Annual General Meeting.

**Statement of Changes in
Financial Position for the
Year Ended**

31 December 2001

(in thousands of Tolars)

	2001	2000
INFLOWS		
Opening cash balance	9.090	2.447
Capital inflows (net increase):		
Share premium	1.781	-
Reserves	236.589	124.815
Provisions for commitments and charges	(201.390)	213.764
Insurance technical provisions	1.063.327	502.943
Capital revaluation adjustments	(6.721)	-
Net profit for the year	(66.997)	23.617
Total capital inflows	1.026.589	865.139
Other funds inflows (net increase):		
Due to banks	8.156.244	2.630.600
Due to customers	(64.912)	804.107
Long-term liabilities due to Ministry of Economy	1.336.933	1.670.821
Debts securities in issue	980.160	-
Other liabilities	11.482	(105.206)
Deferred income	165.386	197
Total other funds inflows	10.585.293	5.000.519
Total inflow of funds	11.620.972	5.868.105
OUTFLOWS		
Capital outflows (net increase):		
Intangible fixed assets	-	(114)
Tangible fixed assets	(43.015)	(23.571)
Total capital outflows	(43.015)	(23.685)
Other funds outflows (net increase):		
Loans to banks	10.119.700	5.308.608
Loans to other customers	948.625	392.647
Investment securities	-	(227.892)
Dealing securities	698.822	9.993
Other assets	(298.943)	425.550
Accrued revenues	192.183	(25.611)
Total other funds outflows	11.660.387	5.883.295
Closing balance of cash	3.600	8.495
Total outflows - uses of funds	11.620.972	5.868.105

**1. Loans to banks
and savings banks**
(in thousands of tolar)

a) Analysis by maturity:

	2001	2000
<i>Loans:</i>		
• <i>short-term</i>	38.951.530	33.900.708
• <i>long-term</i>	10.429.936	5.305.508
<i>Provisions</i>	(129.283)	(129.283)
	<u>49.252.183</u>	<u>39.076.933</u>
<i>Restricted deposits:</i>		
• <i>short-term</i>	2.779.125	147.000
• <i>long-term</i>	58.000	-
	<u>2.837.125</u>	<u>147.000</u>
Total	<u>52.089.308</u>	<u>39.223.933</u>

Loans and restricted deposits were given to Slovenian banks for refinancing of export credits and the international business, granted to companies for purposes and by priorities as set in SEC business policy for individual financial years.

As a rule, the rate of refinancing to domestic banks which granted export credits, is 50 percent; exceptionally it is up to 90 percent for export credits of first priority, and up to 70 percent for export credits of second priority. Credits granted by a domestic bank to a foreign bank for refinancing of imports of Slovenian goods can be refinanced up to 90 percent.

To cover the needs of financing its foreign buyers the Company borrowed funds on the international market of syndicated loans.

At the end of the 2001 year short-term loans amounted to 8.106.252 EUR, while long-term loans amounted to 31.368.842 EUR, short-term deposits approved in foreign currency amounted to 1.690.000 EUR.

The amount of SIT 3.433.241 thousand of long-term loan, due in 2002 (2000: SIT 2.086.599 thousand), was transferred to short-term loans to banks.

Specific provisions for impairment refer to short-term loans granted to Komercialna banka Triglav d.d., Ljubljana (in bankruptcy). The provisions represented 100 percent of the loan balance.

**2. Long-term liabilities
due to Ministry of
Economy**

(in thousands of tolar)

a) Long-term liabilities due to the Ministry of Economy of the Republic of Slovenia relating to funds received for safety reserves refer to:

	2001	2000
<i>General safety reserves</i>	15.048.812	12.828.704
<i>Specific safety reserves</i>	992.163	913.391
Total	16.040.975	13.742.095

SEC long-term liabilities due to the Republic of Slovenia arose from two agreements entered into between SEC and the Ministry of Economic Relations and Development of the Republic of Slovenia, i.e.:

- Safety reserves - agreement on use, building up, and repayment of safety reserves funds of 27 August 1996, and
- Special safety reserves - agreement on use, building-up and repayment of special safety reserves of 18 December 1997.

