SLOVENE EXPORT CORPORATION

Export Insurance and Finance Corporation of Slovenia Inc., Ljubljana

BUSINESS REPORT 2002

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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Business Activities:

- export & domestic credit insurance
  (against short term commercial and/or non-commercial risks)
  - credit information
  - debt collection
  - legal and bussines advice
  - factoring
- medium & long term export credit insurance
- investment insurance
- export financing
- guarantees

Contents

The Business Report for 2002, which is also available on the website http://www.sid.si, contains summary of the Annual Report for 2002 of the Slovene Export Corporation, Inc., Ljubljana. The Annual Report has been available to the shareholders and public since 25th April, 2003 at the head office.

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 Corporate 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 Slovene Export Corporation, Inc. (hereinafter SEC or Corporation) reports also to the National Assembly of the Republic of Slovenia.
The Annual Report was audited by PRICEWATERHOUSECOOPERS, Ltd., Ljubljana, that issued a positive opinion.

Vision and Mission Statement

Successful and reputable financial institution - the Slovene Export Credit Agency - that provides

- economic security,
- trade facilitation, and
- competitive advantages 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 exports and performs other operations aimed at stimulating and promoting international trade relations."(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).

Providing Economic Security, Trade Facilitation and Competitiveness of Slovene Economy

- by effective, high 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 and conditions, increase sales, develop business, and operate safely on the existing as well as emerging markets;

- by financing operations under conditions that enable Slovene companies to be competitive and successful in exporting and investing;

- by issuing high quality guarantees and other sureties, thus supplementing the offer of commercial banks and insurance companies, and providing to clients safe business with Slovene companies, enabling at the same time the Slovene companies to take advantage of the business opportunities on international and domestic markets;

- by quality and up-to-date credit information, advice, 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 according to 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 security whereby it is looked after that in the long-term the business result is at least at the breakeven, and that paid and unrecovered 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 corporate sector is provided in the long-term.

Foreword by the Management Board

In 2002, as before, the Slovene Export Corporation performed its mission of providing support to Slovene exporters effectively. In line with its strategic goals, the Corporation increased significantly the volume of its operations in the area of insurance as well as in the area of financing and issuing guarantees.
The volume of insurance business covered close to 15% of Slovenia's total exports. On one hand, this supports the orientation and dependence of the Slovenian economy on international trade while, on the other, shows that the products and services provided by SEC and its business strategy are appropriate. SEC is thus becoming an important business partner of Slovene enterprises and commercial banks when they enter foreign markets or operate in the domestic one.

The insurance of domestic and export credits is becoming a standard procedure in efficient risk management. The precarious conditions in target markets, a high number of bankruptcies and difficulties, which may also hit well-established enterprises, growing competition, and the problem of 'how to sell' make demand for this insurance facility grow. The Slovene Export Corporation has largely managed to satisfy the needs of Slovene enterprises despite the stiff competition in the insurance and reinsurance industry.

SEC carries out some of its business on account of the state; it insures export credits to buyers from risky countries as well medium-term credits and investment. SEC also performed well in this line of business in 2002; the results of insurance on account of the state were positive in spite of fierce economic conditions and political instability in some regions and the increased volume of insurance and investment in South-eastern and Eastern Europe.

Export financing and the issuing of guarantees were very dynamic activities in 2002. Quality long-term foreign currency sources helped push up this business significantly, primarily the volume of refinanced export loans. Hence, the role of the Slovene Export Corporation as a specialised partner of large, small and medium-sized Slovene banks and enterprises is growing.

The Slovene Export Corporation, providing a wide range of specialised insurance and banking services, as well as services such as factoring, credit rating and legal advice, is becoming a centre capable of actively assisting companies in realising their export plans in co-operation with banks and other financial institutions. In line with its financial capacity, the SEC will continue to adjust its organisation and develop its range of quality services in order to provide support to Slovene enterprises in their efforts to do business in advanced markets as well as at home.

Board of Management

Ladislav Artnik - Member

Marko Plahuta - Member

Marjan Kramar - President

In 2002 the Supervisory Board met at five regular and six correspondence meetings, and held one meeting together with the Exports Promotion Commission.

In the second half of the year there was a change in the membership of the Supervisory Board, whose members: mag. Darko Tolar, Chairman, Janez Lotrič, Deputy Chairman, Pavel Demšar, Janko Deželak, Ivan Ferme, mag. Mateja Mešl and Jože Stanič were appointed on the 11th regular Annual Shareholders' Meeting, on July 19, 2001; mag. Sibil Svilan replaced mag. Darko Tolar, as the chairman of the Board.

The Supervisory Board acted in line with the Rules of Procedures of the Supervisory Board, the Statute of the Slovene Export Corporation Inc., Ljubljana, and provisions of the Corporate Law, which all define its competences regarding supervision of the operations management.

Last year the Supervisory Board regularly followed and supervised the operations, especially in view of achieving the goals set for the year 2002 and during its meetings discussed in particular:

- periodical business reports
- regular quarterly reports of Internal Audit and Controlling and its plan of activities for 2003
- other general and special affairs relating to the Corporation's operations
- development guidelines and business policy for the year 2003
- borrowings on international markets
- report on implementation of development strategy.

In January 2002 the Supervisory Board appointed two new members of the Management Board: Ladislav Artnik and Marko Plahuta.

On discussing reports on the implementation of development strategy of the Corporation the Supervisory Board was informed about the projections of business results in the area of short-term export credit insurance, which will represent one of the bases of the project of establishing a specialized credit insurance company.

The Supervisory Board was also regularly informed about the activities in connection with the equity investment in the factoring company LB Factors, accomplished by SEC in 2002.

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

At its meeting on March 11, 2003 the Supervisory Board confirmed the proposal of the Management Board that 50% of the net profit for the year 2002 should be allocated to the reserves.

At its regular meeting on April 24, 2003 the Supervisory Board discussed the Annual Report of the Corporation for the year 2002 with auditor's and actuary's reports, issued by the audit company Pricewaterhousecoopers and by the authorized actuary Matjaž Musil.

On examining reports, the Supervisory Board ascertained, that in the year 2002 the Corporation successfully carried out the planned policy and achieved significant growth of business. The positive auditor's opinion confirmed appropriate management of operations and successful assets' management, which further strengthened financial rating of the Corporation, serving as a solid basis for future developments.

Accordingly, the Supervisory Board approved and adopted the Annual Report of the Slovene Export Corporation, Inc., for the year 2002.

In line with the provision of Article 274.a of the Corporate Law, the Supervisory Board also examined and adopted the audited financial statements for 2002 and agreed with the proposal for the use of the net profit.

The adopted Annual Report for 2002 and the report of the Supervisory Board on the Annual Report were also submitted to the Regular Shareholders' Meeting.

Members of the Supervisory Board expressed thanks to the former Chairman mag. Darko Tolar for successful work in the first half of 2002. They also thanked to the Management Board and the staff of the Slovene Export Corporation for good performance and results in 2002.

mag. Sibil Svilan, Chairman of the Supervisory Board

Increased volumes of business - insurance, financing and issuing guarantees

- Total value of business insured - EUR 1,720 million (up by 5.9 %)
  (SEC covered 13 % of the total Slovenia's exports);
  - Insurance of export and domestic credits against marketable risks on own account - EUR 1,480 million (up by 26%);
  - Insurance of export credits and investments against non-marketable risks on state account - EUR 748.8 million.

- Financing of international trade (as of 31 December 2002) - SIT 73.6 billion (EUR 319,8 million), (up by 45%).

- Issuing guarantees - EUR 27 million (up by 55%)

Positive insurance result

- Insurance on own account - EUR 1.6 million (without recoveries - EUR 594,000);
  premium - EUR 4.5 million / claims paid EUR 2.9 million (up by 30%) / loss ratio - 0.64

- Insurance on state account - premium EUR 3.2 million / claims paid EUR 504,000 /
  recoveries EUR 514,000 / increase of safety reserves (as of 31 December 2002 - EUR 78.8 million)

- Financing - interest income SIT 3,563 million (EUR 15.7 million) /
  non-interest income SIT 147.5 million (EUR 652,000)

- Total assets (as of 31 December 2002) - SIT 88.4 billion (EUR 383.4 million), (up by 58%)
- Long-term provisions (as of 31 December 2002) - SIT 6.6 billion (EUR 28.6 million).

- Profit (before tax) - SIT 299.1 million (EUR 1.3 million)

Table 1: *Key Figures (1998-2002) (EUR)*

	1998	**1999**	**2000**	**2001**	**2002**
number of shareholders	*87*	*84*	*83*	*81*	***89***
subscribed capital	*49,350,000*	*47,251,000*	*44,082,000*	*42,110,000*	***40,490,000***
capital	*73,677,000*	*76,442,000*	*78,807,000*	*81,296,000*	***79,199,000***
profit before tax	*736,000*	*633,000*	*919,000*	*954,000*	***1,299,000***
profit / Share capital	*1.5*	*1.3*	*2.1*	*2.3*	***3.2***
number of employees	*42*	*47*	*50*	*56*	***69***

*Note: Where not specifically indicated otherwise, SIT (Slovene tolars) equivalents in EUR used for showing SEC figures at the end of each calendar year correspond the middle (final monthly) exchange rates of the Central Bank of Slovenia on the last day of each calendar year. Thus the following EUR exchange rates were used for expressing the data in EUR: 31.12.1997: 1 EUR =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; 31.12.2002: 1 EUR = 230.2673 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: 180.3985 SIT; 1998: 186.2659 SIT; 1999: 193.6253 SIT; 2000: 205.0316 SIT; 2001: 217.1851 SIT; 2002: 226.2237 SIT). For figures concerning the growth of business and comparisons of business volumes by individual years, as well as for calculation of various indices, figures in SIT have been used, unless specifically indicated otherwise in the text.

Status

- Slovene Export Corporation, Export Insurance and Finance Corporation of Slovenia, Inc., Ljubljana (SEC) is the 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 a special law, i.e. 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 Corporation 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.

Capital

- At the end of 2002 the subscribed capital amounted to SIT 9,323,540,000 (EUR 40.5 million), divided into 932,354 ordinary registered shares at par value 10,000 SIT per share;

- the capital amounted to SIT 18,236,936,559 (EUR 79.2 million);

- the audited book value of a share, as of 31 December 2002, was SIT 19,559.

Shareholders

The majority shareholder of the Corporation is the Republic of Slovenia, other shareholders being banks, insurance companies, the Chamber of Economy, and many other Slovene companies (on 31 December 2002 there were altogether 89 shareholders).

Table 2: *Shareholders*

Shareholders	***Number of shares***	***Share percentage***
Republic of Slovenia	*849,812*	*91.15*
Factor banka d.d.	*18,445*	*1.98*
Nova Ljubljanska banka d.d.	*15,827*	*1.70*
other banks	*13,709*	*1.47*
Lesnina inženiring d.d.	*4,420*	*0.47*
Petrol d.d.	*3,940*	*0.42*
Insurance companies	*8,640*	*0.93*
Slovene Chamber of Economy	*85*	*0.01*
other companies	*17,105*	*1.83*
natural persons	*371*	*0.04*
Total	***932,354***	***100.00***

Activities (Art. 5 Law on SEC)

SEC is registered for a wide range of activities providing promotion of sales of goods and services and outward investments of Slovene companies.

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 market;
- provides credit rating and other credit information, business and legal advice, 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;
- some other activities according to a special authorization (as an agent of the state).

Through its daughter company Prvi faktor, Ltd., SEC provides also factoring services.

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 own account are supervised by the Insurance Supervision Agency. Additionally, SEC is also under supervision of the Ministry of Finance.

"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).

Operations on State Account 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 transparently separated from the operations performed on own account in view of business operations, management, and accounting.

Exports Promotion Commission (Art. 27 of Law on SEC)

Conditions for the insurance cover provided on the account of the state, and the insurance ceilings 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.

Safety Reserves for Insurance on State Account (Art. 12 of Law on SEC)

Safety reserves (and special safety reserves for insurance against exchange rate risks) which, beside the funds from the state budget, represent an important insurance capacity for insurance against non-marketable risks before indemnities from insurance on the account of the state might be paid out of the state budget (the initial funds for these safety reserves were provided by the Republic of Slovenia according to the special law from the proceeds of privatization of 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 safety and special safety 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 Republic of Slovenia. 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.

Services

Insurance and Financing of International and Domestic Trade

Compared to other export credit agencies from other countries, SEC is a one-stop agency that offers to their customers a wide and complete range of various financial services and products of:

- insurance,
- financing, and
- issuing 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, and at the same time insures outward investments of Slovene companies against political risks. Thereby, SEC is, from the insurance point of view, wholly attending its clients' sales. Beside insurance of export credits SEC offers also the possibility of indirect or direct financing in domestic or foreign currency, including the purchase of receivables (factoring), and issuing of guarantees. SEC does not only support its customers in entering into foreign markets. It also insures their domestic credits against commercial risks. By providing comprehensive cover, SEC can cover their whole turnover.
The same is true for SEC guarantees, which are issued in favour of 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 their markets, pays their claims at the occurrence of insured events, and thereby insures them effectively against the risks of non-payment from their domestic and foreign buyers, debtors or guarantors, irrespective of the reason for non-payment: commercial or non-commercial risks. SEC also assists to them with collection of debts, provides credit rating information, and legal and business advice.

Export, import, and domestic credit insurance as well as investment insurance, along with the assignment of insurance rights to commercial banks and other financial institutions, also makes external business financing more accessible for exporters.

With its services SEC:

- enables and makes business finance more accessible for companies, thus
- providing conditions for their successful entering the markets with competitive sales terms, thereby
- increasing their sales on open account without additional security, whereby SEC with its quality insurance facilities
- covers risks of non-payment due to buyers' insolvency or political risks,
- improves companies' risk management, and
- provides safe business on export and domestic markets.

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

In the development of export insurance and finance system in the Republic of Slovenia the following should be considered: the international agreements of the WTO, rules and understandings of the International Union of Credit and Investment Insurers (the Berne Union), the OECD arrangement on export credits (in particular the so called OECD Consensus which is followed also by SEC, although Slovenia is not yet the member of this international organization, including the Knaepen package and the process of harmonization of the OECD premium rates). These OECD rules, along with its own rules on export credits, are also assumed by the European Union (acquis communautaire) and will form part of the Slovene legislation after the accession to EU (in 2004).

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, the mentioned international regulations on export credits, and modern practice and trends in the field of insurance and financing of international trade.

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 technical preparations are going on for some necessary changes of insurance and financing of exports, especially in conditions of medium-term credit insurance, 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 five items:

Growth and Development of Services

1. Adequate growth of operations and quality of business in the domestic and foreign markets, and development of quality of the existing products and services, including some new activities, is put in the forefront of the development strategy as a condition for further dynamics and modalities of the 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 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, together with its daughter company Prvi faktor, will develop a synthetic product of insurance and surrendering / assuming of trade receivables which will be available to the clients as a hybrid product and also in modules,
- and the offer of modern and sophisticated financial instruments custom-made for special customer needs and requirements.

Transition of Marketable Insurance to a Specialised Credit Insurance Company

2. The next objective of strategy is transformation of the existing export insurance and finance system in Slovenia and withdrawal of the state from the insurance of marketable risks which may generally be insured on the private (re)insurance market, which will require transformation of SEC.

SEC operations on account of the state have already for a number of years been transparently separated from operations on its own account. For the insurance operations, performed on its own account, SEC applies regulations from the Insurance Act and other insurance regulations, and for the other financial operations, regulations applicable for banks. The new Insurance Act (Official Gazette of RS Nos. 13/00, 91/00 and 21/02) stipulates, 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 majority of rules of the new Insurance Act shall apply for the insurance operations performed on own account mutatis mutandis (Art. 335).

Privatization and Increase of Safety Reserves

3. In the adopted strategy gradual privatization of SEC, Inc., Ljubljana, has been foreseen. According to the decision of its shareholders, the first phase will be made by selling (minority) 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 (s. Decree on sales of state financial and real property for 2003 and 2004, Official Gazette of RS No. 118/02).

According to the last amendments 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 safety reserves (according to the said law (Art.12) and the Agreement with the Ministry of Economy 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. Hence, SEC insurance capacities and possibilities will be increased.

New Law on Insurance and Financing of International Trade

4. In addition and in accordance with the adopted strategy preparations have been going on for adoption of the new law on insurance and financing of international trade. The proposal has been still in the governmental procedure (the adoption is foreseen for 2003) and shall replace the present Law on SEC and Law on Guarantees of the Republic of Slovenia for Loans Hired for Export Financing. The new law will also require a status transformation of SEC into a specialized bank.

New Agency Agreement Between SEC and the State

5. On the basis of the said law a new long-term agreement will be made between the guardian ministry and SEC on performing insurance services on behalf and for the account of the state.

The world economy

In 2002, recovery of the world economy was not only weak - according to some estimates, global economic growth was 1.7% - but also short-lived. After shrinking by 0.5% in 2001, the world trade increased by 2.6% in 2002. Foreign investment fell as a result of political instability and conditions in world financial markets; investment mainly fell in the countries of Latin America, but increased in Asia, while European countries in transition recorded the same investment levels as in 2001. Further, economic recovery was unevenly distributed across the globe, which gave rise to a feeling of a more profound deterioration, especially in Europe, which recorded the worst outcomes. While GDP rose by just 0.8% in the European Union (EU), according to the World Bank estimates, GDP growth was 6.3% in Eastern Asia (excluding Japan), 4.6% in Southern Asia, 3.8% in European countries in transition, 2.5% in sub-Saharan African countries and in Arab countries, and 2.3% in the USA. Latin America, on the other hand, was the only region to record a fall in GDP, down 1.1%, as a result of the economic crisis in some countries (e.g. Argentina, Venezuela, and Brazil).

The weak growth in the EU was partly the result of some unfavourable structural features of its economy, the level of its competitiveness, appreciation of the euro against the US dollar, the relatively high interest rates, and restrictions imposed on fiscal policy conducted through the Economic and Monetary Union (EMU) by the Growth and Stability Pact. In other countries, growth was largely hampered by highly precarious financial markets, which gave rise to fear among investors and consumers. In 2002, holders of European shares lost an average of 40% of their value, while holders of US shares lost 28% of their value. As a result, private consumption growth decelerated to just 0.3% and investment to 1.9%. Monetary authorities reacted by cutting the key interest rates and increasing public spending, however, this produced limited results and widened budget deficits, thus jeopardising one of the Maastricht convergence criterion. Capital inflows in developing countries and countries in transition did not intensify despite the lower interest rates; they dropped from USD 228 billion in 2000, through USD 175 billion in 2001, to just USD 140 billion in 2002.

Global Reinsurance Market after September 11, 2001

Insurance industry is an important economic activity that by compensating risks creates the necessary economic safety and with reinsurance and retrocession makes an integral part of the global market. Therefore, the global reinsurance market is important for all national economies, and also crucial for credit insurance. The nature of risks assumed demands from credit insurers to reinsure a considerable part of their portfolio. The conditions, dictated every year on renewals of reinsurance agreements by reinsurers, have great impact on the offer of quality insurance cover and on the price of insurance.

The economy got used to a longer period of the so-called "soft" market, as the last governing of "hard" insurance market was experienced between 1984 and 1987. The insurance capacities were considerable, the premiums, due to strong competition in the credit insurance market, quite low, and the demand for a variety of offer forced the insurers to spread the insurance cover to the areas, where they had less experience. The appetite and capability of private insurers (which depends also on cycles in the reinsurance market) to cover more and more risks of the international trade, very often caused withdrawal of states from the insurance of the so called marketable risks. The cyclic nature of the private reinsurance market is the fact and the credit insurance market quite dependant on the reinsurance market, whereby the changes in the reinsurance market do not so much depend on the events and conditions in the credit insurance market as they do on other factors, since the credit insurance represents only a niche in the total reinsurance market.

Decline of soft market

Even before September 11, 2001 there were strong signals that the global reinsurance market was hardening as a result of several, related trends. After many years of soft market with high interest rates and growth of shares' value, providing adequate investment returns to outweigh technical underwriting losses, the reinsurers' profitability suffered due to neglecting technical expertise and underwriting experience and departure from strict technical underwriting standards. Years 1999 and 2000 were exceptionally bad for catastrophe losses. Then September 11, 2001 happened: the day that changed the market. Direct losses, insurers and reisurers suffered by destruction of the World Trade Center in New York were more than double the impact of the previous worst ever-insured event (USD 19.6 billion, Hurricane Andrew, 1992). The final outcome is not yet known, there are, however, estimations of losses between USD 30 and 77 billion.