Safety reserves are intended to cover claims arising from insurance provided against non-commercial and medium-term and short-term (non-marketable) commercial risks, performed by SEC on account of the State. The initial funds of the reserve were provided by the Republic of Slovenia.

Special safety reserves are intended to cover claims arising from insurance provided against foreign exchange risks on account of the State.

Safety reserves have the characteristic of long-term liabilities by SEC towards the Republic of Slovenia. The repayment term, increased by the interest rate in the amount of BIR, is 10 years with an option of extension. Liabilities for safety reserves are increased by transfers of the Ministry of Economy (former Ministry of Economic Relations and Development) into safety reserves as well as by the surplus of premiums over expenses and are decreased by claims paid-out referring to these types of insurance.

The surplus of premiums over expenses which represents the increase of liabilities regarding safety reserves towards the State is the result of the difference between income and expenses of transactions managed by SEC on account of the State, and is calculated monthly. Income represents received premiums and real interest income. Expenses represent direct costs connected with the insurance provided on account of the State, and indirect costs, as provided by the agreement with the Ministry of Economic Relations and Development. In accordance with Annex no. 2 to the Agreement (of 8 Oct. 1997), indirect costs are distributed by a distributive formula. The formula is calculated in accordance with the number of employees who directly and indirectly work for this field with regard to all employees of SEC. The formula is changed twice annually and is confirmed by the Export Promotion Commission. The surplus of premiums over expenses decreases the received premiums income of SEC.

b) Movements in the safety reserves were as follows:

	2001	2000
<i>Balance on 1 January</i>	13.742.095	11.084.733
<i>Claims paid</i>	(35.552)	(100.056)
<i>Reverse claims paid</i>	-	61.397
<i>Money received from the Ministry of Economy</i>	641.005	1.255.025
<i>Interest income (revaluation adjustments)</i>	1.213.543	1.066.799
<i>Surplus of premiums over costs</i>	479.884	374.197
<i>Balance on 31 December</i>	16.040.975	13.742.095

c) Surplus of premiums over expenses, which represents the difference between revenues and expenses for transactions managed by SEC on behalf of the State is added to safety reserves:

	2001	2000
<i>INCOME</i>		
<i>Premiums received for investment insurance</i>	37.241	20.758
<i>Premiums received for short-term commercial insurance outside OECD</i>	88.082	2.673
<i>Premiums received for medium-term non-commercial risks</i>	3.457	11.176
<i>Premiums received for medium-term commercial risks</i>	245.569	121.557
<i>Premiums received for non-commercial risks</i>	228.332	337.531
	602.681	493.695
<i>Revenues from processing commission</i>	11.710	4.173
<i>Revenues from safety reserve investment interest</i>	147.642	123.457
<i>Revenues from revaluation result</i>	5.513	4.953
<i>Claims handling expenses</i>	-	(1.540)
<i>Other revenues</i>	-	14
	767.546	624.752
<i>EXPENSES</i>		
<i>Operating expenses:</i>		
• <i>Salaries</i>	(134.283)	(113.853)
• <i>Other labour costs</i>	(25.154)	(18.184)
• <i>Materials</i>	(11.905)	(31.077)
• <i>Services</i>	(93.143)	(67.157)
• <i>Depreciation</i>	(23.150)	(20.278)
<i>Other expenses</i>	(27)	(6)
	(287.662)	(250.555)
<i>Surplus of premiums over costs</i>	479.884	374.197

3. Provisions for commitments and charges

In accordance with SEC business policy, safety reserves funds are invested into short-term financial investments (refinanced loans). Income from investments increase (through surplus of premiums over expenses) liabilities for safety reserves.

	2001	2000
<i>Provisions against potential losses on guarantees</i>	1.451.027	1.654.340
<i>Specific provisions for general credit exposures</i>	553.259	407.039
Total	2.004.286	2.061.379

a) Provisions for commitments and charges refer to specific provisions against potential losses resulting from issued guarantees. The movements on these long-term provisions were as follows:

	2001	2000
<i>Balance at 1 January</i>	1.654.340	1.487.162
<i>Additional provisions</i>	686.011	1.389.731
<i>Reversal of provisions</i>	(889.324)	(1.222.553)
Balance at 31 December	1.451.027	1.654.340

b) In accordance with the decision of the Bank of Slovenia, specific provisions for credit risk on performing loans and guarantees shall be formed in the amount of 1 percent of all such exposures, with the exception of receivables towards the Republic of Slovenia and the Bank of Slovenia. In 2001 additional provisions of SIT 146.220 thousand (2000: SIT 197.585 thousand) were made due to an increase of receivables classified in credit rating Group A.

4. Insurance technical provisions

Insurance technical provisions, the amount of which has been approved by the appointed actuary, are created to cover of credit insurance risks and comprise:

	2001	2000
<i>Provision for unearned premiums net</i>	16.430	13.409
<i>Claims outstanding net</i>	2.539.978	1.382.943
<i>Provision for premium bonuses and discounts net</i>	12.702	10.922
Total	2.569.110	1.407.274

For 2001 (as in 2000) SEC has entered into quota reinsurance treaties and the shares of reinsurance are expressed accordingly.

5. Contingent liabilities

Contingent liabilities refer to service guarantees issued in foreign currencies:

	2001	2000
<i>Short-term guarantees</i>	3.803.003	1.814.750
<i>Long-term guarantees</i>	2.164.027	2.739.745
Total	5.967.030	4.554.495

Provisions of SIT 1.451.027 thousand at 31 December 2001 (2000: SIT 1.654.340 thousand) relate to specific credit and country risks.

6. Net interest income

Interest relates to the following types of assets and liabilities:

	2001		2000	
	Income	Expenses	Income	Expenses
<i>Investment and dealing securities</i>	10.564	(4.770)	19.000	-
<i>Deposits and short-term loans</i>	1.065.947	(239.260)	707.347	(214.603)
<i>Long-term loans</i>	578.753	(404.870)	312.646	(14.194)
<i>Other</i>	788	(39)	1.109	(86)
	1.656.052	(648.939)	1.040.102	(228.883)
Total	1.007.113		811.219	

To the Shareholders of the Slovene Export Corporation

We have audited the balance sheet of the Slovene Export Corporation, Inc, Ljubljana at 31 December 2001 and the related profit and loss statement, statement of changes in equity and statement of changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. 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. In accordance with these standards we designed our audit to obtain reasonable assurance that the financial statements are free of material misstatement. In the course of our audit, we examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We also tested the application of Slovenian Accounting Standards (SAS) including accounting methods for valuation of balances in the financial statements, which were prepared by management of the Company, and disclosures of business matters in the financial statements of the Slovene Export Corporation, Inc., Ljubljana for the 2001 year. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Slovene Export Corporation, Inc., Ljubljana at 31 December 2001, and of the results of its operations and changes in financial position for the year then ended in accordance with Slovenian Accounting Standards.