These events and the uncertainty connected with escalation of terrorism and military conflicts strongly affected, and they will also in future, the international relations and the world economy, the reinsurance market and credit insurance, as well as the perception of risks and strong demand for economic security. Big losses, floods in Central Europe, accounting scandals and collapses of Enron, WorlCom, and other corporations, financial crisis in Argentina, Venezuela, Turkey, Nigeria, slow recovery of Western markets, low interest rates, shares' value falls, along with a strong "asbestos time bomb", which requires increase of technical provisions of some insurers, had strong impact on the reinsurance market in 2002. Payments of big claims, increase of provisions, low premiums from the period of the soft market, decrease of reinsurers' assets due to shares' value falls, and low interest rates placed negative pressures on their profitability, financial standing, and credit ratings, which were lowered last year by the majority of credit rating agencies, and led to decrease of investors' confidence. The new market environment caused some high profile withdrawals from the reinsurance industry and bankruptcies; while sharply increased premium rates caused reinsurers to increase reserve (e.g. ERC) or to raise new capital and led institutional investors to finance start-up reinsurance operations.

Hard Market

All these events and problems of the reinsurance industry; whereby the current hardening in the reinsurance market coincides with a downturn in the world economy, led to lowering of reinsurance capacities, limited supply, and harder insurance conditions. To put it simple: less cover for higher price. The increased aversion to risks and strongly expressed need for economic security created a serious gap between buyers' demand and insurers' supply. Many insurers changed the types of risks they underwrote, withdrew from riskier lines of business, long-term business and even credit insurance or they reduced the amounts they underwrote in such cases and percentage of cover; the reinsurers also demanded better performance and stricter underwriting criteria from primary insurers. Therefore, many primary insurers had problems with contract renewals for 2002 and also for 2003. It should be mentioned that along with movement toward unproportional cover, forcing the primary insurers to pay more attention to their own risks, the (re)insurance premium rates increased considerably (in the insurance of political risks on private market in general by 10 to 20%, and even more in some countries due to reduced capacities), while in credit insurance decrease of ceding commissions was reported.

Considering the cycles of the reinsurance market, which do not necessarily reflect the general economic cycles, the current reinsurance market environment represents a kind of correction of previous soft market results. Entering of new actors and capital into the reinsurance market, in spite of the anti-cyclic performance of the credit insurance, will help companies through recession and add to employment, but most probably will not be enough for quick lowering of premium rates. There have been far more capital capacities lost than invested in the industry. The insurance cycles show that the market downturn can be very quick, especially in cases of market hardening and big catastrophe losses. Soft market is prolonged by competition and overcapacity beyond the natural underwriting cycle, so that reinsurers try to survive on investment income and underwriting for the market share, rather than underwriting for a profit. On bad losses events, when "deficiencies of the previous soft market period are corrected", reinsurers gain due to premium rates growth, resulting from limited insurance supply (or excess demand), and also because of rather rigid demand for reinsurance cover from primary insurers. It is worth mentioning that in the hard reinsurance market a more or less general increase of premium rates can be observed, regardless the fact that individual lines of business (e.g. credit insurance) were not hit by the events hardening the reinsurance market.

If the increase of premium is good news for the reinsurers, it is certainly not as good for the primary insurers, since during the recession premium increase is not easy to be transferred to buyers of the insurance who themselves have to decrease their expenses. In any case premiums will increase for policy holders; even for those who in the past had good loss ratios, depending of the insured portfolio. Higher risks in international and domestic trade (bad payment performance, chain bankruptcies of well-known companies) will have a certain "educational" effect for managers and corporate owners, so that a changed perception of risks, a growing need for economic security, and an increase in demand for insurance can be expected. However, the demand also depends on the buyers' income, so that higher pressure on cost reduction will restrict companies' ability to pay adequate cost of insurance.

These events and their net effect will certainly have a major impact on further development of credit insurance in Slovenia; even more so on the "post-transitional period" and ownership consolidation of Slovene companies, which will give greater significance to an appropriate risk management, similar to that of developed economies.

The reinsurance market is very important for credit insurance, even when compared with other types of insurance. Credit insurers do not have enough capital to assume all the risks of their rather specific business. Therefore, credit insurers provide economic security to their clients also through reinsurance, thus protecting their own net assets and maintaining stable profitability. Nevertheless, the credit insurance market should not suffer too much because of the current hard reinsurance market and the reinsurance industry crisis, as it represents only a niche in the extremely large and important global reinsurance market.

EU member states performed worse than countries in transition

Economic outcomes in the two most important regions for the Slovenian economy, the EU and European countries in transition, varied considerably. Most frequently cited reasons for higher economic growth in countries in transition were greater flexibility of their small economies, non-mass export production, which has easier access to market niches, privatisation which attracted foreign and domestic investors, wage growth and the related private consumption growth, as well as more expensive oil in the case of Russia and some other former Soviet Union countries. GDP growth varied greatly from country to country - it was the highest in Turkmenistan, Azerbaijan, Kazakhstan, Belarus, Armenia, Moldavia, Lithuania, Latvia, and Romania - and averaged 3.8%, close to five times as high as in the EU. This group of countries is estimated to have recorded a slight current account surplus (0.5% of GDP); best performing countries were Belarus, Russia and Slovenia, while worst performing countries with a deficit of over 10% of GDP were Tadzhikistan, Azerbaijan, Bosnia and Herzegovina, Croatia, Serbia and Montenegro, and Estonia. Exports of goods are estimated to have increased by 5.1% and imports of goods by 11%. Inflation in these countries slowed down, however, it was still much higher than in the EU; two-digit inflation rates were only seen in Belarus, Serbia and Montenegro, and Tadzhikistan. In the first six months of 2002, investment in countries in transition totalled USD 13.9 billion, just slightly above the level of the same period of 2001. These figures, however, should not raise false hopes that business risks have reduced markedly. Differences between these countries are extremely wide; the least advanced are hampered not only by political instability and poorly developed legal systems, but also by the current account and budget deficits, the limited export structure, the weak banking sectors, possible pressures on their currencies, widespread unemployment, and slow progress in structural reforms.

EU member states were faced with greater difficulties than in 2001. One of the positive results was reduction of inflation to 2.3%, while productivity growth of 0.7% and a current account surplus of 0.5% of GDP, which was largely the result of lower imports of goods, were modest. GDP growth almost halved compared to 2001(0.9% according to preliminary estimates), with the lowest growth rates being recorded in the Netherlands (0.1%), Italy (0.3%), and Germany (0.4%), according to OECD's estimates. The latter two countries were the only ones in the EU to record falls in private consumption, while total domestic consumption dropped in Germany and Austria. In Austria, as well as in the United Kingdom, a decline was also seen in investment. Imports of goods and services fell in practically all member states, except in Greece and Ireland, while unemployment increased by over half of a percentage point in Austria, Germany, Ireland, the Netherlands, and Spain. According to Eurostat, unemployment in the euro zone amounted to as much as 8.6% in January 2003. Some governments tried to boost economic growth by increasing public spending, however, this in turn pushed up budget deficits. The deficit averaged 2.2% of GDP in the euro zone. Cuts in interest rates - mainly short-term interest rates, which were at an average level of 3.3% - had little effect on consumption, while savings increased in all EU member states, except in the United Kingdom, as a result of uncertainty.

The number of bankruptcies on a rapid increase in Western Europe

After the number of permanently insolvent companies had fallen in Western Europe after 1997, the number of bankruptcies rose for the first time in 2001, following the rapid decline in economic activity. This negative trend intensified in 2002; estimates made on the basis of national statistics show that the number of bankruptcies in 17 advanced European countries climbed from a solid 150,000 in 2001 to over 164,000, or by close to 9%. The number of bankruptcies increased the most in Denmark (28.8%), followed by Germany (20.8%; according to the German statistical office, there were 37,579 bankruptcies in Germany in 2002), the Netherlands, Norway etc, while the number only fell in Ireland and Luxembourg. If we look at relative figures (the number of bankruptcies relative to the number of companies), Western European countries that were hit hardest were Luxembourg, Sweden, and Austria (there were 5,400 bankruptcies in Austria in 2002, 4.3% more than in 2001). In the latter three countries, 340 to 220 companies went bankrupt out of 10,000 companies, France, Norway and Germany were somewhere in the middle, recording between 180 and 130 bankruptcies per 10,000 companies, while countries with the least bankruptcies in relative terms were Greece, Portugal, and Spain.

It seems therefore that Slovenian companies face the risk of default in paying not only in the domestic market or markets of less advanced and risky economies, where commercial risks are further aggravated by political risks, but also in advanced industrialised markets. In the period of faltering economic growth, permanent insolvency may become more common in the most advanced economies, also partly due to stiffer competition. At the end of recession, increased competition may cause this negative trend to continue and produce new bankruptcies, even though the economy may generally enjoy an upward trend. Payment problems and bankruptcies may also hit large and established Slovenian enterprises, which have done business with their partners for a long time and have developed excellent business relations with them. In periods of economic crisis, problems that come from outlet markets commonly reflect as well as aggravate the issue of external corporate financing; lower credit ratings and credit worthiness of clients force banks and other financial institutions to exercise restraint in corporate lending, which further undermines the capability of companies to settle their obligations. In modern economies where dependence between individual economic entities is significant due to specialisation and work division, problems of one company spill over fast onto others, or from large to small companies (in Germany last year, such cases involved Phillip Holzman, Kirch Media, Fairchild Dornier, Grundig in 2002, and others). What we are witnessing here is the effect of knock-on insolvencies. In such conditions, which also put pressure on the Slovenian economy, credit insurance may be an effective instrument of protecting companies against increased business risks. This may create economic security for businesses, enable them to sell on credit (deferred payment) under competitive conditions and, in turn, increase sales, while effectively protecting them from the risk of non-payment, which may seriously undermine the profitability of their operations or even jeopardise their existence.

The early period of 2003 raises no optimism as regards economic and political conditions, which have become more closely intertwined in the period of globalisation. The USA's record high current account deficit has begun to threaten the dollar, world commerce and financial flows. The declining production and growing unemployment in Germany are imminent sings of recession in the third largest world economy. Stock exchange indices continue to fall, which is reducing not only private spending, but also corporate profits and investment. The latest economic growth forecasts for the euro zone for 2003 have been further revised downwards to 1.3%, while those for Germany dropped to a mere 0.5%.

Political risks are increasing

The world has never been, and is not likely to be, a world of peace, even though the world has enjoyed some short or long periods of peace. We were reminded of the relevance of economic crises and political risks to international economic co-operation a few years ago by the Asian, and later on, by the Russian financial crisis and recently by the mounting economic difficulties in Argentina and Turkey and by Nigeria's default in debt repayment. Tragic events that marked 2002 were also the bloodshed in Nepal, bombs in Palestine and Israel, the military operation in Afghanistan, increased tensions between India and Pakistan, terrorist attacks in the Middle East and the Pacific, coups d'etat in Ivory Coast and Venezuela. In early 2003, Serbia's Prime Minister was shot, reminding us of the unresolved problems in the Balkans even though the military conflict in this area has been stopped.

Forecasts for 2003

Uncertainty, which will have a significant impact on the world economy and further developments in international trade and aggravate political and other risks, has been highly intensified by the war on Iraq as well as by tensions related to North Korea, Palestine and other Middle East countries. This war, which is unfortunate and dangerous just like any other war because it will hit not only the economy, but also individuals, is likely to generate a number of other threats for the world and international relations. Preparations for war had already driven a wedge between the USA and Europe and created a divide within Europe itself, which is preparing for a demanding task of enlargement in 2004, while the divide with the Arab world may lead to unthinkable consequences. A long war in Iraq and its results may have highly negative consequences for the world economy, primarily through the price of oil. Forecasts of global economic growth are highly doubtful and they are all based on different assumptions and scenarios about the duration of the war in Iraq and its consequences as well as on different scenarios about oil price movements - American analysis have calculated that a one dollar rise in the price of oil could reduce GDP growth by 0.05%; if the price climbed to USD 60 per barrel, the US economy would go into recession. Forecasts of global economic developments for 2003 have also taken into account tax cuts introduced by the US government, speculations about the need to cut the key interest rates by the European Central Bank (ECB), and considerations to relax the fiscal discipline or the Maastricht criteria.

According to the World Bank's estimates, global GDP should rise by 2.5% in 2003, or by 2.1% in OECD members, while the volume of world trade should expand by 7.7%. Most analysts agree than economic growth in the USA should range between 2.5% and 2.7%, while estimates for the EU vary considerably and have been revised downwards recently. Pessimistic analysts project just 0.4% growth, the ECB between 1.1% and 2.1%, the OECD 1.9%, and The Economist 1% growth.

Forecasts for other regions are even more difficult to make. Economic growth is estimated to strengthen in 2003, the most in Asia, less in European countries in transition, and the least in Arab, African and Latin American countries. In European countries in transition, GDP should rise by about 4%, according to the UN Commission for Europe, however, there will be significant differences between countries.
The fastest growth should be achieved by the Baltic states (5.4%), followed by countries of the former Soviet Union (4.2%), the Balkan countries (4.1%), and Central European countries (3.5%). Any faster growth in countries in transition will be hampered by weak demand in OECD countries, high current account deficits in some countries, mainly in the Balkans, and budget deficits, mainly in some Central European countries.

The Slovenian economy in 2002

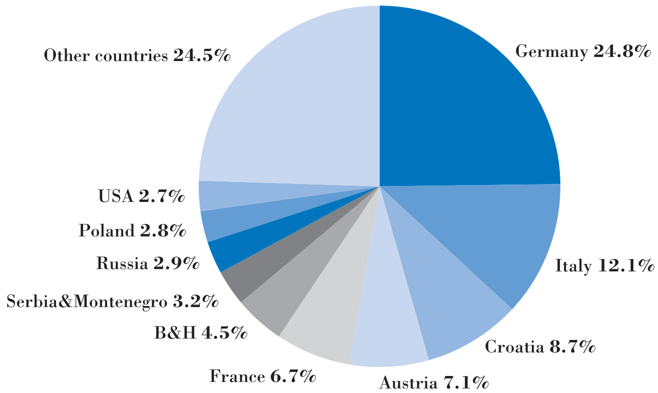
Economic growth sustained despite unfavourable conditions

The Slovenian economy, which is relatively well developed - its GDP per capita is at the level of the least developed EU member states and has reached an estimated 71% of the EU-15 average - and relatively open due to its small size, recorded fairly stable growth in 2002 despite the unfavourable international economic environment. Growth roughly maintained the level of the previous year, ranging at 3.2%, while industrial production climbed by 2.5%. The increased uncertainty in the world and unfavourable economic conditions in Slovenia's main trading partners weighed on economic developments in Slovenia and also led to further changes in the regional composition of Slovenia's exports. Last year's economic growth was influenced by weakened, but still robust, export growth (6.1%) and unchanged private consumption growth (2%). Government consumption growth slowed down to 2.7%, while investment activity gain momentum and increased by 3.7% mainly due to public sector's investment in infrastructure.

Exports - growth and continued expansion to new markets

Slovenia's international trade is fairly diversified, as revealed by the sectoral, product and geographical structure. As far as export markets are concerned, the EU is by far the most important market for Slovenia, accounting for close to 60% of Slovenia's exports of goods in 2002, according to provisional figures. Exports to this region rose by just 1.2% last year and Slovenia recorded a trade deficit with EU member states. The most important EU trading partners are Germany, where the volume of Slovenian exports remained at the level of 2001 last year, Italy, Austria and France, where exports climbed by 4.5% last year. In addition to other OECD countries, Slovenia's important trading partners are Croatia (export growth of 8.7%) and other countries of former Yugoslavia, especially Bosnia and Herzegovina (4.5%), Serbia and Montenegro (3.2%), Russia, CEFTA countries, and the USA. The relative importance of countries from Central, Eastern and South-eastern Europe increased further in 2002, as revealed by their larger shares in Slovenia's total exports. The biggest growth was seen in exports to CEFTA countries (up 15.2%), the countries of former Yugoslavia (up 11.5%; exports to Serbia and Montenegro alone climbed by as much 31.5%) and the Soviet Union (up 10.4%). With economic activity in the EU slowing down, this re-orientation of Slovenia's exporting activity was underlined by the relatively favourable economic developments in the countries of Southern and Eastern Europe, the increased volume of short-term trade credits extended last year, and the stabilisation of political and economic conditions in South-eastern Europe. In this region, Slovenia's trade surplus increased markedly, which could hold back export growth in the upcoming period in view of the balance of payments problems faced by these countries. All these developments also facilitated growth in the volume of Slovenia's foreign direct investment. Outward investment, which also helps balance the balance of payments position with these countries, is becoming an important element of further internationalisation of Slovenia's economy and is facilitating a gradual return of Slovenian companies to the markets of South-eastern Europe. In 2002, when inward investment rose substantially, Slovenia recorded EUR 122 million of outward foreign direct investment, while the stock of Slovenia's total outward investment is estimated to have exceeded EUR 1 billion at the end of 2002.

Chart 1: *Regional composition of Slovenia's exports of goods (2002)*



Favourable balance of payments position

According to official provisional figures, total exports of goods and services rose by 6.1% (expressed in euros) in 2002 over the year before, while imports of goods and services climbed by 4.8%. This helped increase the surplus in the current account of the balance of payments, which totalled EUR 393 million, 1.7% of the estimated GDP. The surplus, which was the highest after 1994, was achieved in spite of the lower price and cost competitiveness of Slovenian manufacturing and thanks to improved terms of trade, resulting from exchange rate changes and a faster rise in export than import prices. The main factors, however, were the sustained merchandise export growth (6.1%), especially to the countries of Southern, Eastern and South-eastern Europe, and the modest merchandise import growth (1.9%), both of which also helped reduce the trade deficit from EUR 998 million to EUR 608 million. With exports of services growing strongly, which brought to a halt the downward trend in the share of services in total international trade (in addition to transport and travel services, other services are gaining momentum), the surplus in trade in services increased to EUR 591.6 million in 2002, labour and capital incomes recorded a deficit of EUR 80.1 million, while the surplus in current transfers remained roughly at the level of 2001 (EUR 141.6 million). Net capital inflows (excluding international monetary reserves) increased last year and totalled EUR 1,516 million; the biggest inflow was foreign direct investment, including loans extended between foreign and domestic affiliated companies, which almost doubled last year, while international corporate borrowing was much lower than in 2001. Foreign direct investment increased from EUR 562.4 million in 2001 to a record high level of EUR 1,949.5 million in 2002, primarily due to the privatisation of the NLB bank by the KCB and ERBD and the sale of Lek, a pharmaceuticals company. The biggest capital outflows, in addition to individuals' currency, were trade credits, which amounted to EUR 385.7 million and rose significantly as a result of recession-like conditions in the international environment (resulting from the difference between deadlines for payment for exported and imported goods, 90 and 64 days, respectively, as well as due to import growth accelerating more than export growth). Trade credits were one of the reasons or incentives for increasing exports to Southern, Eastern and South-eastern Europe, while bank lending abroad rose at the same time. Foreign exchange reserves increased by as much as USD 2,405 million against the background of the current account surplus, increased inflows in the capital and financial account, and the US dollar's depreciation. They totalled USD 8,152 million at the end of 2002, representing 37% of the estimated GDP and covering 7.9 months' worth of imports of goods and services. According to preliminary figures from the Bank of Slovenia, Slovenia's total external debt also increased last year, going up by USD 2,082 million, and amounted to USD 8,799 million on 31 December. Three-quarters of this increase was the result of exchange rate changes. Short-term debt represented just 1.4% of the total external debt, while the share of public or publicly guaranteed debt shrank because the government made no borrowing in the euro markets. The rate of cover of external debt by foreign exchange reserves improved from 0.856 in 2001 to 0.926 at the end of 2002.

Table 3: *Slovenian economy - selected economic indicators and forecasts (2000-2003)*

	2000	**2001**	**2002***	**2003***
GDP				
- (EUR million)	20,595	21,828	23,360	27,200
- per capita (EUR, current exchange rate)	10,352	10,955	11,709	12,390
- (real) growth rates (%)	4.6	2.9	3.2	3.1
Exports				
- real growth rates (%)	12.7	6.4	6.1	5.7
- goods (EUR million)	9,566	10,440	11,087	
- services (EUR million)	2,050	2,188	2,418	
Current account				
- balance (EUR million)	-595	31	393	357
- balance (as a % of GDP)	- 2.9	- 0.2	1.7	1.6
Unemployment rate (ILO; %)	7	6.4	6.4	6.2
Inflation (CPI; annual average; %)	8.9	8.4	7.5	5.5
General government deficit (as a % of GDP)	1.4	1.4	2.9	1.2

Sources: Statistical Office of the Republic of Slovenia, Bank of Slovenia, IMAD.

** estimate/preliminary data/forecast*

The favourable balance of payments position and the oversupply of foreign exchange influenced the exchange rate movements. The Bank of Slovenia continued to pursue a policy of managed depreciation of the tolar; the tolar's nominal depreciation continued to slow down - the slowdown against the basket of OECD currencies was slightly stronger than that against the euro because of the US dollar's depreciation (3.8%) - while the tolar's real appreciation was 2% (the effective exchange rate measured by industrial producer prices). The cost competitiveness of the economy's tradable sector worsened because the exchange rate lagged behind the high inflation rate.

Inflation still excessively high

The average rise in consumer prices was 7.5% in 2002, almost one percentage point lower than in 2001. The prices of goods climbed by 6.3% and the prices of services by 10.7%. Prices were largely pushed up by fiscal factors, especially at the beginning of the year (higher excise duties and value-added tax rates, and the introduction of environmental taxes), and the rising oil and other administered prices.
The persistence of inflation at the relatively high level, resulting from inflation's inertia caused by backward-looking indexation (reflecting past price rises), the combination of fiscal and monetary factors, and the government's price regulation, is a clear sign of the need to co-ordinate the operation of economic policies and ease inflationary expectations before Slovenia's accession to the EU (1 May 2004) and integration into the exchange rate mechanism (ERM2). After rising markedly in 2001, wages slowed down in 2002 (wage growth was below the rate of GDP growth), especially in the public sector, and recorded real growth of 2%. The positive trends in employment, which had been seen for three years, deteriorated in 2002 because of deceleration in economic growth and manufacturing's production volumes; the unemployment rate established by the labour force survey (the ILO methodology) changed little from 2001, going down from 6.4% to 6.3%.

Public finance

According to official preliminary figures, the general government deficit amounted to 2.9% of GDP in 2002, 1.4% of which was the current deficit and 1.5% the 'compensatory deficit,' resulting from the alignment of the fiscal year with the calendar year. As regards general government revenue, the share of indirect taxes increased, following the rise in VAT rates and excise duties, while the share of direct taxes and social security contributions shrank. Custom duty revenues fell as a result of further liberalisation of international trade, albeit at a lower rate than in 2001. General government expenditure dropped by one percentage point last year and amounted to 43.5% of GDP.

Increased borrowing in foreign currency and lower corporate liquidity

Growth in monetary aggregates was moderate last year, however, the broad monetary aggregate rose considerably as a result of increased inflows of foreign direct investment in late 2002. This did not affect the monetary aggregate M1 because of the central bank's extensive sterilisation of excess liquidity.

Some changes were seen in the structure of corporate borrowing. Enterprises continued to borrow heavily from domestic banks (at a real monthly rate of 2.7%) in foreign currency as a result of the exchange rate lagging behind inflation, high nominal interest rates on tolar loans (due to the indexation clause on long-term loans), and the favourable foreign exchange liquidity of banks. At the end of 2002, foreign currency loans accounted for 33.7% of total banks' corporate loans, which climbed by 3.6% last year due to the increased foreign currency borrowing. External borrowing dropped by 23% from 2001, however, this was still the second most important source of corporate financing. Nominal interest rates again dropped in 2002 over the year before, down 1.9 percentage points on short-term loans and 1.5 percentage points on long-term loans (the downward trend in interest rates on short-term loans continued at the beginning of 2003). December's average nominal interest rate on short-term loans to finance current operations was 11.8%, while interest rate on long-term loans to finance fixed assets was 14.7%. The interest margin measured by net interest income relative to the total average bank assets was 3.4%.

Liquidity of the Slovenian corporate sector deteriorated in 2002 compared to previous years. According to figures from the Agency of the Republic of Slovenia for Public Records and Related Services, concerning legal entities with outstanding accounts for over five days in a row (these figures are not comparable with those compiled prior to July 2002, when payment transactions were transferred to banks), show that the number of these companies increased - most of them operated in wholesale and retail trade (448), manufacturing (264), real estate, construction etc - as did the amounts outstanding. The average delay in payment also increased.

Slovenia's banking and insurance sectors

Slovenia's financial sector still needs to be developed further in order to meet western standards, be capable of providing quality financial services, and compete in the single EU market. This is necessary in spite of the effective bank rehabilitation carried out after the break-up of Yugoslavia, liberalisation of financial services, and the free flow of capital. The latter is reflected in the entry of foreign financial institutions - the Société Générale Group in the SKB bank, the KBC and EBRD in the NLB bank last year, San Paolo IMI in the Banka Koper, and the RZB in the Krekova banka - the banking sector's increased concentration and competition, resulting from the growing number of modern financial services, while regulations, the rules of safe and prudent management, and supervision have already been harmonised with the EU's acquis communautaire.

Slovenia's banking sector, which incorporated 20 commercial banks (the Abanka took over the Vipa bank last year) and one foreign bank branch at the end of 2002, performed exceptionally well. According to unaudited provisional figures from the Bank of Slovenia, the total bank assets seen at the end of 2002 (SIT 4,553 billion) climbed by 17.4% from the year before. Total assets of banks and savings banks accounted for an estimated 90% of Slovenia's GDP. Banks generated SIT 143 billion of net interest income, going up by 23%, non-interest income surged by 41%, while total pre-tax profits, without the cost of reserves and the 1.8% rise in operating expenses, rocketed by close to 200% over 2001 and totalled SIT 49.2 billion (this was due to poor results recorded by one of the large banks in 2001 and changes in accounting standards).

Similar developments were seen in the Slovenian insurance sector, which is growing fast, is relatively well developed and concentrated. The rate of insurance penetration (recording about 5%) is at the level of some EU member states, while premiums continued to rise faster than GDP - gross written premiums of eleven insurance companies and three other members of the Slovenian Insurance Association totalled SIT 267 billion, according to unaudited figured from the Association. Fast growth was again seen in life insurance, up 25%, however, claims paid rose even faster, going up by 33.3%. While new regulations, harmonised with EU rules, were adopted, privatisation was late, especially that of Slovenia's leading general insurance company, which held a 40% market share. This hampered the development of the Slovenian insurance sector and also negatively affected other financial sectors. The Insurance Privatisation Act was passed in May 2002, while the Constitutional Court's decision confirming the constitutionality of articles regulating the relationship between equity and non-subscribed capital finally gave way to further privatisation.

The outlook for growth of the Slovenian economy

Economic growth should gradually gain momentum in 2003, especially in the second half of the year, as shown by official, but very likely over-optimistic figures in view of the growing uncertainty in the international environment. Given the size and openness of the Slovenian economy, further growth will largely depend on international economic conditions and the resolution of the Iraqi crisis, as well as on economic recovery in the EU, where most Slovenian trading partners come from. A decline in economic growth in the euro area, despite the continued positive expectations and business optimism displayed by Slovenian managers in February this year, would make it hard for Slovenia to maintain current economic growth rates without further re-orientation of exports to new markets. Some of these, however, are questionable in terms of further export expansion because of deficits in their balance of payments. If the Iraqi crisis lasted long, advanced economies recovered slowly, and oil prices persisted at a level above USD 30 per barrel, which could lead to a shock on the supply side and recession in a large part of the world economy, the Slovenian economy would be hit hard, while persistently high oil prices would threaten the government's inflation target of 5.1%. This would in turn jeopardise the real convergence of the Slovenian economy with the EU upon its transition to the system of fixed (but adjustable) exchange rates within the ERM2 (2005), its integration into the EMU and the introduction of the euro two years later.
In the period before accession to the ERM2 (2005), efforts to reduce inflation will become increasingly important, however, this will be a difficult task given the inflation's inertia and the application of indexation mechanisms (especially in wages and long-term credits). Slovenian economy's competitiveness in the period before integration into the ERM2 and the fixing of exchange rates will crucially depend on exchange rate policy and the level at which the tolar is fixed. However, the main problems of sustainable growth of the Slovenian economy continue to be related to strategic issues, which will primarily depend on more intensive development policy measures.

In 2002 SEC considerably increased volumes of business in all the main areas of activities: insurance, financing and issuing guarantees.

- Total value of all insurance transactions (including own and state account business) amounted to EUR 1,720 million (an increase of 5.9%), which according to the provisional official figures represents already 13% of total Slovenia's exports.
  - Insurance of export and domestic credits against marketable risks (own account) amounted to EUR 1,480 million (an increase of 26%);
  - Insurance against non-marketable risks (state account) decreased and amounted to EUR 748.8 million.

- The growth of financing was substantial (up by 45%), especially in the area of long-term export credit and investment financing, and as of 31 December 2002 came to SIT 73.6 billion (EUR 319,8 million).

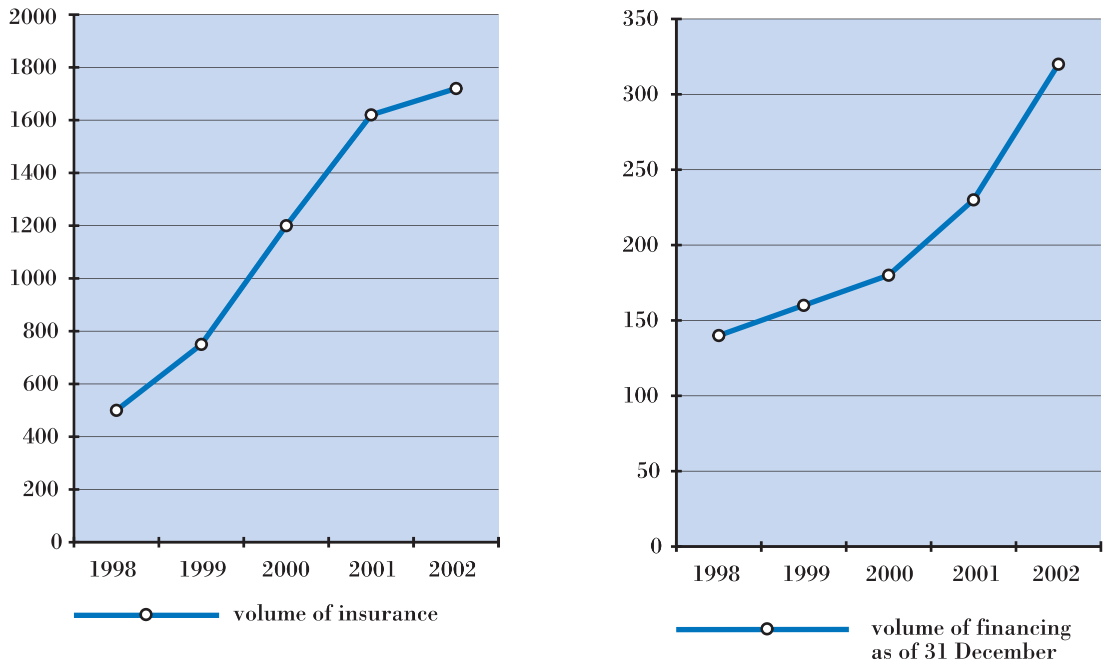
- The value of issued guarantees went up by 55% over the previous year and totalled EUR 27 million.

- Insurance on own account: The loss ratio, without consideration of recoveries in the amount of EUR 594,000, was positive (0.64) and amounted to EUR 1.6 million. The invoiced premium grew slower than the volumes of business insured and reached EUR 4.5 million. SEC paid claims in total value of EUR 2.9 million, which in some of the important markets went up by 30% over the previous year.

- Insurance on state account: The insurance result was again positive; the collected premium of EUR 3.2 million and recoveries of EUR 514,000 were by EUR 1.6 million higher than the paid claims of EUR 504,000 and costs of this insurance. The aggregate (positive) result of the insurance on state account over the period of ten years has increased to EUR 5.4 million, so that total safety reserves (including those for insurance against exchange rate risks of EUR 4.6 million) reached the value of EUR 78.8 million.

- Financing: In 2002 the interest income amounted to SIT 3,563 million (EUR 15.7 million), and non-interest income SIT 147.5 million (EUR 652,000).

Chart 2: *Volume of Insurance and Financing (EUR million)*



SEC continued with implementation of programme of borrowing on the international financial market that started already in 1999. In 2002 SEC raised a long-term syndicated loan in value of EUR 70 million. The hired loans, secured by the guarantee of the Republic of Slovenia, provide Slovene enterprises with favourable long-term funds in foreign currency to finance their international trade.


SLOVENSKA IZVOZNA DRUŽBA

Slovene Export Corporation

EUR 70,000,000 Syndicated Term Loan Facility

Mandated Arrangers

Bank Austria Creditanstalt AG

Sumitomo Mitsui Banking Corporation

WestLB AG

Citibank N.A.

Facility Agent

Sumitomo Mitsui Banking Corporation

SEC - Prvi faktor Ltd.

In order to supplement its range of insurance and financing facilities and to develop a synthetic product of factoring and joint financial services, SEC, on October 15, 2002, acquired a fifty percent of the subscribed capital of the factoring company Prvi faktor (former LB Factors), (the other two shareholders being Nova Ljubljanska banka and its daughter company LB Interfinanz, Zuerich).

LB Factors, established in 1994, in 2003 renamed in Prvi faktor, is the first and the leading Slovene factoring company that purchases short-term trade receivables and offers a full recourse and non-recourse factoring for domestic, export, and import receivables. It is also the only member of the Factors Chain International from Slovenia.

Although the knowledge about factoring is still limited in Slovenia, this dynamic, flexible, and comprehensive facility is becoming an important technique of external corporate financing, especially for small and medium-sized fast growing companies, that also provides controlled cash flows and safe sales on open account. The growth of business of Prvi faktor over the past years proves it. Last year Prvi faktor purchased receivables in total value of EUR 64.9 million (an increase of 9% over 2001). The biggest volumes were recorded in the area of domestic factoring (EUR 47.6 million). There was also an increase in export factoring (EUR 9.9 million), whereas import factoring decreased (EUR 7.4 million).

Financial operations

Table 4: *Income Statement Summary (SIT billion)*

	2000	***2001***	***2002***
net interest	*2.76*	*3.02*	***3.02***
net non-interest income	*0.61*	*0.81*	***1.30***
expenses (labour, material and services)	*0.60*	*0.70*	***1.02***
depreciation	*0.06*	*0.07*	***0.07***
net provisions	*0.85*	*1.39*	***2.89***
profit before tax	*0.19*	*0.21*	***0.30***
income tax	*0.04*	*0.05*	***0.06***

The profit before tax for 2002 in the amount of SIT 299,137 thousand increased by 42% compared to 2001.

Interest income totalled SIT 5.78 billion (an increase of 14.3%), whereas interest expenses grew by 35.1% so that net interest income came to SIT 3.02 billion and remained at the level of 2001.

Commission income of SIT 1.24 billion was by 110.5% higher than in 2001, the largest share of which represented net income from insurance premium and commission (59.6%), earned by insurance against short-term commercial risks (own account). This income, which in 2002 increased by 192.4% was reduced by claims paid and expenses for doubtful receivables from recoveries, stated in the income statement under other operating expenses. Net premiums from insurance on state account represented 19.8% of total commission income, while commission income from financing accounted for 11.9%, from issued guarantees 4.4%, and from sales of credit rating information 4.3%. Net commission income was SIT 1.17 billion, up by 142.1% over the previous year.

Operating expenses totalled EUR 1.09 billion and were, primarily due to increased expenses for services, by 41.9% higher than in 2001.

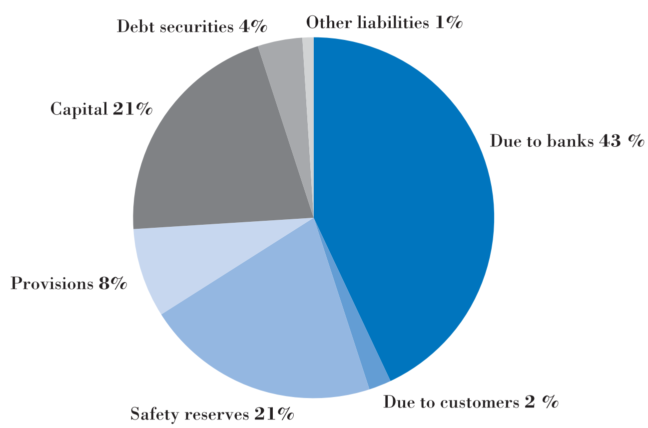
In the structure of operating expenses labour cost accounted for 47.9%, expenses for services 42.5%, depreciation 6.7%, and material costs 2.9%. Percentage of operative expenses as of assets lowered from 1.58% in 2001 to 1.51% in 2002.

Net provisions increased by 108% compared to 2001 and amounted to SIT 2.89 billion, of which SIT 1.41 billion went to insurance technical provisions.

Table 5: *Balance Sheet Summary (SIT billion)*

	2000	***2001***	***2002***
total assets	*41.26*	*55.76*	***88.37***
capital	*16.67*	*18.00*	***18.24***
provisions	*3.47*	*4.57*	***6.59***
off balance sheet assets and liabilities	*4.55*	*5.70*	***21.29***

Chart 3: *Liabilities Structure*

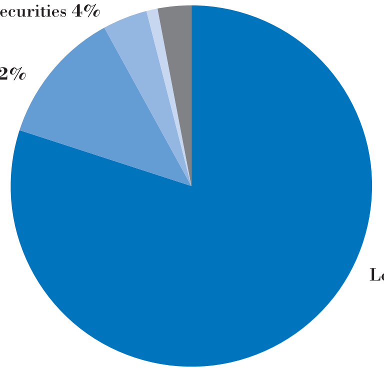


In the liabilities structure the biggest share of 43.7% is represented by liabilities due to banks in the amount of SIT 38.66 billion (an increase of 162.2%). The highest percentage of total liabilities (39.6%) accounts for debt in foreign currency.

Safety reserves for the state account insurance (including the special safety reserves for insurance against exchange rate risks) grew by 13.2% to SIT 18.15 billion and represented 20.5% of total liabilities. Long-term provisions in the amount of SIT 6.59 billion, increased by 44.1% and representing 7.5% of total liabilities, were divided between insurance technical provisions in the amount of SIT 3.97 billion and banking provisions of SIT 2.62 billion.

At the end of 2002 the capital amounted to SIT 18.24 billion (up by 1.3%), 20.6% of total liabilities.

Chart 4: *Assets Structure*



On 31 December 2002 total assets amounted to SIT 88.37 billion and were by 58.5% higher than on 31 December 2001. The substantial growth of assets resulted from extensive financing activities. Loans to banks, which in 2001 amounted to SIT 71.22 billion, increased by 36.7% in 2002, 80.6% of total assets. Loans to customers other than banks grew by 650% and came to SIT 10.48 billion.
Their percentage in total assets increased from 2.5% at the end of 2001 to 11.9% at the end of 2002.

In 2002 SEC invested into debt securities the amount of SIT 3.91 billion, accounting for 4.4% of total assets.

An equity investment in the factoring company Prvi faktor was made in value of SIT 0.50 billion (0.6% of total assets).

Table 6: *Selected Figures*

	2000	***2001***	***2002***
number of employees	*50*	*56*	***69***
number of shareholders	*83*	*81*	***89***
number of shares	*932,354*	*932,354*	***932,354***
par value of a share (SIT thousand)	*10*	*10*	***10***
book value of a share (SIT thousand)	*18*	*19*	***20***
capital adequacy (in %)	*40.00*	*33.40*	***19.10***
interest margin (in %)	*7.69*	*6.43*	***4.32***
return on assets - ROA (in %)	*0.51*	*0.44*	***0.42***
return on equity before tax - ROE (in %)	*1.18*	*1.22*	***1.65***
return on equity after tax - ROE (in %)	*0.93*	*0.94*	***1.31***
operating expenses / total assets (in %)	*1.80*	*1.58*	***1.51***

Table 7: *Insurance on Own Account - Key Figures (2002/2001)*

			2002	2001
Growth of gross invoiced premium (index)	*Gross invoiced premium in current year x 100 / Gross invoiced premium in previous year*	*1,019,578,407 x 100 / 840,272,211*	***122***	*123*
Net invoiced premium as % of gross invoiced premium	*Net invoiced premium x 100 / Gross invoiced premium*	*305,878,600 x 100 / 1,019,578,407*	***30***	*30*
Changes in gross claims paid (index)	*Gross claims paid in current year x 100 / Gross claims paid in previous year*	*650,964,600 x 100 / 504,414,907*	***129***	*192*
Average indemnification (SIT)	*Gross claims paid / Number of claims paid*	*650,964,600 / 82*	***7,938,593***	*7,417,866*
Loss ratio	*Gross claims paid / Gross invoiced premium*	*650,964,600 / 1,019,578,407*	***0.64***	*0.60*
Operating expenses as % of gross invoiced premium	*Operating expenses x 100 / Gross invoiced premium*	*216,102,302 x 100 / 1,019,578,407*	***21.20***	*9.03*
Net provisions in % of net premium income	*Net provisions x 100 / Net premium income*	*3,923,024,516 x 100 / 299,838,736*	***1.308***	*996*

Indices are calculated in accordance with the decree on detailed contents of an audited annual report summary - SKL 2002, issued by the Insurance Supervision Agency on the basis of Artcles 171 and 355 of the Insurance Act.