Ljubljana, 20 March 2002

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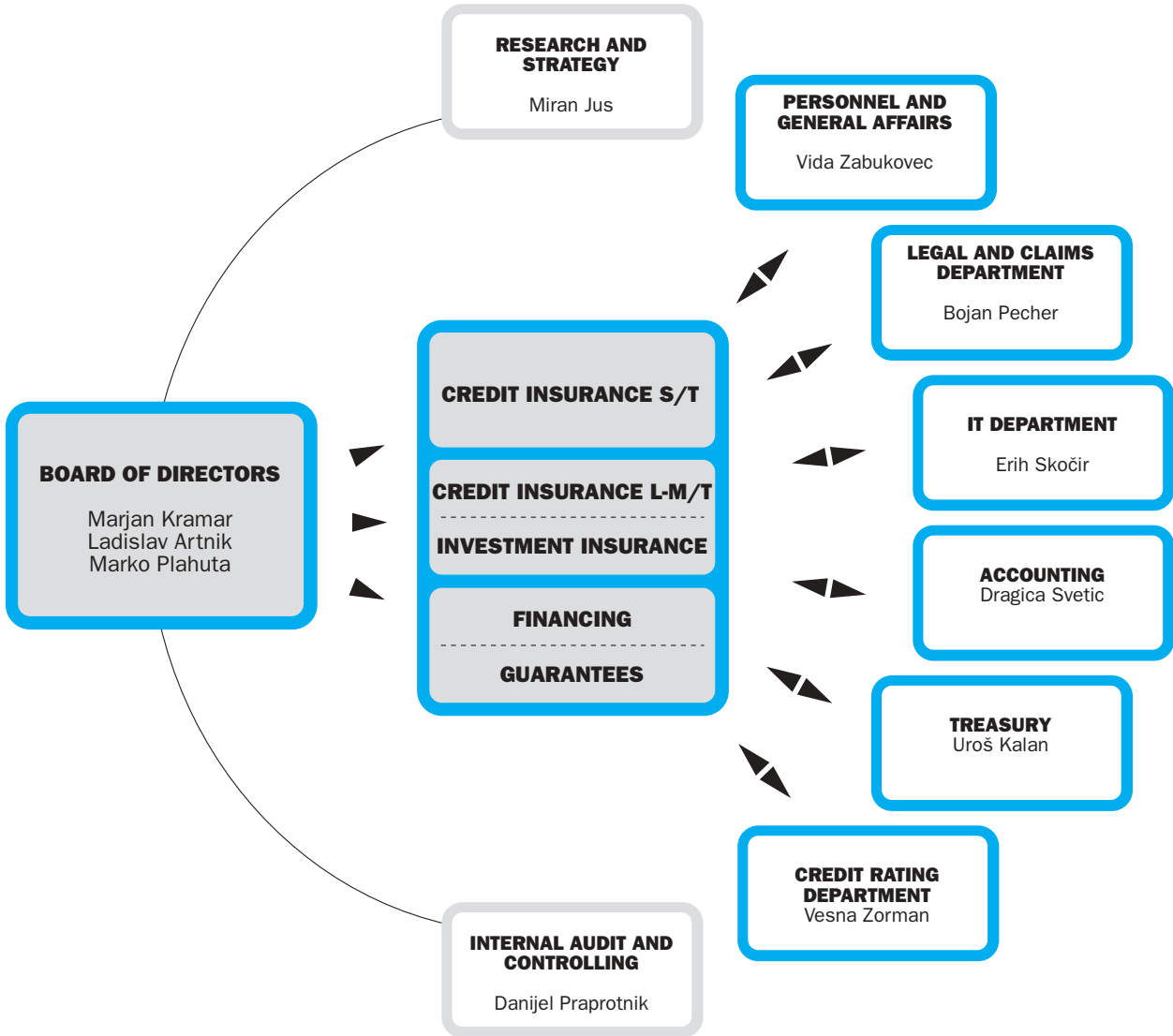
Tamara Jerman
Certified auditor



Marko Rus
Director



Organizational Structure



Shareholders' Assembly**mag. Simon Oblak - President**

Assistant General Director of LEK Inc., Ljubljana

Ludvik Hribar - Deputy President

General Director of RUDIS, Inc., Trbovlje until 17th October 2001

Supervisory Board**1. mag. Darko Tolar - Chairman**

State Secretary, Ministry of Finance

2. Janez Lotrič - Deputy Chairman

Chairman of the Management Board of Petrol, Inc., Ljubljana

3. mag. Mateja Mešl

State Secretary, Ministry of Economic Affairs

4. Janko Deželak

State Secretary, Ministry of Defense

5. Jože Stanič

Chairman of the Management Board of Gorenje, Inc., Velenje

6. Ivan Ferme

Chairman of the Management Board of Etol, Inc., Celje

7. Pavel Demšar

General Director of Domel, Inc., Železniki

**Exports Promotion
Commission****1. Renata Vitez - Chairman**

State Secretary, Ministry of Economic Affairs

2. dr. Mojmir Mrak - Deputy Chairman

University professor - Faculty of Economics, Ljubljana

3. mag. Janez Košak

Vice Governor - Bank of Slovenia

4. Stanka Zadavec

State Under-Secretary - Ministry of Finance

5. Marta Kos

Vice President - Slovene Chamber of Commerce

6. Bojan Guček

Advisor to the Government of the Republic of Slovenia