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

SEC services are used very frequently and extensively by the Slovene companies. The majority of big Slovene exporters give special place and importance to credit insurance among risk management instruments. 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 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 growing demand of domestic and foreign buyers for sale on credit and/or deferred payment under competitive conditions and also on open account without expensive warranties for debtors' obligations.

Growth of Insurance - 13% of Total Slovenia's Exports Covered

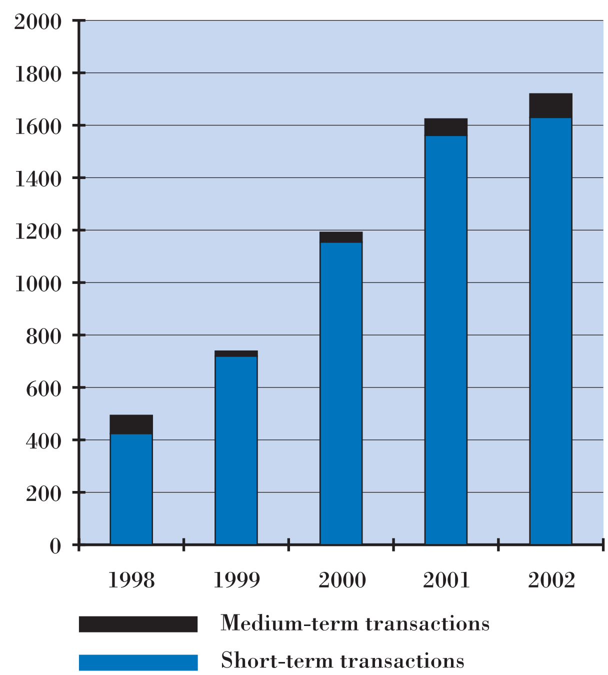
In 2002 SEC increased its insurance business again:

- the total value of insurance operations grew by 5.9% and
- it amounted to EUR 1,720 million.

Thus the value of business insured by SEC represented already 13% of total Slovenia's exports of goods and services (according to the provisional official figures).

The structure of exports insured by individual foreign markets also gained on importance (SEC covered 25% of total exports to Croatia, 26% to Slovakia, 22% to Czech Republic and Hungary, and 30% to Algeria). A considerable part of Slovenia's exports, especially to more risky markets, would most certainly not have been realized without SEC insurance and the exporters could not have offered competitive finance conditions in selling their products. Thus SEC plays a very important role in opening some of the markets for Slovene corporate sector and contributes to a more favorable balance of payments and better employment.

Chart 5: *Business Insured, Own and State Account:*
Short and Medium Term Operations, from 1998 to 2002 (EUR million)



The slowdown in growth of business insured, SEC was used to in previous years, can be explained by a relatively high level of achieved volumes of credit insurance on Slovene market. But primarily the slowdown resulted from lower demand for short-term export credit insurance against political risks on markets of developed countries where these risks are minimum. In the past this type of insurance represented the majority part of credit insurance on state account. The reason for lower volumes of medium term export credit insurance was the structure of Slovene economy, and also the political and economic situation on some of the important Slovenia's trade markets (the slowdown in economic growth and reduced inflow of donations in Bosnia and Herzegovina, the drop in demand for export insurance to some of the oil-producing countries, etc.)

On the other hand, a considerable growth in insurance of short-term domestic and export credits against commercial (marketable) risks, performed on own account, can be observed. Similar were trends in insurance of short-term export credits against commercial (non-marketable) risks in some of the more risky (non-OECD) countries, which SEC performs on state account. The reason for a substantial increase of investment insurance was primarily the growing internationalization of Slovene enterprises that are actively investing abroad, especially in the regions of Western Balkans.

Table 8: *Business Insured, Premiums, Claims - from 1998-2002 (EUR million)*

	1998	1999	2000	2001	2002
Business insured	*493.4*	*738.5*	*1,191.6*	*1,624.0*	***1,719.6***
short-term transactions	*423.9*	*719.4*	*1,154.3*	*1,561.3*	***1,629.8***
medium-term transactions	*69.5*	*19.1*	*37.3*	*62.7*	***89.8***
Premiums	*2.7*	*3.7*	*5.6*	*6.7*	***7.7***
short-term transactions	*1.8*	*2.8*	*4.8*	*5.3*	***6.1***
medium-term transactions	*0.9*	*0.8*	*0.8*	*1.3*	***1.6***
Claims	*0.6*	*2.5*	*1.8*	*2.5*	***3.4***
short-term transactions	*0.4*	*0.5*	*1.4*	*2.5*	***3.3***
medium-term transactions	*0.2*	*2.0*	*0.4*	-	***0.1***
Regresi	-	-	*0.4*	*0.2*	***1.1***
short-term transactions	-	-	*0.1*	*0.2*	***0.6***
medium-term transactions	-	-	*0.3*	-	***0.5***

The majority of transactions insured in the last year were also short-term. The value of insured medium- and long-term transactions continued to increase also in 2002 (primarily because of the growing investment insurance) and amounted to EUR 89.8 million (offers excluded). The most important Slovenia's foreign trade partners being EU Member States and other developed countries, members of the 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.

- The increased volume of business insured and its changed structure in favour of higher risk transactions resulted in an increase of the total invoiced premium of EUR 7.7 million (up by 15.4%). The majority of the premium came from insurance of short-term credits (EUR 6.1 million) and the rest (EUR 1.6 million) from insurance of medium term credits and investments.

No bigger claims were paid for medium term credit or investment insurance, however, the claims paid from short-term insurance transactions reached EUR 3.3 million (an increase of 37.4%), primarily due to the slowdown in some of the most important West European markets. At the same time the value of recovered claims increased and amounted to EUR 1.1 million.

Insurance of Credits against Short-Term Commercial Risks

This insurance that today is performed by the ST credit insurance department will represent the main activity of the future daughter company, a specialized credit insurance company to which the marketable risks insurance operations will be transferred. At the end of 2002 there were 15 employees dealing with this type of insurance.

Insurance of short-term credits to private buyers from developed countries (i.e. supplier credits of up to 180 days, exceptionally up to 1 year) against commercial (marketable) risks, is the basic facility offered to Slovene enterprises, selling at home and abroad at deferred payment and, as a rule, on open account. The insurance contracts are normally made on a whole turnover revolving basis covering risks of non-payment on foreign and/or domestic markets.

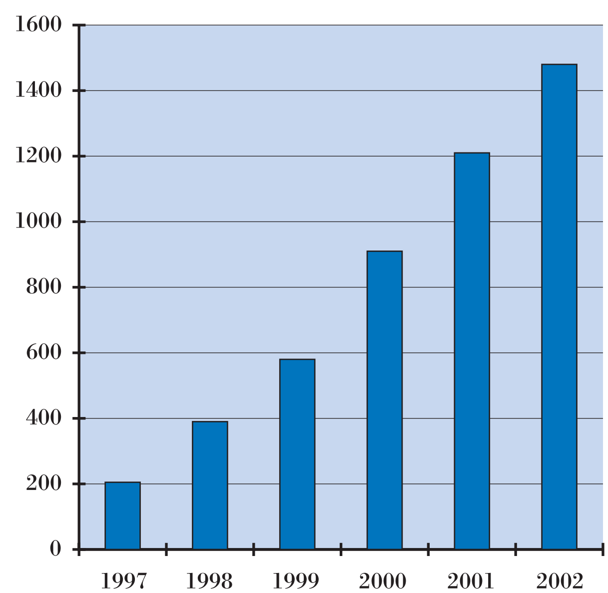
Growth of Volumes

The insurance of short-term export and domestic credits against commercial risks increased by 19% in export and by 91% in domestic credit insurance, which was considerably higher than the growth recorded in total Slovenia's credit insurance.

The value of business insured against short-term commercial (marketable) risks, insured on own account and reinsured on the private market with the first class reinsurers, increased substantially (by 42% compared to 2001), and
• amounted to SIT 334.7 billion (EUR 1,480 million).

The volume of business increased by more than three times in domestic credit insurance.

Chart 6: *Business Insured - Short Term Commercial (Marketable) Risks from 1997 to 2002 (EUR million)*



Slovenia's international trade is very diversified, as revealed by product, sectoral and geographical market structure, although the majority of exports go to the developed EU and the neighboring markets, and still minor part of exports to the markets of South-eastern, Central and Eastern Europe. Geographical distribution of Slovene exports is reflected in the geographical structure of insured exports. In 2002 the majority of export credits were insured in Slovenia and Germany, followed by Croatia, Italy, Austria, France, United Kingdom, the USA, Poland, Hungary, Czech Republic, etc. The majority of policy holders came from paper industry followed by metal and metal-working industry, household appliances and machinery, chemical and electric industry, furniture, leather and textile manufacturing. Many large and established Slovene exporters have already been insured by SEC. However, the number of medium and small enterprises, which are given entirely equal treatment as the large ones, has been increasing, too.

The special **SME Programme** provided easier access to insurance and financing facilities to small and medium sized companies. The specially tailored programme offers favorable business conditions and process simplification, which met the needs and abilities of small and medium sized enterprises. Commercial banks played a special role by providing the so-called collective policies.

In future SEC, working together with the Slovenian Promotion Center for Small Enterprises (PCMG), will pay even more attention to SMEs, for which financing, effective liquidity and assets management, protection against risks of non- or late payment are of vital importance.

Slovene companies are becoming more and more aware of the need of financing their exports 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. Credit insurance is a secure, price-competitive and relatively simple instrument of protection against risks of non-payment, which provides easier risk management and competitive sale on credit and on open account, without additional warranties, which would otherwise have to be provided by the buyers. Slovene enterprises are aware of the non-payment and insolvency risks also on the markets of developed countries, which, without adequate protection, may seriously jeopardize the profitability of their business and even their existence. The increased volume of this type of credit insurance is the result not only of the enterprises' negative experience with bankruptcies and bad payment discipline but also 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, after ten years of operation it can be ascertained, that SEC succeeded in developing Slovenia's credit insurance market, which is gaining on importance in companies' risk management.

SEC and Svea: partners in good and in bad

The Slovenian furniture manufacturer Svea, employing 246 people, was among the first in Slovenia to anticipate and to value the opportunity offered by the state when it established a specialized credit insurance company - SEC. The partnership began when Svea insured its export credits to buyers in Western and Eastern Europe.

The achieved security of business and guaranteed cash flow, as well as the possibility of safe selling on credit, resulting in competitive advantages and increased sales on foreign markets, led Svea to a decision to insure also their domestic sales, representing more than 65% of their total sales volume.

Svea also uses legal advice and quality credit ratings offered by SEC when taking decisions about sales policy, before negotiating with new buyers, and when problems with payments occur. Svea stopped doing business with several buyers because the information provided by SEC indicated that safe business was imperiled, and hence, avoided unsettled payments when some of their business partners became insolvent.

SEC services and credit insurance are, of course, no replacement for the high quality of furniture Svea is manufacturing, but they certainly represent important support to its business. Therefore, Svea decided to insure also sales of its daughter company Lesna industrija Litija after its acquisition in 1999.

Svea insured its receivables toward the company Interdom, Maribor in the beginning of October 2002. In September 2002, after the compulsory composition for the buyer had been proposed in August and the last deliveries remain unpaid, Svea notified SEC of a loss. Since Svea had duly fulfilled its obligations under the insurance contract, they were entitled to claims indemnification at the agreed percentage of cover (i.e. 85% of the value of unpaid invoices). The payment of the rest amount will depend on the outcome of the compulsory composition. The credit insurance improved Svea's cash flow planning and at the same time provided an appropriate payment result of sales on credit (deferred payment) without any additional securities. The loss was paid by SEC, while Svea could concentrate on handling emerging markets, looking for new customers, dealing with its basic activity and its development.

With its services of credit insurance SEC is not limited only to Slovenia's market. SEC started to offer its services also outside Slovenia, not only as the primary insurer but also as an active reinsurer. In 2001 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 technical support - advice in risks underwriting and transfer of information system technology. The assessment of risks for individual buyers and decisions on entering into an insurance contract is still within the authority of SEC. Due to the situation in Macedonia the volume of operations is still limited, although it increased by four times last year.

Exposure from the insurance against short-term commercial (marketable) risks increased significantly (by 52%) and on 31 December 2002 totalled SIT 175 billion, i.e. EUR 760 million. The highest exposure was towards buyers from Germany and Slovenia, followed by those from Italy, Croatia, Austria, United Kingdom, France and Poland. SEC insured exports against short-term commercial (marketable) risks to 62 countries.

Table 9: *Insurance: Business on Own Account 1997- 2002 (EUR million)*

Short-term commercial risks	***1997***	***1998***	***1999***	***2000***	***2001***	***2002***
business insured	*217*	*390*	*572*	*914*	*1,219*	***1,480***
exposure (31 December)	*92*	*142*	*255*	*384*	*520*	***760***
premiums	*0.8*	*1.4*	*2.2*	*3.3*	*3.9*	***4.5***
claims paid	*0.3*	*0.4*	*0.5*	*1.3*	*2.3*	***2.9***
number of claims	*4*	*13*	*28*	*66*	*68*	***82***
recoveries	*-*	*0.1*	*0.1*	*0.1*	*0.2*	***0.6***

Certain political events, the recession on the markets of Slovenia's important trading partners (especially in Germany, where the number of bankrupties (37,579) rose by 19% and reached the highest lever after 1990), aggravated payment discipline, bankrupties of reputable enterprises, had a warning effect on the perception of risks by the Slovenian enterprises and their awareness of the importance or the risk management and instruments of protection against credit risks.

Solid Insurance Result

The invoiced premium was slightly behind the growth of volume of insurance against short-term commercial risks in 2002. It increased by 22% (14% in export and 75% in domestic credit insurance) and for the first time reached the total value of over one billion EUR, i.e.

- **SIT 1,022 million (EUR 4.5 million).**

In 2002 SEC continued with reinsurance of short-term commercial (marketable) risks on private market with first class reinsurers within the framework of the quota share treaty. Subject of the treaty were the risks assumed directly and risks assumed within the agreement on active reinsurance between SEC and MBDP. The premium paid for the reinsurance amounted to

- **SIT 713.7 million (EUR 3.1 million).**

Because of the continued slowdown on some important markets and some other reasons **claims paid** from insurance of short-term credits on own account increased by almost 30%. In 2002, 82 claims arising from the insurance against short-term commercial risks were paid

- **in total amount of SIT 651 million, i.e. EUR 2.9 million.**

(Most claims were paid for the transactions in Germany, followed by Italy, Slovenia, Poland, United Kingdom, Czech Republic, France, Croatia, Austria, Singapur, Finnland, and Ireland.

The result for this insurance (measured as the ratio between premiums and claims without recoveries) was **positive**, in the amount of **EUR 1.6 million**. The insurance-technical result was practically the same as in 2001, whereas claims paid represented 64% of invoiced premiums for this insurance. Some of the claims, arising from insurance transactions of 2002, that on 31 December 2002 were in process or recorded as potential will, of course, be paid in 2003.

Besides, last year SEC was quite successful in debt collection so that the recoveries arising from insurance against short-term commercial (marketable) risks tripled. SEC received 36 recoveries in the total amount EUR 594,000 (11 recoveries from Italy and Austria, 7 from Slovenia, 3 from Poland, 2 from Germany and 1 from Turkey and Czech Republic).

Table 10: *Insurance on Own Account (Selected Figures 2002)*

Growth of gross invoiced premium (index)	$\frac{\text{Gross invoiced premium in current year x 100}}{\text{Gross invoiced premium in previous year}}$	*122*
Net invoiced premium as % of gross invoiced premium	$\frac{\text{Net invoiced premium x 100}}{\text{Gross invoiced premium}}$	*30*
Changes in gross claims paid (index)	$\frac{\text{Gross claims paid in current year x 100}}{\text{Gross claims paid in previous year}}$	*129*
Loss ratio	$\frac{\text{Gross claims paid}}{\text{Gross invoiced premium}}$	*0.64*

E - Business

On-line Business Brings New Opportunities

For the Slovenian corporate sector and providers of financial facilities E-business (B2B and B2C) is not only future with new challenges, it is already a fact. E-commerce means major changes also in the field of credit insurance and other activities of export credit agencies. The roles and meaning of various market participants are changing and financial products are being adapted to the changes brought about by the development of E-commerce. Communication with customers and offer of insurance and financial services are changing. In answering the challenges of the online business, suppliers of financial products and services and some insurers started to offer new products and/or to break the existing products to pieces and to separately offer risk management, insurance cover, credit rating, and other information, as well as additional services such as collection of debts. Their marketing activities, collection, and processing of information is facilitated by internet and contemporary tools; in addition their costs of operation are lower, response time shorter and they can offer quality custom-made products and services.

Quick and Safe Access to SEC Facilities

To challenges, which are put in front of export credit agencies with the development of E-commerce, SEC answered with the development of the system called SID-NET, that enables companies to operate through internet and to have safe, quick and effective online access to SEC services.

Easier Operation and Better Risk Management

For the customers, registered users, online business with SEC (primarily in the field of short-term commercial risks insurance), means a new distribution channel, which gives them the possibility of:

- quick and safe acquisition of quality and up-to-date credit rating information on buyers, debtors, and guarantors from numerous databases and with additional analyses, based on the high professional standards used by the SEC credit rating department,

- credit rating information supported with credit limits for buyers (discretionary limits) and "guaranteed" with the insurance cover limit, up to which SEC is willing to insure credits to a debtor.

- Through SID-NET companies have an automatic access (registration with user name and password) to their data and all relevant information on their transactions with SEC by the use of simple software and without additional costs.

- Companies have the possibility to perform all operations connected with SEC activities online.

SID-NET and Insurance of Short-Term Credits against Commercial Risks

The online insurance of short-term credits against commercial risks provides
- easy application for credit limits and possibility of automatic handling of applications and approval of credit limits;
- review of approved limits;
- information on applications for higher limit approvals, changes of payment terms, late payments, etc.;
- regular (monthly) reporting on performed sales (new credits);
- notification of claims.

SID-NET enables enterprises to

- shorten their response time, since their applications for insurance or financing are answered in a shorter period of time;
- perform their operations efficiently and with less cost;
- in addition, facilitate keeping of documentation by having daily insight into their operations with SEC in all phases (e.g. insurance application, offer and entering into insurance contract, reporting sales, payment of premium, monitoring of risks, handling and liquidation of claims, collection of debts, recoveries, etc.).

Their risk management is simplified, while personal contacts with the insured and external provider of funds do not lose on importance.
Finally, SEC customers have access to services under the same conditions as offered by some other export credit agencies and financial institutions in the world.

Credit Rating and Other Credit Information

Insurance of export and domestic credits and investments abroad, issuing guarantees and financing of international trade transactions require appropriate databases, country risk ratings, credit information and credit ratings of buyers, debtors and guarantors in order to ensure successful operation of an export credit agency.

Quality Credit Information Databases and Credit Rating Analyses

Enterprises and financial institutions are operating in a highly competitive, dynamic, rapidly changing, and uncertain environment, which all require from them to be well informed and to respond quickly and adequately to the changed situation on the market.

In 2002 SEC continued to develop its own credit rating department. The department uses up-to-date professional methodology of risk assessment, internal information system, already existing and regularly up-dated internal databases, reliable credit information and analyses of domestic and foreign institutions, as well as information on export markets, paid and potential claims, buyers, debtors and guarantors, that are exchanged also among the members of the Berne Union.

In assessing country risks of foreign markets, SEC, in cooperation with some of the ministries and diplomatic-consular representatives, works closely in particular with the Center for International Co-operation and Development, which provides SEC with country risk reports for selected 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 is also regularly up-dating the lists of acceptable banks in individual countries and the approved limits. For the purpose of issuing guarantees and some types of insurance, the department prepares credit rating reports on companies with suggested credit limits.

Offer of Credit Rating Information on Companies and Banks

In addition to country risk ratings and information on export markets, SEC clients 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.

Online Access to Credit Information

The services of credit rating department were also the basis for the introduction of the E-business, so that registered users have access to the credit rating information about Slovene companies also online. The facility called SIDBON has been developed within the project SID-NET. The project demanded connections with the best providers of credit rating and other information on 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, through SID-NET the users have the possibility of quick and secure access to quality and regularly up-dated databases. To SEC customers the system ensures more efficient operation and a faster decision-making process. On the other hand, SEC is able to respond faster when assuming, underwriting, and monitoring risks.

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

Business Insured on State Account

After years of growth the total volume of business, which SEC insures on account of the state, decreased for the first time. In 2002 the volume of credits and investments insured on state account was EUR 748.8 million (20% percent less than in 2001 when it totalled EUR 936.3 million) in spite of the fact that overall business insured by SEC was by almost EUR 100 million higher than in 2001. The drop resulted from the lack of interest in cover of political risks in the OECD countries since also the volume of export credit refinancing in domestic currency, approval of which is conditioned by the insurance of political risks, decreased last year.

In 2002 the volume of export credit and investments insurance against non-commercial, medium-term commercial and other non-marketable risks, which SEC insures on account of the state, decreased for the first time after the establishment of SEC, and
- amounted to EUR 748.8 million.

This means that through SEC the Republic of Slovenia, according to the official preliminary estimations for 2002, supported 5.5% of the Slovenia's exports of goods and services (the percentage being even higher in some of the more risky countries). With these state insurance capacities foreign markets are open to the Slovenian corporate sector. Furthermore, this insurance provides companies with the needed economic security, and in addition, with external financing of international operations, so that competitive advantages of Slovene exporters on demanding foreign markets as well as promotion of exports and investments are ensured. Without adequate insurance against commercial and political risks companies would not be able to fully take advantage of business opportunities and many of transactions, especially medium term projects, could not be executed.

The volume of business insured by SEC on account of the state was also the result of extensive marketing activities informing exporters about SEC products and services and promoting primarily the whole turnover insurance, where for example short-term export credits are insured in package against both commercial and non-commercial risks. At the same time the refinancing of export credits was approved subject to insurance against at least political risks.

Trends and Future of Non-Marketable Risks Insurance

The drop in business insured on state account was expected, as the need for insurance of short-term export credits against political risks on the markets of developed countries, where such risks are negligible, diminished. However, in the past this insurance represented the majority of the state account business. Similar trends of decreasing demand for this type of insurance are to be expected also in future.

Growth of business volumes on state account will be generated by an increased demand for medium-term export credit and outward investment insurance as well as for insurance of short-term export credits in package with insurance against commercial and non-commercial risks (the so called non-marketable risks) in non-OECD countries. The interest and capacities for the mentioned types of insurance on the private (re)insurance market are limited so that the role of state and its insurance capacity will be crucial for Slovene economy.

The decline of more than 25% in short-term export credit insurance against political risks in developed countries was already in 2002 softened by the growth of other types of insurance on state account, e.g. insurance of medium-term export credits and investments which rose by 43% (totalling EUR 89.9 million), while insurance of short-term export credits against commercial and non-commercial risks in non-OECD countries for the first time exceeded EUR 100 million (totalling EUR 110 million). At the end of 2002 there were already 909 approved buyers' limits for this type of insurance and the number has still been growing.

These trends will certainly change the structure of insurance on state account towards higher risk insurance cover and lower quality risk portfolio, since insurance of medium-term export credits and investments and insurance of short-term export credits in non-OECD countries will gain on importance against insurance of short-term export credits against political risks in developed countries.

Short-Term Export Credit Insurance on State Account

Owing to the structure of Slovene economy, which has relatively few equipment and other capital goods producers, and due to the fact, that building contractors are mainly concentrated on taking advantages of opportunities offered by big projects on domestic market (in particular the building of the so called highway cross, and also infrastructure investments), the consumer and durable consumer goods that are normally sold on short-term credits are prevailing in the export insurance structure. Therefore, short-term credit insurance is prevailing also in business insured by SEC, in particular in developed countries.

In 2002 insurance of short-term export credits against non-commercial risks represented 73% of all insurance performed by SEC on state account and amounted to EUR 548.6 million. Considering geographical structure of Slovenia's exports, oriented mainly to the EU markets and markets of some other developed countries, and due to the fact, that these operations (in particular those, which are also refinanced by SEC) are often included in the so called comprehensive cover against commercial and non-commercial risks (the latter being insured on state account), it is logical, that the majority of the insured short-term credits are extended to the buyers from developed countries. Most of these exports went to Germany (EUR 144 million), Italy (EUR 96 million), Austria (EUR 44 million), followed by France, Croatia, USA, Sweden, United Kingdom, Hungary, the Netherlands, etc.

As already mentioned, short-term export credits insurance against commercial (non-marketable) risks in some risky, non-OECD, countries is gaining on importance. These insurance transactions amounted to EUR 110 million, whereby further growth is to be expected in the next years. Exports to the following countries were insured according to this scheme: B&H (EUR 31 million - 28%), Yugoslavia - Serbia and Montenegro (EUR 25 million - 23%), followed by Russian Federation (EUR 21 million), Romania (EUR 9 million), Bulgaria, Macedonia, Ukraine, Iran, Syria, Belarus, etc.

Medium-Term Credits

For the reasons already mentioned above and which, on the one hand arise from the structure of the Slovene economy and on the other from the political and economic conditions on markets, which are very important for the Slovene economy (for example, sluggish economic growth and reduced inflow of donations in Bosnia and Herzegovina, the reduced demand for export insurance in oil producing countries, etc.), medium-term credits did not represent a significant part in the overall volume of SEC insurance business on account of the state. In 2002 the total value of 21 new insurance medium-term export credit contracts amounted to 20.6 million EUR, whereby only the principals of these credits were taken into account and not the advance payments and contractual interests. In this context it should be stressed, that due to the small number of all implemented projects, among which were also some of larger value, the volume of these insurance may be influenced by the value of one single project, thus making the year to year comparison and trend analyses difficult.

Re-entrance onto the African markets - Algeria

The North African countries, where in the past Slovene enterprises have carried out quite a number of projects, are now, when Slovenia is on the way to joining the European Union, becoming more and more interesting in particular to exporters of capital goods. Among these are also those companies, which have sprung out of the ashes of former industrial and civil engineering giants and which have in the former Yugoslavia gathered a lot of experience on the markets of developing countries.

Thus, last year an export project was realized in Algeria for the Koudiat Rosfa dam. The Slovene company "Gopla d.o.o." supplied to the National Agency for Dams - ANB (public procurer) hydro-mechanical equipment worth EUR 1.8 million. By way of SEC insurance the project was carried out in cooperation with the Slovene and Croatian partners, including exporters from the two countries, the involved banks and support of national export credit insurance agencies. The project executing organisation was namely the Croatian engineering company "Ingra d.d." however, majority of the works (88%) were done by the Slovene manufacturer of hydro-mechanical equipment "Gopla". Therefore, the Croatian Bank for Reconstruction and Development (HBOR) issued the insurance policy covering production pre-shipment risks and credit post-shipment risks whilst, based on the cooperation agreement between the two agencies, SEC provided reinsurance for the Slovene share in this transaction thus enabling the Slovene exporter to finance the production. Furthermore SEC took over payment risks for accomplished works.

In this case both exporters and the banks, which financed the project benefited from the cooperation framework agreement concluded between the two national export credit agencies (one-stop arrangement), which enabled joint entrance onto a third market, getting of financial means and project implementation. Within the framework of the mutual reinsurance agreement each national agency provided insurance for the respective shares of its exporters.

In ten years of its operation SEC has established a whole network of such agreements with numerous export credit agencies and other financial institutions, which facilitate financing and implementation of joint projects of companies from two or even more countries on third markets. In these times of globalisation and internationalisation of corporate activities these agreements may be a useful instrument, as they ease the access to insurance coverage and financing sources for projects involving companies, banks and other financial institutions from different countries.

In such multilateral projects these agreements reduce the risk of the transactions, enable ascertaining larger insurance capacities for export support and increase the effectiveness of measures for averting and reducing losses, their recovery, etc.

In 2002 the largest individual project, which was financed as a medium-term credit, was concluded in Ukraine (the credit principal amounted to EUR 10.3 million EUR), however there were also medium-term credit insurances for exports to Russia, Croatia, Serbia and Montenegro, Bosnia and Herzegovina, Macedonia and Algeria. The projects related to export of telecommunication, hydro-mechanical and bakery equipment, etc.

Support to exports of modern technologies

Since one of the priorities of the Slovene foreign trade policy is supporting exports of equipment and transfer of technology and know-how, all containing a large added value portion, such transactions represent a significant share of the overall SEC insurance activities. So, for example, the insurance of medium-term credits for exports of telecommunication equipment to Eastern and South-eastern European countries were the most important export product in all the years of SEC operation. In 2002 SEC has provided support to six such projects worth EUR 19.5 million in total, the projects being export of Slovene telecommunication equipment to Ukraine, Kazakhstan, Montenegro and Russia.
The sale of Iskratel telephone exchanges worth USD 14.6 million to the Ukraine national telephone operator Ukrtelecom was so far the largest transaction under a medium-term credit, insured by SEC in 2002. Taking into account the creditworthiness and the positive experience, which the exporter had with the buyer, SEC could provide this insurance without a guarantee of the local bank (on open account) - coverage was thus provided against the so-called corporate risk. On the basis of SEC insurance offer (and the subsequent insurance policy, issued upon conclusion of negotiations regarding the credit agreement) Nova Ljubljanska Banka financed the project by way of a trilateral buyer credit. The bank could accept financing of this projects also because commercial and political risks of (non) repayment of this credit were transferred through the insurance policy to the Slovene export credit agency in the proportion of the insurance coverage (95% coverage, which includes the credit principal, regular contractual interest and interest during the waiting period).

Since at the end of year 2002 the volume of valid insurance offers regarding these projects was as high as never before (EUR 64.8 million), a significant increase of such insurance can be expected in 2003 over the previous year. In addition to this, the revitalization of some once traditional markets for this kind of projects shall boost these activities as will the fast recovery, economic growth and investments in some Eastern European countries.

Russia - new economic upswing and new opportunities for Slovene enterprises

After the infamous financial collapse in 1998 Russia has managed to wrest itself out of the crisis (although some structural reforms are still pending) among others also by using well its large income from exports of strategic raw materials to the world markets. The country has thus improved its attractiveness to foreign investors, but above all, it has improved its public finances and put in order the repayment of the foreign debt. For this reason but also for the reason of its market potentials in 2002 Russia was one of the fastest growing markets, particularly for exports of equipment and capital investment projects, which require long-term financing and support of export credit agencies. SEC too has faced these trends, the demand for export insurance and financing for Russia having been considerably larger than in the years before.

The renovation of the well-known Hotel Budapest, situated at an attractive location in midst of Moscow was the largest and the most complex project, which SEC supported last year. This project awarded to Riko represents a huge opportunity to a number of Slovene subcontractors and suppliers (altogether more than 50 of them). In the first project phase a completely new part of the hotel is to be built, the works being worth USD 22 million. The second phase concerns renovation of the old part of the hotel worth USD 55 million. The goal of the project is to build a modern hotel complex on 29 thousand square meters with over 300 rooms, restaurants and convention rooms, café, conference rooms, underground garage and other accompanying facilities. The project is supported by the City of Moscow within the framework of a special program for renovation of hotels and other tourist facilities in preparation for the Summer Olympic Games candidature and increased arrivals of foreign tourists.

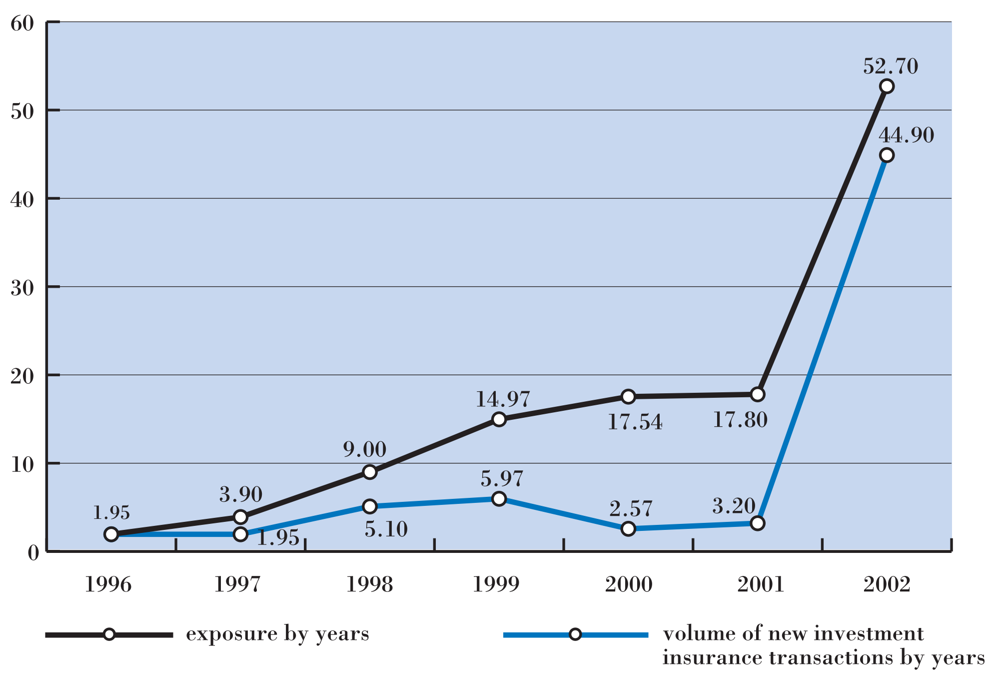
A Slovene bank consortium (SKB Bank, Bank Austria Creditanstalt and SEC) granted a long term loan, which included elements of project financing, to the largest Russian bank Vneshtorgbank for financing of the first phase of the project.

The reputation gained with this project by the Slovene economy, the engineering enterprises, suppliers of equipment, civil engineering enterprises and Slovene banks, ever more active in financing of larger and more complex projects on foreign markets, shall stand them in good stead for getting new civil engineering and other projects on the emerging and huge Russian market. Apart from this, the project is also significant in terms of development of hotel capacities in the Russian capital.

Investment Insurance

In recent years Slovene companies invest more intensively abroad, primarily in the countries of South-eastern, Eastern and Central Europe. This increase of Slovene outward investments reflects itself also in the increase of investment insurances against political risks, their volume reaching EUR 69.1 million last year. In addition to this, at the end of 2002 SEC had eight projects in the total value of EUR 23.5 million in the pipeline, which indicates that the trend of increased interest for insurance of investments abroad shall continue. Reasons why some Slovene companies have changed their views regarding the necessity to insure their investments abroad probably need to be seen in light of the armed conflicts in Macedonia, meanwhile already long settled, and the uncertainties arising after September 11, 2001. The latter has particularly clearly shown that political risks may emerge wherever and whenever. Even though the views have changed and the awareness of potential consequences of political risks has risen, some old misconceptions regarding investment insurance still linger on - like, premium is only a cost, as seen by many investors, some investments are underinsured, additional investments into expansion of projects enterprises and reinvestment of profit in the form of so-called stand-by insurance amounts need not be insured, which is frequently the case, etc.

Chart 7: *Investment Insurance: Exposure (31 December) / New Investment Insurance Transactions (EUR million)*



Besides insurance of credits for export of goods and services and one policy, issued last year, for insurance of guarantees against political risks and unfair calling worth EUR 130,000, in 2002 SEC provided insurance against non-commercial risks for six direct Slovene investments abroad (two in B&H - trade sector and metal processing industry, one in Croatia - trade sector, two in Macedonia - tool manufacturing and banking sector and one in Kosovo - banking sector), these totalling EUR 44.9 million, which is eleven times more than in 2001. In addition to this, an insurance agreement with one of the most active Slovene investors was concluded last year, concerning insurance of all its past and future investments. By the end of 2002 the company insured investments worth EUR 43.4 million, whilst the planned amount of future investments to be insured under this agreement could reach further EUR 52 million.

Investment Insurance in South East Europe - The "Mercator" case

After the normalization of circumstances, Slovene companies have, being aware of the necessity to internationalise their business activities, commenced to re-enter the markets of South-eastern Europe. One of the most active investors in the region is Poslovni sistem Mercator d.d. (Business System Mercator Inc), which is the largest Slovene trading company. Its ever more popular and successful hypermarkets, with their specific sales model have greatly contributed to improving the supply and increasing the competition, hence reducing the prices on the retail market in Slovenia. In recent years Mercator successfully expands its network also on the markets of the neighbouring countries.

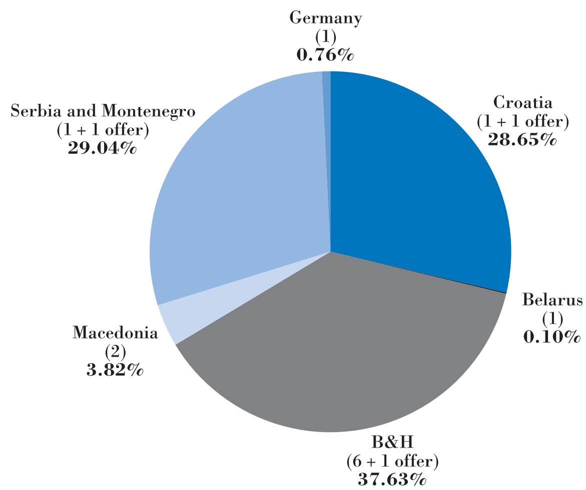
Practically from the very beginning, when Mercator started its investment activities on these markets, SEC has been facilitating Mercator projects, both by providing insurance and financing. Mercator started its foreign investment strategy in neighbouring Croatia by setting up hypermarkets in Pula, Zagreb and Split, thus increasing the equity capital in its project enterprises. Few years later it invested in setting up such shopping malls in Sarajevo and Belgrade. In view of the fact that all these Mercator projects represent large-scale investments involving equity capital, shareholder loans and loans by domestic and foreign financial institutions, Mercator has insured with SEC its investments against political risks of war and civil disturbances, expropriation and transfer restrictions, this policy being for the investor and the banks, supporting these investments, a unique instrument for covering risks, in consequence enabling the investor access to more favourable sources of external financing for its investment projects. Mercator has been in permanent contact with the insurer both as regards new investment plans as regards the experience gathered so far on the foreign markets.

In accordance with the investment dynamics, Mercator and SEC have concluded separate insurance conditions for each individual project. However, in 2002 a special agreement on insuring all Mercator current and future investments on these markets was signed. Until 2006 the insurance volume of these investments is expected to reach 95 million EUR. By this agreement the investor has ascertained adequate insurance capacities with the insurer for its planed future projects under already known insurance conditions, while on the other hand such large volume of covered investments and their spread gives him the advantage of getting more favourable insurance conditions.

These foreign investments had a very positive impact on market development and the economies of the host countries (better supply, increased market competition, substitution of the “grey" market with legal products and lower prices for foodstuffs and other products, whereby apart from quality products from Slovenia and third countries an important share represent also products of local manufacturers). Therefore this agreement on insurance of the entire investment portfolio, including future investments, enables SEC to earmark its insurance capacities for these purposes, whereby due to mitigation of political risks, concentration risk, and for ascertaining additional capacities and strategically plan reinsurance arrangements, which, in the case of Mercator, were concluded with MIGA. This in turn permits freeing of insurance limits for projects in these countries, which SEC makes on account of the state, and allocating capacities for insurance of other export credits and investments.

At the end of 2002 SEC had in its portfolio 12 insured investments of Slovene companies and banks in the total value of EUR 52.7 million. Together with the already issued offers the exposure of SEC in terms of investment insurance totalled EUR 104.7 million as of 31 December 2002.

Chart 8: *Investment Insurance - Exposure by Countries (31 December 2002)*



Insurance on Account of the State - Exposure (31 December 2002)

In 2002 too, SEC provided insurance for transactions on account of the state in 77 countries on all continents.

SEC exposure in insurance on account of the state on 31 December 2002
• reached EUR 402.8 million and was nine times higher than at the end of 2001.

Last year the exposure regarding insurance of medium-term export credits and of Slovene investments abroad considerably increased (by 75%) and reached EUR 120.9 million. Major factor contributing to this growth was last year's volume of investment insurance, a field where SEC exposure rose by 169% over 2001 reaching EUR 52.7 million. A substantial increase was registered also in the exposure regarding medium-term credits, which rose to EUR 68.1 million.

The exposure structure in terms of individual types of insurance on state account is changing for similar reasons valid for the changing volume of insurance transactions on account of the state. Last year the exposure from covering short-term credit transactions against political risks on markets of developed countries fell from EUR 254.9 to 219.9 million, whereas the exposure from such transactions in non-OECD countries (insurance against commercial and political risks) grew by 32% to EUR 62 million.

The overall exposure of SEC insurance transactions on account of the state in the amount of EUR 402.8 million represents a 37% employment of the earmarked limit for this insurance, determined by the Budget Implementation Act of the Republic of Slovenia. If currently pending offers are also taken into account, then the overall insurance exposure on account of the state raises to EUR 467.6 million, which is a 43% limit employment.

The markets of the Russian Federation represent the most important part in the SEC exposure in terms of medium-term export credit insurance (EUR 43 million or 64%), followed by Ukraine, Croatia, B&H, Serbia and Montenegro, Algeria, Macedonia and Kazakhstan. In non-OECD countries SEC exposure in this regard is the largest in Bosnia and Herzegovina (EUR 18 million or 29%), followed by Serbia and Montenegro (EUR 17 million), Russia, Romania, Bulgaria, Macedonia, Belarus, Iran, Ukraine, Algeria, etc.

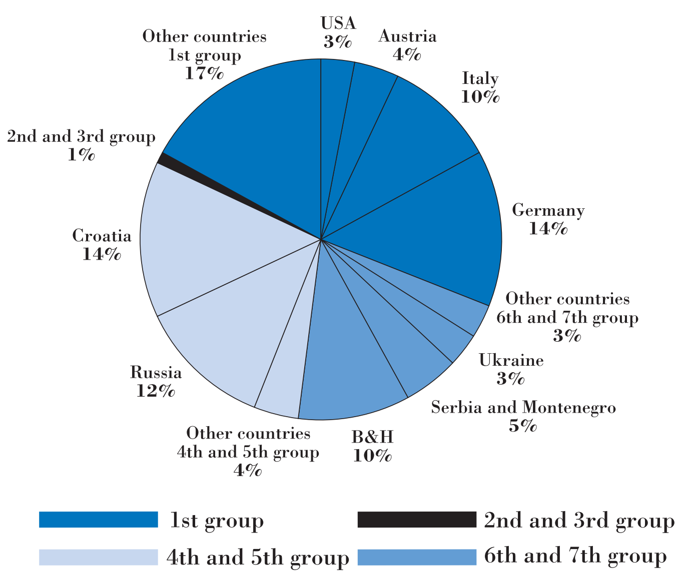
Risk Concentration

The regional structure of insurance against non-commercial and other non-marketable risks is still relatively favourable both for SEC and the state - although it has been worsening for quite some years (the risk of portfolio concentration and, for an ECA logical "negative selection" of insurance transactions on markets, where reinsurance though private institutions is not possible) - and resembles more and more to the exposure structure of other export credit agencies. On the other hand, when it comes to the insurance of commercial risks (both short and medium-term) on account of the state, than this structure is rather negative for SEC and the state, as it is connected to the geographical structure of Slovene exports, that is, to the orientation towards some traditional markets, which are rather risky, primarily in the states of the former Soviet Union and former Yugoslavia.

When taking into account the current risk distribution of countries and territories, which SEC classifies into seven groups (group 1 listing low risk countries), then it becomes evident that at the end of 2002 the risk exposure in high-risk countries in terms of the above mentioned insurances (countries from groups 6 and 7) represented only 20.8% of the overall SEC exposure (excluding pending insurance offers).

The concentration and atomisation of risks with respect to the overall exposure in terms of insurance on account of the state, when looked at by individual countries is also still rather favourable for SEC. On 31 December 2002 Germany took up 13.8% of overall exposure against non-commercial and other non-marketable risks followed by Italy (9.8%), whilst the share of Austria, the next on the list of OECD counties, was only 3.6%; significant were also the shares of four non-OECD countries: Croatia (13.6% or EUR 54.6 million), Russia (12.3%), Bosnia and Herzegovina (9.9%) and Serbia and Montenegro (4.7%). In the last year's portfolio the share of developed countries fell slightly, whereas the share of other counties increased.

Chart 9: *Exposure - Insurance on Account of the State (31 December 2002)*



Positive Result of Insurance on Account of the State

The results of SEC insurance on account of the state were positive also in 2002 (the only exception in SEC history was 1999):

- Premiums exceeded paid claims by EUR 2.7 million (loss ratio 16%)
- Premiums and received recoveries exceeded claims paid and handling expenses by EUR 1.6 million
- The total amount of the invoiced **premium** was EUR 3.2 million - 18% more than in 2001 (half of this amount represented premiums of short and medium-term insurance)
- **Claims paid** rose considerably, by 214% and amounted to EUR 504,159
- SEC was relatively successful in collecting debts and in recovering already paid claims. In 2002 the income from these **recoveries** (EUR 514,120) was 2.5 times higher than in 2001, the amount thus slightly exceeding the amount of claims paid in 2002.

The result of SEC insurance on account of the state was positive also in 2002. The invoiced premiums amounted to EUR 3.2 million in total, one half of it referring to those of medium-term export credit and investment insurances (25% growth), and the other to short-term transactions (12% growth). Fees for handling of insurance applications and issuance of insurance offers came up to almost EUR 40 thousand, whereby it should be stressed, that these charges refer to unrealised transactions (once these are implemented i.e. SEC issues an insurance policy, this money is either returned to the insured or taken into account in the insurance premium calculation).

In 2002 SEC has paid out 16 **claims** arising from insurance on account of the state, out of which 14 referred to short-term transactions with buyers from non-OECD countries (non-marketable insurance), their total value being EUR 426,000 (cover of insolvency and late payment risks). Only two smaller claims arising from medium-term credit insurances worth together EUR 78,000 were paid out - the claim was due to the bankruptcy of a bank in Bosnia and Herzegovina. In light of the ever more growing volume of medium-term insurance transactions in non-OECD countries, where insurance is provided to exporters on account of the state against commercial and political risks, and in view of the importance of this kind of insurance (as a rule, the insurance covers credits on open account without additional guarantees; high risk countries) equally positive results may be expected also in the forthcoming years, save the political and economic situation in these countries seriously backslides.

In 2002 SEC successfully **recovered** EUR 514,120, from claims paid out on account of the state in previous years, these losses referring primarily to medium-term export credits to buyers in Croatia and Bosnia and Herzegovina.

Export of Machinery - Claim Examination in Bosnia and Herzegovina

In view of the poor payment discipline and frequent bankruptcies, one of the main reasons for insuring credits (active insurance function) is the indemnification of loss suffered by the seller when the buyer fails to pay for the goods delivered or services rendered due to bankruptcy or when the so-called protracted default turns up. With an insurance policy a company converts uncertainty regarding timely payments of the business partner into certainty that these shall be effectuated with the help of credit insurer. Therefore SEC puts in efforts to process such claims and pay out indemnifications as fast as possible. At the same time SEC is aware, that this is by far not the only function of a credit insurer, therefore attention is paid also to preventive and curative activities, which consist of analysis of buyers' credit ratings, following up on risks and considering measures for preventing and reducing potential risks, including debt collection and recovery of loss from debtors. In 2002, among a number of cases SEC managed also to successfully solve a problem of a buyer from B&H.

An equipment export transaction with delayed payment worth DEM 550,000, on recommendation of the financing institution insured with SEC, was concluded between a Slovene exporter and a Bosnian buyer. The equipment was delivered already in 1999. The payment was insured by way of an unconditional bank guarantee of the Commercial Bank of Tuzla. Since the equipment was taken over by the buyer and in view of the content of the guarantee, it was expected that either the buyer or his guarantor would settle the payment. Unfortunately this did not happen. Instead, the buyer-debtor started raising some even very far-fetched objections; in the meantime some important staff changes occurred in this company. In view of these objections and the conditions on this difficult market the bank too refused to settle the bill, an obligation arising from its guarantee.

In order to solve this situation SEC got actively involved, cooperating closely with the insured. SEC organised several meetings to negotiate settlement of this dispute both with the debtor and the bank-guarantor, and even suggested start of an ad hoc arbitration procedure, as stipulated in the commercial agreement, etc.

By stressing its role as the Slovene export credit agency and its connections with other ECAs and other financial institutions, SEC managed to recover half of the amount due. This was done just in time, as soon afterwards the bank too got into trouble and had to declare bankruptcy. Naturally, with this the activities of SEC did not cease. Talks with the debtor continued; after several months of negotiations - the arbitration procedure not having yet started - and just before legal procedure was due to start (experience of this market shows that this can be a lengthy ordeal with unpredictable outcome), towards the end of 2002 - with SEC intermediation, its legal help and preparation of documentation - all involved parties agreed on settling the dispute arising from the contract of 1999.

Time-consuming settlement negotiations and ultimate identification and coordination of interest among so many involved parties - that was indeed an important experience for SEC. To illustrate, involved were: seller and buyer, parties of the commercial agreement, a foreign bank in bankruptcy procedure and another Bosnian bank (Universal banka, Sarajevo), which took over the guarantee of the Komarcialna banka Tuzla. Then there was SEC as insurer of the export credit, and the institution, which financed the transaction, and which was on the basis of an assignment agreement with the exporter the beneficiary of payments from the insurance policy. There was also another Slovene company that assumed the debt from the commercial agreement. All these were parties, whose interests had to be considered when preparing the final agreement. The deal, to which all these parties agreed to, was thus, with the help of the insurer - SEC and in light of the given circumstances, successfully brokered, which all involved parties confirmed.

Owing to the fact that quite a number of claims were solved and to measures for preventing and reducing loss, as a result of which the number of received claims for indemnification payments was reduced, at the end of 2002 the value of claims in the pipeline arising from insurance on account of the state amounted to EUR 692,000, which was half as much as at the end of 2001. Also, as per 31 December 2002 the number of potential claims (notifications of late credit repayment) was reduced by 38% (at the end of 2002 potential claims arising from insurances on account of the state amounted to EUR 4.7 million).

The positive result of insurance on account of the state influenced the increase of safety reserves, which last year have increased and amounted to EUR 78.8 million on 31 December 2002.

SEC insurance on account of the state registered a positive result in the amount of EUR 1.7 million in 2002, the total cumulative result of transactions on account of the state (in all years of SEC operation) thus rising to EUR 5.4 million. The total income from SEC activities on account of the state in 2002 was transferred to safety reserves for this insurance; as per 31 December 2002 the safety reserves (these include special safety reserves for insurance against exchange rate risks) for SEC insurance on account of the state amounted to EUR 78.8 million, representing an important state fund for further growth of the insurance volume in support of Slovene exports and investments abroad.

Table 11: *Insurance: Operation on Account of the State (EUR milliion)*

Insurance on Account the Republic of Slovenia	***1998***	***1999***	***2000***	***2001***	***2002***
business insured	*493.4*	*554.4*	*821.4*	*936.3*	***748.8***
exposure (31 December)	*196.5*	*256.0*	*351.3*	*371.0*	***402.8***
premiums	*1.3*	*1.5*	*2.3*	*2.8*	***3.2***
claims paid	*0.2*	*2.0*	*0.5*	*0.2*	***0.5***
number of claims	*1*	*2*	*7*	*7*	***16***
recoveries	-	-	*0,3*	-	***0.5***

Short-Term Credits (non-marketable risks)	***1998***	***1999***	***2000***	***2001***	***2002***
business insured	*415.2*	*522.3*	*782.2*	*873.6*	***658.9***
exposure (31 December)	*145.3*	*197.6*	*286.4*	*304.1*	***282.0***
premiums	*0.3*	*0.7*	*1.5*	*1.4*	***1.6***
claims paid	-	-	*0.1*	*0.1*	***0.4***
number of claims	-	-	*5*	*8*	***14***
recoveries	-	-	-	-	***0.0***

Medium-Term Credits	***1998***	***1999***	***2000***	***2001***	***2002***
business insured	*69.2*	*17.2*	*21.7*	*44.9*	***20.7***
exposure (31 December)	*42.2*	*43.5*	*47.4*	*49.1*	***68.1***
premiums	*0.9*	*0.8*	*0.6*	*1.2*	***1.1***
claims paid	*0.2*	*2.0*	*0.4*	*0.0*	***0.1***
number of claims	*1*	*2*	*3*	*0*	***2***
recoveries	-	-	*0.2*	-	***0.5***

Investments	***1998***	***1999***	***2000***	***2001***	***2002***
business insured	*9.0*	*14.9*	*17.5*	*17.8*	***69.1***
exposure (31 December)	*9.0*	*14.9*	*17.5*	*17.8*	***52.7***
premiums	*0.0*	*0.0*	*0.1*	*0.2*	***0.5***
claims paid	-	-	-	-	**-**
number of claims	-	-	-	-	**-**
recoveries	-	-	-	-	**-**

Notes:

- Exposure includes only already concluded and valid insurance policies; issued and valid insurance offers are excluded. Account was taken of only the so-called gross exposure, which means the overall exposure (including self-retentions of the insured)
- The volume of business insured is followed on the basis of reported exports (sales) in case of revolving insurance contracts in terms of their date; the presentation of individual business transactions insured takes account only

of the principal of the insured credits, excluding advance payments and contractual interest (decisive is the date when the premium was paid - in case of payment of premium in instalments, each time only that part of the principal is taken into account, for which the premium was actually paid).

- The volume of insurance on account of the state, stated in EUR, was converted according to the middle exchange rates of the Bank of Slovenia on the day of invoicing the premium for each individual credit and export credit notification, respectively.
- In volume of insurance on account of the state those credits are included, which were already insured on account of the state (against commercial and non-commercial risks), regardless whether they were at the same time insured (against marketable risks) on account of SEC. Excluded are only transactions insured entirely on own account. In case of reinsurance only the share of the Slovene partner was taken into account and not the whole credit insured.
- Investment insurance includes all insurance transactions, for which within a given period premium was charged. In view of the fact, that this facility entails annual renewal of the insurance, included are apart from new insurances within a given period also investments, for which insurance policies were concluded before this period, but the premium was charged within that given period.
- Recoveries - relevant is the date when the claim was received and not the loss year; similarly, in the presentation of claims, decisive is the date of payment.

Financing

In 2002, financing of export transactions in domestic currency and on the basis of borrowings against state guarantees, in foreign currencies on the international financial market, from 1999 onwards, was one of SEC main activities. Since the multiplicative effects proved to be greater, and the desire to optimally involve the funds of the commercial banks in financing of exports and direct outward investments, in 2002 too SEC support to exports was carried out in form of indirect financing of exporters, through banks, along with refinancing of export credits. In order to successfully support Slovene corporate sector on foreign markets, SEC provided favourable financial sources primarily to:

- domestic companies, ie. exporters (supplier credit) and
- foreign buyers of Slovene goods and services or to their banks (buyer credit), including lines of credit.

With this activity SEC significantly contributed to the increase of fund capacities of commercial banks for financing international trade. Like in insurance, also in financing of exports SEC is covering all phases of the export transaction, as it follows-up:

- during the preparatory phase (pre-shipment financing), and
- after delivery (post-shipment financing).

Table 12: *Financing: 1998-2002 (SIT billion)*

Financing	***1998***	***1999***	***2000***	***2001***	***2002***
volume	*41.0*	*43.6*	*51.1*	*60.8*	***88.1***
balance (31 December)	*25.4*	*31.0*	*39.5*	*50.6*	***73.6***
number of exporters	*322*	*343*	*420*	*398*	***351***
number of banks	*27*	*23*	*22*	*22*	***19***
number of contracts	*968*	*1,043*	*1,143*	*1,117*	***1,006***

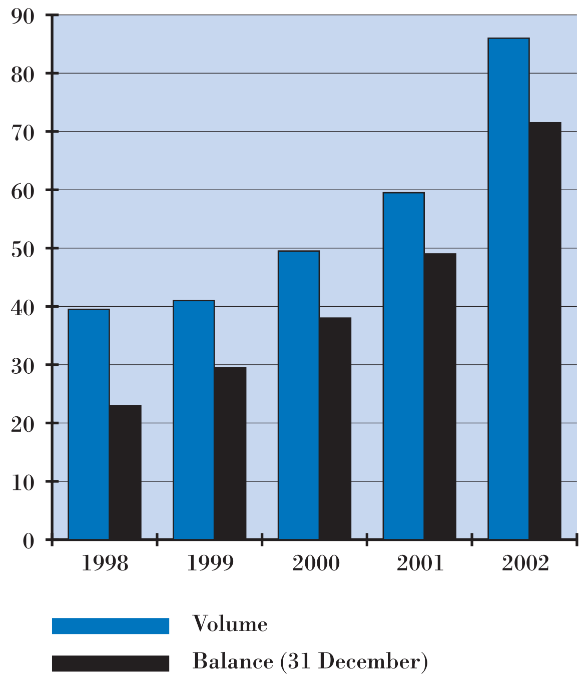
Continued growth of the business volume

Last year SEC actively cooperated with 19 banks and 351 exporters in financing their international trade transactions. The increased demand for SEC funding was mainly due to the favourable offer of long-term foreign currency financing sources for international trade transactions and the continued competitiveness of the financing in the domestic currency.

Compared to 2001, when the outstanding amount of SEC financing was SIT 50.6 billion, in 2002 SEC financing

- increased by 45%,
- amounted to SIT 73.6 billion (EUR 319.9 million),
- the share of the financing portfolio in overall SEC assets was 83%.

Chart 10: *Financing: 1998-2002 (SIT billion)*



Figures show, that last year the growth of SEC financing was more than eight times higher than the growth of Slovene exports, according to preliminary official estimates.

- The growth of SEC financing was more than four times higher than the annual growth of all credits extended to the Slovene corporate sector (10.7%), whereby the share of SEC financing in the overall volume of all granted credits to Slovene companies (direct and indirect) reached already 15%.

- The value of transactions refinanced by SEC - supposing the average refinancing rate is 65 percent, the paid advances and the average share of bank credit funds for export financing, show that by financing international trade transactions, most of which were also insured, SEC supported some 4.5 % of entire Slovenia's exports.

Portfolio Structure

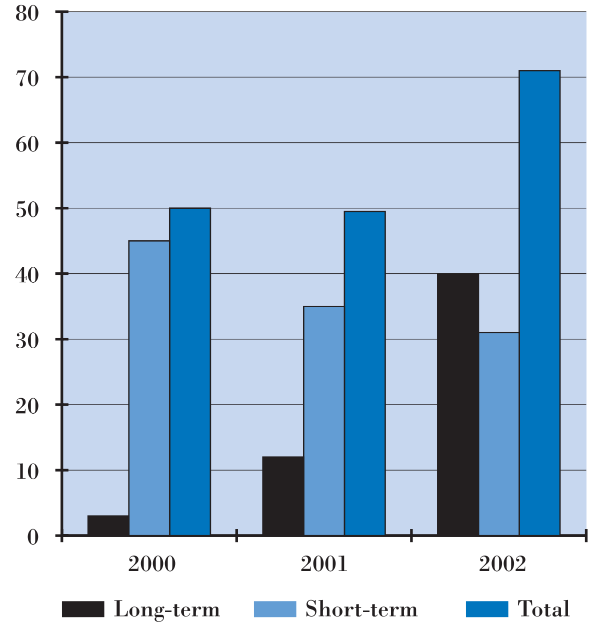
- **By maturity:**
  Whilst in the past the maturity structure of SEC credit portfolio was characterized by a high share of short-term refinanced credits in domestic currency, in 2002 some major changes occured.

Table 13: *Long-term/Short-term Financing Balance as of 31 December (SIT billion)*

	2000	***2001***	***2002***
Long-term	*3.4*	*14.6*	***41.0***
Short-term	*47.8*	*36.0*	***32.6***
Total	*51.2*	*50.6*	***73.6***

Compared to previous years, at the end of 2002 SEC registered a high growth of long-term financing both in domestic and in foreign currecies. In the course of the year the share of long-term credits grew, taking up at the end of the year more than 55% of the entire SEC credit portfolio (in 2001 this share was only 2.7%), whereas the share of short-term credits decreased. Balance of long-term credits was by 180% higher than in 2001.

Chart 11: *Long-term/Short-term Financing Balance as of 31 December (SIT billion)*

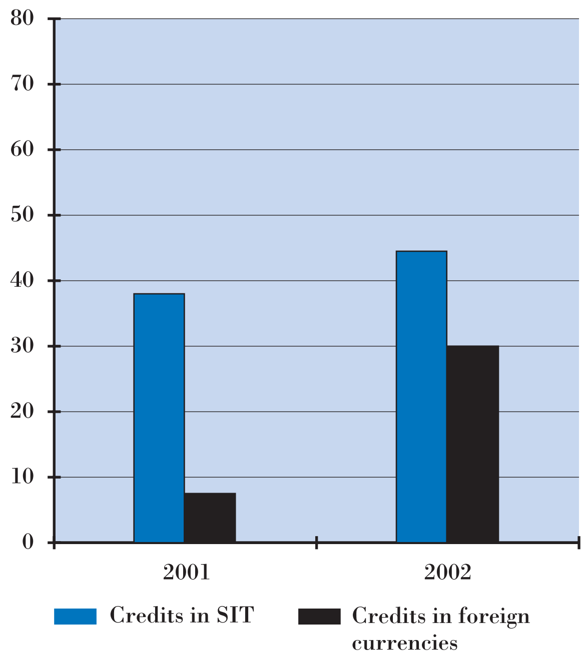


Reasons for this substantial change in the maturity structure of SEC credit portfolio are primarily to be sought in:

- changes on the domestic frinancial market, which related to a substantial reduction of the demand of Slovenen companies for short-term, partly also long-term credits in the domestic currency and in subsequently growing demand for credits in foreign currencies (the share of foreign currency credits to Slovene companies grew by as much as 36.5% last year, whereas that of Tolar credits decreased; the growth of long-term Tolar credits was only 4%, which is a 10% fall over 2001).
  The reason for this massive transformation of short-term Tolar credits into foreign currency credits was the slow and unpredictable depreciation of the Tolar, which lagged behind the inflation but also the gradual introduction of nominal interests rates for short-term credits on the one hand, and lower interest rates for foreign currency credits on the other hand. These changes on the domestic market strongly influenced SEC credit portfolio maturity structure, which in 2001 in the area of refinancing of export credits recorded an extremely large share (73%) of short-term Tolar credits, whereas in 2002 this share dropped to 43%; and
- increased refinancing of long-term credits and the growing volume of direct financing of foreign projects of Slovene companies.

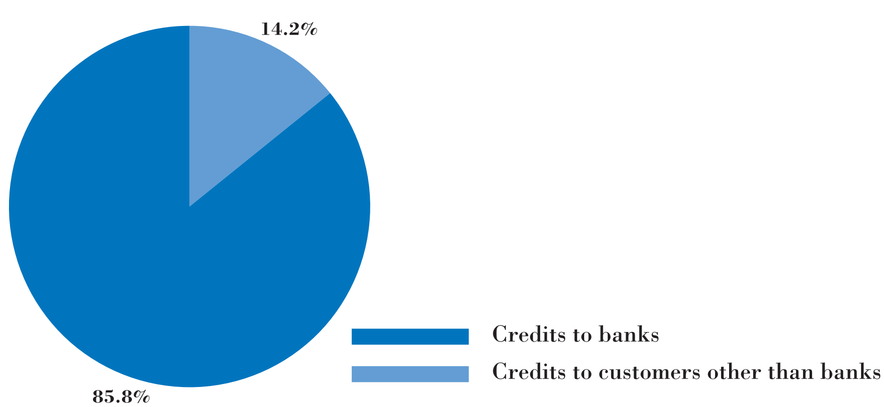
- **By currency:**
  The growing interest of exporters and of their banks for financing in foreign currency, along with the ever more extensive activities of Slovene exporters, particularly those supplying equipment, carrying out capital investment works and investments, which also involve financing of foreign buyers, has mirrored itself in the currency structure of SEC transactions. In 2002 the share of foreign currency (re) financing of international trade activities amounted to SIT 32 billion, which means that it doubled thus taking up 43% of the entire SEC financing portfolio.

Chart 12: *Currency Structure as at 31 December (SIT billion)*



- **By Borrowers:**
  In 2002 commercial banks remained the main partner of SEC in the area of export and outward investment financing, at the end of 2002 that share being 86% of the overall SEC portfolio in this respect. SEC loans to banks rose in terms of their absolute amount, however, due to the substantial increase of direct crediting of Slovene exporters and their foreign buyers the share of banks in SEC credit portfolio fell. On the other hand, foremost due to the needs for direct project financing of Slovene exporters abroad, the share of credits issued to non-bank clients rose last year by more than six times over 2001 (2001 this share was only 2.7%).

Chart 13: *Financing - by Borrowers as at 31 December (in %)*



- **By Risk:**
  Inspite of the last year's considerable increase of the volume of direct financing of Slovene exporters, their foreign buyers and investors, SEC maintained the high quality of its financing portfollio, since the share of investmetns in countries classified into group A was almost 90% and of those made in countries distributed into groups bellow B only 0.14%.

Classification of borrowers	*Percentage of total portfolio*	*Percentage of credit portfolio in total assets*
A	*88.96*	*74.08*
B	*10.90*	*9.80*
C,D,E,F	*0.14*	*0.12*

In the classification of the balance sheet and off-balance sheet items SEC complies with laws and other regulations applicable to banks as well as its internal rules regulating the management of credit, country and other risks.

Favourable Financing Conditions

In order to provide favourable financing conditions for competitive operation of Slovene companies on foreign markets, within the framework of the interest rate policy SEC endeavours to facilitate reduction of exporters' costs when raising bank credits.

- The year 2002 was marked by a number of important changes in the area of interest rate policy both in terms of domestic currency credits and deposits. At long last, the gradual transition to the so-called interest rate nominalism was instigated last year. On 1 July 2002 nominal interest rates were introduced for new short-term borrowings (Tolar credits with a maturity of one year). In addition, last year the interest rates both for short and long-term Tolar credits continued to fall. Last year too, SEC has been adapting to the conditions on the domestic financial market, so that, depending on the maturity of issued credits, its end-of-year interest rates for Tolar short-term credits amounted to up to 9.25%, whilst those for long-term credits ranged from BIR (Basic Interest Rate) + 2.45% to BIR + 3.39%. Consequently, the bank caps, i.e. the highest permitted banks' interest rates, for the total amount of export credits were conditioned by SEC, and at the end of the year they ranged between BIR + 3.8% to BIR + 5.45%, regardless of borrowers' credit ratings.

In 2002 SEC, as agent of the State continued to perform the State Interest Rate Equalization Programme (IREP) for refinancing of export credits in domestic currency. The Exports Promotion Commission supervised the conditions and criteria for equalization of the revalorisation part of the interest rate (BIR) and the nominal interest rate, which were effectuated out of earmarked State budgetary funds. Out of these funds last year SEC paid out SIT 906 million for these purposes to 351 exporters.

- In the area of foreign currency financing SEC also limited the caps for final users, shown over the six-months EURIBOR. Thus, the maximal permitted addition of commercial banks though SEC foreign currency credits, depending on the credit maturity (one to ten years) ranged as a rule between 1.95 to 2.75 percent p.a. over EURIBOR.

Income from SEC Financing

In spite of the changing conditions on the financial markets in 2002, the slower growth of Tolar credit (re) financing and last but not least, the substantial fall of interest rates, compared to 2001 SEC interest income from financing (SIT 3.563 million i.e. EUR 15.7 million) rose by more than 2%, whereas the non-interest income from these transactions (SIT 147.5 million i.e. EUR 652,000 EUR) rose by as much as 74%.

Long-term sources also for foreign currency financing

In order to provide to Slovene exporters and their banks optimal long-term sources for financing of international trade in foreign currencies, in 2002 SEC continued borrowing on interntional financial markets, which was started already in 1999. So, last year SEC took up a EUR 70 million syndicated loan facility, arranged by:

- Sumitomo Mitsui Banking Corporation,
- Bank Austria Creditanstalt AG,
- Citibank N.A.,
- WestLB AG.

In 2002 SEC cooperated closely with foreign financial institutions, strengthening the ties on bilateral basis.

By its continuous presence on internatinal financial markets SEC is building up its status of a first-class partner with an excellent track record. This reputation will also in future enable SEC access to sources for financing international trade activities of Slovene companies under favourable conditions.

Quality Instrument of Protection against Risks

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

Guarantees of SEC are also of that quality. They supplement the offer of other financial services. On the basis of the high credit rating of the Slovene ECA, along with adequate warranties of the state for the obligations of SEC, the Bank of Slovenia as well as public - and private law entities in Slovenia 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 deals also by issuing guarantees. For domestic and foreign beneficiaries these guarantees represent first-class and quality instrument of protection against risks of non-performance of debtors' obligations 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.

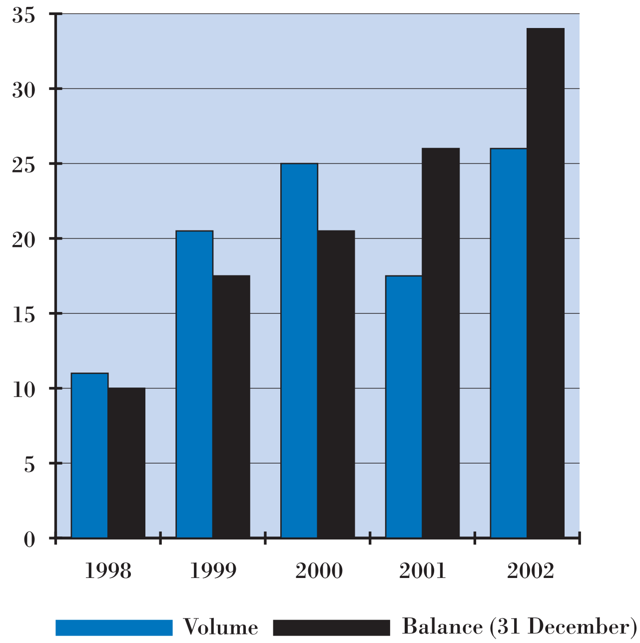
Short Response Time and Competitive Offer

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 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 reputable foreign financial institutions, this enabling Slovene exporters to make use of this service and realize deals faster.

Considerable Demand and Growth of Volume

In 2002 demand for guarantees increased substantially. The value of issued guarantees (in Tolars) climbed by 55% over the year before, totalling EUR 27 million. During the same period the number of issued guarantees rose even more, while the average value of a guarantee dropped. At the end of 2002 the outstanding commitments were by 34% higher than the year before (EUR 34.6 million), half of the issued guarantees being short-term.

Chart 14: *Guarantees (1998-2002) (EUR million)*



Guarantees were mainly issued to cover obligations of machinery and other equipment manufacturers and to beneficiaries in 14 countries. Most of them were from Germany, Croatia, Austria and Serbia & Montenegro. Most of the issued guarantees were advance payment bonds, followed by payment bonds, customs bonds, performance bonds, retention money bonds, and bid bonds. At the end of 2002, in the structure of outstanding guarantees the majority part belonged to advance payment bonds, followed by payment bonds, performance bonds, customs bonds, warranty bonds, retention money bonds, and bid bonds.

Table 14: *Guarantees (1998-2002) EUR thousand*

	1998	***1999***	***2000***	***2001***	***2002***
volume	*11,812*	*21,172*	*25,836*	*18,080*	***26,984***
outstanding (value - 31 December)	*11,062*	*18,068*	*21,534*	*26,915*	***34,637***
honoured	*37*	*48*	*118*	*949*	***2,090***
recourse (value)	*106*	*465*	*118*	*692*	***405***

Safety of Operation

SEC to a large extent secured 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 of payment insurance.

In 2002 three payments bonds were honoured - two of them issued in 2000 and one in 2001.
The liabilities of debtors from these guarantees have already been partly recovered.

Risk Management

SEC is primarily encountering liquidity risks, exchange and interest rate risks, and securities' portfolio risks.

Liquidity Risks

Within the accepted liquidity management policies, SEC Treasury looked after, that the corporation regularly fulfilled all its financial obligations and had sufficient liquidity reserves in domestic and foreign currency. Within the liquidity management, part of the portfolio of securities was formed by treasury bills of various maturity, issued by the Republic of Slovenia, which could be sold on the secondary market at any time.

In 2002, liquidity was adequate. Exposure to liquidity risks was monitored with a help of liquidity index, ranging at 1.1 in the category from 0 to 30 days and 3.5 in the category from 0 to 180 days.

As to conditions prevailing on the money market SEC Treasury was acquiring short-term funds primarily on the inter-bank market, and only to a smaller extent, also from the non-banking sector.

Currency and Interest Rate Risks

In 2002 SEC doubled its business volumes in foreign currency. SEC Treasury regularly monitored its foreign exchange position, employing such financial instruments and techniques as stipulated by the relevant rules and regulations and used by the banks.

Table 15: *Balance Sheet by Currency Structure as of 31 December 2002*

	Assets		Liabilities		Gap	
	SIT million	as % of total assets	SIT million	as % of total assets	SIT million	as % of capital
SIT	*52,035.46*	*58.88*	*53,379.26*	*60.40*	*-1,343.80*	*-7.46*
SIT with EUR exchange rate clause	*3,428.00*	*3.88*	*0*	*0.00*	*3,428.00*	*19.04*
USD	*805.94*	*0.91*	*805.94*	*0.91*	*0*	*0*
EUR	*32,099.60*	*36.32*	*34,183.80*	*38.68*	*-2,084.20*	*-11.57*
Total	***88.369***	***100***	***88.369***	***100***	***0.00***	***0***

The figures for assets in SIT denominated in EUR show excess of assets over liabilities at 19% of the Corporation's capital, while figures for assets and liabilities in EUR show a deficit at 11.6% of capital.

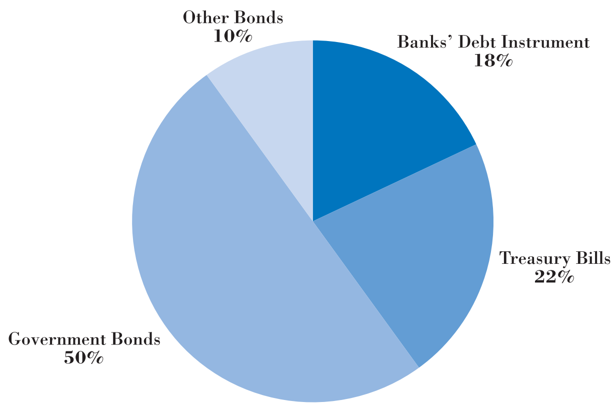
__Table 16:__ Balance Sheet by Maturity as of 31 December 2002

	Assets		Liabilities		Gap
	SIT million	**in %**	**SIT million**	**in %**	**SIT million**
up to 1 month	637.97	0.72	27,786.92	31.44	-27,148.96
1 to 3 months	10,094.12	11.42	360.24	0.41	9,733.88
3 months to 1 year	36,242.54	40.98	2,862.08	3.24	33,350.46
1 to 5 years	32,148.75	36.38	25,285.84	28.61	6,862.91
over 5 years	9,275.62	10.50	32,073.92	36.30	-22,798.30
Total	**88,369**	**100**	**88,369**	**100**	**0**

Securities' Portfolio Risks

SEC Treasury is also managing the portfolio of securities, the nominal value of which at the end of 2002 accounted for SIT 3,909 million. The policy of investment in securities remains conservative so that SEC buys first-class government and corporate securities. The investment policy also considers the regulations of the Insurance Law stipulating safe and adequate spread of investments.

__Chart 15:__ Structure of Investments in Securities (31 December 2002)



SEC Bills

Within the liquidity management SEC also used the instrument of issuing short-term bills in SIT. Considering the need for liquidity funds and the interest of investors SEC decided to increase the value of issued bills to SIT 1.8 billion. The nominal interest rate remained unchanged and linked to the profitability of three-month treasury bills of the Republic of Slovenia.

Marketing

Marketing of SEC products and services has already been mentioned several times when describing operations concerning diverse fields of SEC activities. The growth of business and development of facilities during the last ten years prove that the marketing activities have been successful. SEC has also introduced an integral marketing strategy, which represents 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 meetings. Besides, SEC also appeared in media and in various publications through advertising and press releases on important events, and it convened press conferences, informing the public about its operations and services.

In domestic media, SEC appeared frequently in the past year. SEC also took care of a general level of knowledge on export insurance and financing in Slovenia, whereby it cooperated closely with the educational and scientific research institutions.

At its 10th anniversary SEC organized a very well attended "Slovenian Exports' Day". The speakers were the Minister for European Affairs and chairmen of some of the largest Slovene exporting companies, who presented their views on the future of Slovenian exports after the accession to the EU.

In 2002 SEC repeated public award competition on topics and studies in the field of export insurance and financing in order to stimulate students of economics, law and other faculties, to make scientific research also of this area. Four students were awarded for their diploma and master's degree works.

Co-operation with Government and other Domestic Institutions

In 2002 SEC continued to work closely together with many government and other institutions at home and abroad.

Export Insurance and Finance System

Co-operation with government authorities was in particular important in implementation of the already in 1997 adopted development strategy of the export insurance and finance system of Slovenia.

- Within this framework SEC participated in drafting the novel of the Insurance Act (Official Gazette of RS Nos. 13/00, 91/00 and 21/02), also within the Slovenian Insurance Association. Within the Slovenian Banking Association SEC proposed amendments to the third novel of the Banking Act (Official Gazette of RS Nos. 7/99, 102/00 and 59/01).

- In 2002 SEC was adjusting its operation to the regulations of the Insurance Act.
  In accordance with the adopted development strategy SEC was also preparing establishment of a specialized credit insurance company, which will be set up after the transitional period (EU membership of Slovenia) and will operate according to the provisions of the Insurance Act.

- According to recent modifications of the 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 safety 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 the new law on insurance and financing of international trade, which will regulate the operation of the authorized export credit agency, performing activities on account of the state, and is expected to be adopted in 2003.

State Budget

SEC operations and its plans were discussed several times by the Government of the Republic of Slovenia and competent committees and bodies of the National Assembly.
SEC intensively worked on preparations for adoption of the state budget for the years 2003 and 2004 and other budgetary documents (Budget Implementation Act of the Republic of Slovenia, Official Gazette of RS No. 118/02). The following was adopted for the years 2003 and 2004:

- as the upper insurance exposure limit on account of the State the amounts of SIT 375 billion for 2003 and SIT 400 billion for 2004 were confirmed (according to the mid exchange rate of the Bank of Slovenia as per 31 December 2002 approx. EUR 1,629 and 1,737 million respectively) and for export transactions insured against exchange rate risks the upper limit of SIT 156 and 163 billion (approx. EUR 677 and 708 million);
- for the guarantees of state for SEC obligations arising from borrowings principal amounts of SIT 35 billion for 2003 and SIT 45 billion for 2004 (EUR 152 and 195 million respectively) were adopted.

SEC also co-operated with many 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 exports 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 co-operated also with the Bank of Slovenia. Raising loans and later on also issuing of debt securities on international financial markets will enable SEC to increase the volume of financing of Slovene exports, in foreign currencies and under favorable conditions.

Chart 16: *Exposure Ceilings for Insurance on State Account (SIT billion)*

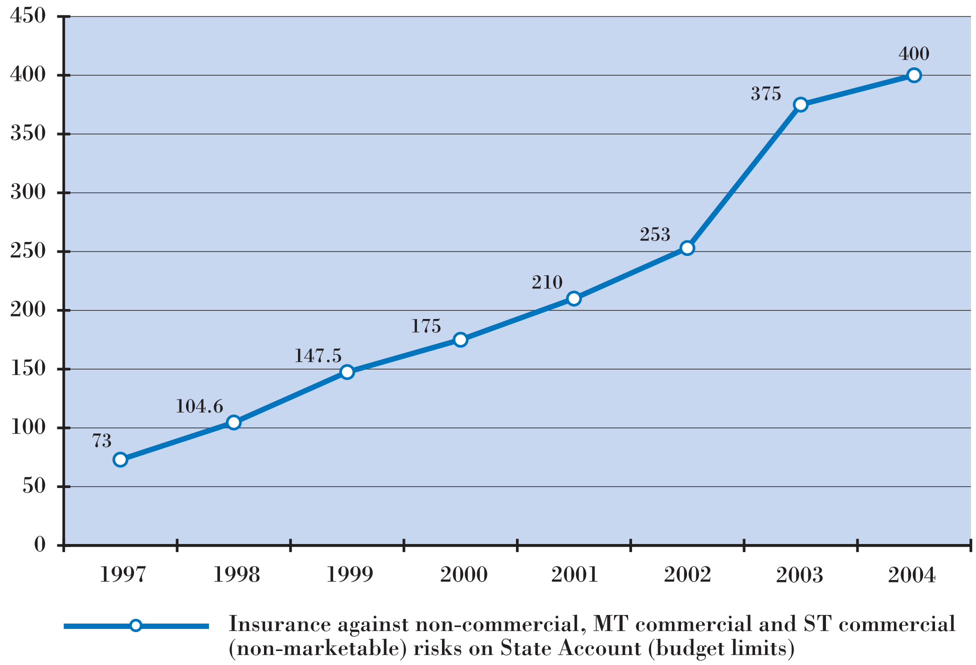
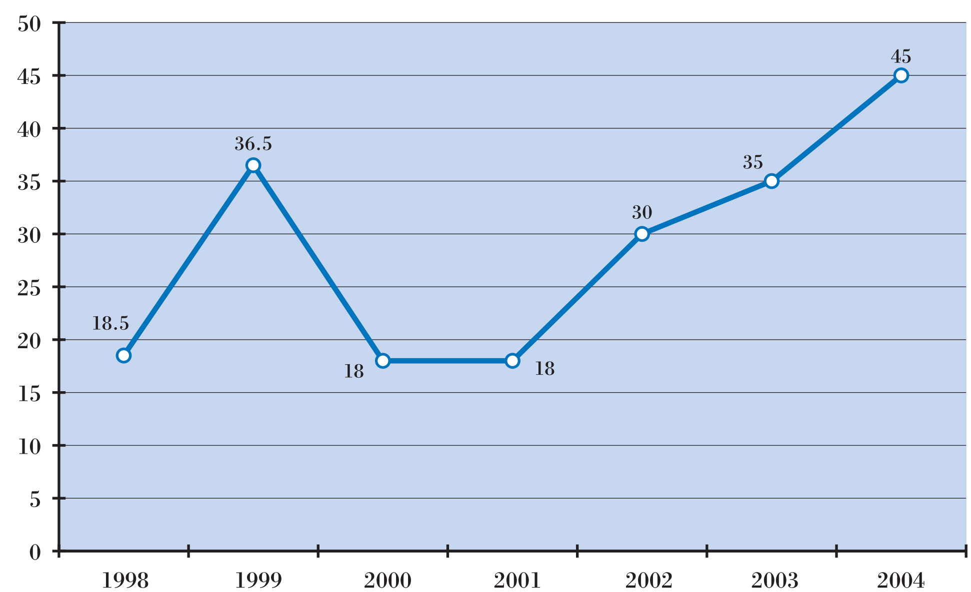


Chart 17: *Guaranteed Quota for Hiring Loans (SIT billion)*



Supervisory Authorities

- SEC regularly reports to the Bank of Slovenia. Some time ago Bank of Slovenia adopted the 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, which are more and more demanded by the Slovene banks when granting loans or financing outward investments and for which banks need not build 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 a 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 deposits. 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 cooperates also with the Agency for Insurance Supervision, to which SEC is reporting about its insurance operations, performed on its own account. In addition, SEC is cooperating with the Agency in preparation of the regulations concerning credit insurance.

Ministries and other Government Bodies and Organizations

- SEC as the Slovene export credit agency is performing certain insurance operations on account of the Republic of Slovenia. For these operations, the key factor is a mechanism for providing necessary liquidity if claims from insurance against non-commercial risks, medium-term commercial and other (non-marketable) risks, have to be paid. Therefore, special emphasis should be given to the Contract on safety and special safety reserves, concluded between SEC and Ministry for Economy. With this contract the mechanism of building up and status of safety reserves for the coverage of claims from the insurance on state account has been agreed upon.

- Apart from co-operation with economic ministries and governmental offices, among them with the Trade and Investment Promotion Office (TIPO) and the Promotion Center for SMEs (PCMG), 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 was higher. Beside governmental authorities also other institutions were involved in the regular exchange of information on markets. SEC provided the Ministry of Economy and other ministries with regular information on its operations and business policy, as well as proposals for the development of international trade co-operation (e.g. Stability Pact for SE Europe, co-operation with OECD, participation of Slovenia in the OECD Consensus and in the Group for export credits and credit guarantees of the OECD Trade Commission, visits of state delegations, etc.)

SEC worked closely together with the Slovenian Chamber of Economy, in particular in their activities for exporters and regularly presented the possibilities of SEC support to Slovene companies on foreign markets. The Vice-president of the Chamber is also member of the Exports Promotion Commission. Thereby, direct representation of interests of the corporate sector in implementation of the state export insurance and finance policy through SEC and the said Commission, was ensured.

- As the member of the Slovenian Chamber of Economy, Slovenian Insurance Association and Slovenian Banking Association, SEC took an active role in many of their activities.

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 elected full member of 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, individual markets, their experiences with debtors and guarantors, and underwriting - technical issues, and work together in many other areas.

The Prague Club

Apart from its membership in the Berne Union, SEC also attends the regular meetings of The Prague Club (meetings of the newly-established export credit agencies, 24 members and 3 observers, with the Secretary General of Berne Union). In addition, SEC is co-operating with many of these ECAs also on bilateral level.

SEC hosted the regular autumn meeting of the Prague Club in Ljubljana, from 4th to 6th November, 2002.

With some of these agencies SEC has also entered into co-operation agreements - (see table hereinafter), and continued the cooperation in particular with Bosnian IGA. Within the bilateral technical assistance programme, co-financed by the Ministry of Economy from the Stability Pact for SE Europe funds, SEC helped IGA with performing export credit insurance against short-term commercial risks. At the end of 2002 a similar project was provided also for the Serbian & Montenegro ECA (SMECA), offering technical assistance in introducing their export credit insurance. There was especially close co-operation with the Macedonian bank for the Development Promotion, primarily in the area of reinsurance of short-term export credits against commercial risks.

Cooperation and Agreements with ECAs and IFIs

Apart from the obligatory proportional reinsurance (Quota Share Treaty) of its portfolio of short-term commercial (marketable) risks, which SEC insures on its own account and which is reinsured on private market with major and first-rate reinsurers, SEC has concluded many 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 offer to Slovene companies possibilities of successful operation with foreign companies in third markets. With its instruments SEC can effectively work together with other financial institutions, which also offer sources for financing of various projects and cover against commercial and political risks.

In 2002 SEC had 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 the German agency Euler & Hermes, with which SEC has concluded 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 (last year, already the second workshop on insurance of medium term export credits, investments and structured transactions, was organized and attended by the experts from ÖKB and SEC), Belgian OND, British ECGD, Dutch Gerling NCM, Italian SACE, US-EXIM, Swedish EKN, and others. Last year, for example, SEC entered into a facultative reinsurance agreement with the Croatian HBOR, memorandum of understanding with the German PwC, and co-operation agreement with the Russian Vneshtorgbank. The said agreements enable co-operation between insurers and/or export credit agencies (one-stop shop arrangements), accelerate exchange of information and open possibilities for efficient mutual operation of Slovene and foreign companies and banks on third markets, which may be financed from more sources, which ECAs and other financial institutions from various countries may support with their instruments. Some of these agreements already resulted in mutually supported projects.

Cooperation of ECAs in outward investments insurance

Slovene companies have been intensifying internationalising of their business operations, venturing on foreign markets also as investors, in recent years primarily onto the markets South-eastern, Eastern and Central Europe. After the armed conflicts had ended and reconstruction of these countries commenced including transition to market economy, these markets became, in light of the economic slowdown of some traditional western markets, again important for Slovene companies. By way of their investment projects, Slovene investors do not only provide fresh capital, equipment and know-how to these economies, but also help them in their efforts to develop into modern societies with balanced payments positions.

Even though Slovene companies know the conditions on these markets well, some are still underestimating underlying political risks in these young democracies, where some of the risks emerge from the privatisation processes. SEC insurance policies are therefore becoming an increasingly functional instrument in protecting FDI against political risks, which are beyond investors' control in the host country. Furthermore, banks - the creditors - stipulate such insurance policies as condition for granting credits.

For ascertaining legal safety, not only bilateral agreements on protection of investments play an important role in fostering foreign direct investments, but also ECAs. They provide investment insurance and represent a stronger negotiating partner in the host country than a single investor - a private company. Cooperation with the insurer mitigates investment risks, prevents losses and in some cases facilitates dispute settlement between the investor and the host country. The fact, that Slovene outward investments are primarily oriented towards markets of some relatively high-risk countries, represents for SEC as the insurer, also an additional risk of portfolio concentration. As insurance capacities for coverage of such risks are not unlimited and the determined insurance limits may not always suffice to satisfy the demand of investors for coverage, it is often useful to conclude co-insurance and reinsurance agreements, which can be employed also in cases of joint investments in third countries.

Cooperation among ECAs, international financial institutions and private investors provides investors with quality coverage, whilst national ECAs can save their insurance capacities and consequently facilitate large-scale projects. If several insurers are involved, investment risks can be mitigated (with the involvement of insurers from several countries some political risks are not only of bilateral but of multilateral concern). Distribution of risks among insurers reduces the exposure and concentration of risk of each individual insurer and the risk assessment of an investment project can thus be more thorough. Furthermore, such cooperation widens the possibilities for successful settlement of potential disputes and eases loss recovery, while the insurance capacities of an ECA and the state may be freed to facilitate new insurance of export credits and investments.

All of these are the reasons why SEC cooperates with such institutions, members of the Berne Union, in insuring investments of Slovene companies abroad. SEC has concluded cooperation agreements for co-insurance, parallel insurance and reinsurance, including agreements regarding loss recovery with these institutions. Within this framework SEC has, together with the Austrian ÖKB and the German PwC respectively, provided insurance of joint investments of companies from two countries into project enterprises in Croatia, Slovak Republic and Macedonia. In cooperation with ÖKB SEC insured two investments of the company "Termo", Škofja Loka in the amount of EUR 1.2 and EUR 10.2 respectively, and together with PwC an investment of "Nova ljubljanska banka" into the Macedonian "Tutunska banka" in the amount of EUR 3.5 million.

For a number of years SEC has been cooperating with the Multilateral Investment Guarantee Agency (MIGA), the member of the World Bank Group. This cooperation is of particular importance to SEC and to Slovene companies because of MIGA's international financial institution status. On the basis of the framework agreement (Memorandum of Understanding) between the two institutions and facultative reinsurance agreements, MIGA reinsured two investments, insured by SEC, in Bosnia and Herzegovina. The first project was the investment of a Slovene bank in Sarajevo), which is important in terms of banking services to business transactions between Slovene and Bosnian companies and also for development of the financial system in B&H. The second project related to reinsurance of an investment into equity capital and a shareholder's loan of the Business System Mercator into a shopping mall in Sarajevo. This investment is among others also significant as it contributed to improvement of supply in Bosnia and Herzegovina, higher market competition and lower prices; it is expected that the shopping mall shall draw the consumers in Sarajevo away from the "grey" market. Some 40% of the product offer is to be of local origin.

Table 17: *List of Agreements*

Country	***ECA / IFI***	***Type of agreement***	***Signed***
	EBRD	*Framework Co-operation Agreement*	*8th May 1996*
Belgium	*OND*	*Mutual Insurance Agreement* *Parallel Insurance Agreement*	*Ljubljana, 20th Dec., 1996*
United Kingdom	*ECGD*	*Co-operation Agreement*	*London, 26th Feb.,1998*
Austria	*ÖKB*	*Co-operation Agreement* *Mutual Insurance Agreement* *Framework Reinsurance Agreement*	*Vienna, 10th June 1998*
Russia	*Ros-EXIM*	*Co-operation Agreement*	*Ljubljana, 8th July 1998*
	EXIMGARANT	*Memorandum of Understanding*	*Ljubljana, 23rd July 1998*
	Ingosstrakh	*Co-operation Agreement*	*Ljubljana, 11th Dec., 2001*
	Vneshtorgbank	*Co-operation Agreement*	*Moscow, 12th Sept., 2002*
Germany	*Euler & Hermes*	*Mutual Insurance Agreement* *Fronting of Guarantees Agreement*	*Hamburg, 10th Sep., 1998*
	PwC	*Memorandum of Understanding*	*Hamburg, 16th Sept., 2002* *Ljubljana, 20th Sept., 2002*
Bosnia & Herzegovina	*IBF*	*Mutual Co-operation Agreement*	*Ljubljana, 26th Jan., 1999*
	IGA	*Memorandum of Co-operation*	*Ljubljana/Sarajevo, 16th June 2000*
Sweden	*EKN*	*Mutual Insurance Agreement*	*Ljubljana/Stockholm, 23rd April, 1999*
USA	*US-EXIM*	*Memorandum of Understanding*	*Ljubljana, 21st June 1999*
Netherlands	*NCM*	*Reinsurance Agreement*	*Ljubljana, 22nd June 1999*
Macedonia	*MBPR*	*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*
Israel	*IFTRIC*	*Co-operation Agreement*	*Tel Aviv, 7th March 2000*
Turkey	*Turk-EXIM*	*Co-operation Agreement*	*Amsterdam, 20th Oct., 2000*
Italy	*SACE*	*Reinsurance Agreement*	*Madrid, 28th March 2001*
Ukraine	*LEMMA*	*Reinsurance Agreement*	*Ljubljana, 8th June 2001*
Romania	*R-EXIM*	*Co-operation Agreement*	*Ljubljana, 6th Sept., 2001*
Egypt	*ECGE*	*Co-operation Agreement*	*Ljubljana, 2nd Oct, 2001*
Slovakia	*EXIMBANKA-SR*	*Co-operation Agreement*	*Ljubljana, 11th Oct., 2001*
Croatia	*HBOR*	*Co-operation Agreement*	*Cavtat, 30th Oct., 2001*
		Reinsurance Agreement	*22nd July, 2002*
	MIGA	*Memorandum of Understanding*	*31st Dec., 2001*
		*Facultative Reinsurance Agreement**	*(in preparation)*
India	*ECGC*	*Co-operation Agreement**	*(in preparation)*

PASA

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 established contacts with some of the financial institutions, 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. EU, OECD and UNCTAD) and international financial institutions. Together with the World Bank and in co-operation with the Ministry of Finance, Ministry of Economy and The Slovenian Chamber of Economy SEC organized a workshop on procurement procedures for projects financed or co-financed by the World Bank for Slovene exporters. The workshop was held in Ljubljana, on 15th November, 2002.

MIGA

In the area of investment insurance SEC continued its co-operation with MIGA. MIGA and SEC signed Framework Memorandum of Understanding, while Facultative Reisurance Agreement is being prepared. Apart from the regular exchange of experiences on investment insurance SEC also works together with MIGA in reinsuring investment projects of Slovene companies. In 2002 SEC and MIGA reinsured 3 investments in South-eastern Europe in total value of EUR 19.4.

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

Information system

Integral IS

A well developed information system, quality databases (there are 92 of them today) and existing links with other institutions represent necessary tool for effective operation of a financial institution, its management, supervision of its entire operation and planning. The whole development of information system is based on a gradual introduction into the working process and improvement of internal and external communication.

In order to perform an effective support to its operations, which comprise insurance as well as financing of exports, whereby the insurance on the account of the state is separated from the insurance on own account, SEC in 1996 with the introduction of software called LOTUS NOTES started to systematically build its own and integral information system. Today this information system is a quality basis for managing of all business operations and services of the corporation. All processes are IT supported and to a large extend also automated. All documents, from the request of a client, its processing and approval, to the adequate contracts and invoices are made automatically and at the same time all the data are used as sources for analytical processing of data and for the Management Information System (MIS). Therefore, all the areas of Corporation's operation have adequate information system support (in 2002 SEC began to develop IS support for the new activity - factoring), and all of them are integrated. With SEC IS we do not only master the management of documentation flow and business processes, but also create knowledge databases. Uniformed and standardized are also cumulative analytical tables on operations and business partners of the corporation. In addition, computer network is connected with the CTI telephony, which enables the employees to recognize the partner calling immediately, 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 integrated in individual modules, which enables easier supervision over the development and changes of individual applications, and gradual handing over of chosen modules to outsourced computer company for the maintenance.
The modular approach to the reorganization of databases makes possible also their installation on other locations. This possibility was used already in 2001 at the technical assistance project concerning Macedonian Bank for Development Promotion.

In 2002 the technical assistance programme was extended also to Bosnia & Herzegovina and Serbia & Montenegro, the receivers being the local agencies IGA and SMECA.

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 area of even greater independency of the system and building in 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 further standardization of processes, improvement of documentation flow and system's security could be observed. In addition, cumulative analytical forms and data collection for decision-making and management have been updated and upgraded on a regular basis.

E-Business (SID-NET)

In international trade electronic business has been expanding and gaining on importance. Similar trends can be observed also in SEC operations. Clients have been using electronic communication more and more extensively. At the end of 2002 there were already 45 companies reporting their exports electronically. For contemporary financial institutions electronic business is a must; therefore, as an answer to these challenges the electronic communication system called SID-NET was developed.
A real time and space electronic business was tested with 14 clients. The internal IS was reorganized and integrated with SID-NET, so that SID-NET is now ready for an intensive implementation in the operations of the company. This will to a large extent facilitate clients' dealings with SEC through electronic channels. Via the internet home page (http://www.sid.si), clients will have an easier access to SEC services, information on SEC products, insurance and financing conditions, as well as to the credit rating information (SID-BON), documentation, and following up their transactions with SEC.

Personnel

Recruitment (Structure and Trends)

Personnel recruitment was managed in line with the adopted business policy and the recruitment plan. Most frequently we searched for new employees by advertising, university recruitment, interviewing applicants searching for a job, and informal contacts.

In 2002 the number of employees increased from 56 to 69, the average number of employees being 62.

The new employees were engaged in the Credit Insurance Department, Legal and Claims Department, Finance Department, Treasury, Research & Strategy, and IT Department. In addition, ten graduates were engaged for the probationary period of one year. Temporary employment terminated two members of the staff and one employee retired.

Chart 18: *Employees Educational Structure 31 December 2002*

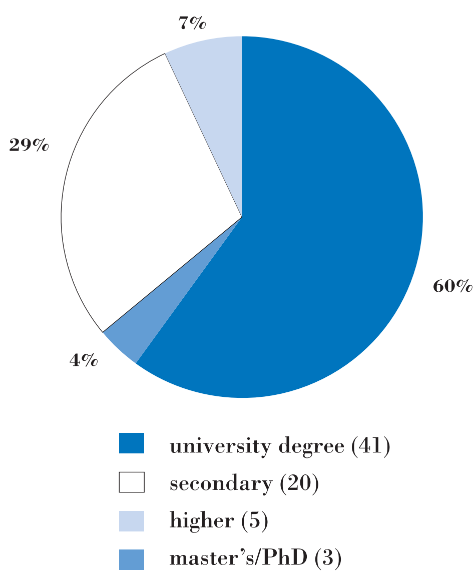
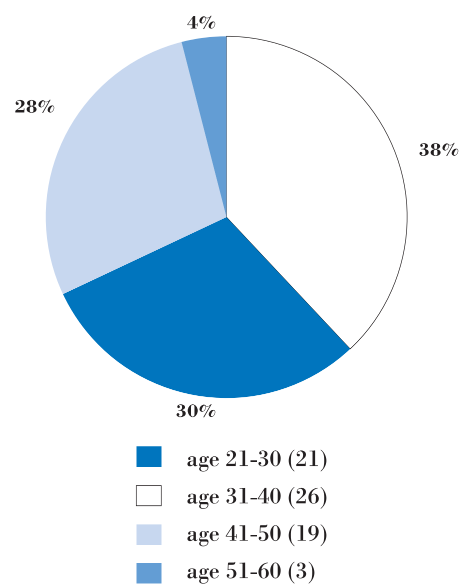


Chart 19: *Employees Age Structure 31 December 2002*



Recruitment Policy

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

- engaging new employees with specific expert knowledge and experiences,
- system of monitoring and assessment of working efficiency, as well as goals setting by means of annual development interviews and semi-annual appraisal interviews,
- policy of rewards, in the form of money and other rewards, and
- encouraging active participation of staff in the process of improving operations and procedures.

Special attention was given to working on projects, which were managed by project teams in the areas of E-business (SID-NET) and credit rating information system (SID-BON) development, sureties and bonds insurance, factoring, risk management, reinsurance arrangement and technical assistance to other export credit agencies.

Employees could also participate in the project of making constructive proposals and ideas for improvement of processes and services, increase of working efficiency, and cutting costs.

Traning

Considering the need for expert knowledge in the area of trade insurance and finance, SEC gave special attention to learning and transferring knowledge, in particular in insurance, financing, treasury, legal matters, IT, accounting and internal audit. This was done by means of internal training, attending conferences, workshops, seminars, postgraduate studies, and similar, at home and abroad.

In addition, the employees also acquired more general skills, especially foreign languages, communication, goal setting, management, computer, and similar, and specific knowledge, e.g. sales and negotiations techniques, key-account management, etc.

Forty-four employees attended various forms of training. The number of days spent on training averaged at 3.25 per employee, while the average investment in training per employee amounted to SIT 160,000, exclusive travelling expenses and allowances.

Labour costs

Although SEC activities comprise banking and insurance operations payment of salaries and allowances complies with the provisions of the General Collective Agreement of Industry and the Collective Agreement of Banks and Savings Banks of Slovenia. In 2002 average salary came to SIT 512,167. Labour costs represented 24.4% of total operating costs and expenses.

Last year SEC employees joined the contributory company pension scheme. SEC also covered the premiums for additional health insurance for the employees.

Absenteeism

Flexible working time allowed effective time management and meeting the requirements and needs of the working process.

In 2002 the number of total working hours came to 123,624, of which 11,552 hours were used as annual paid leave, 256 hours as special leave and 264 hours as study leave.

Total sick leave accounted for 4,936 hours, which is an average of 3.99%. Quite high was also maternity leave, totaling 3,880 hours and 3.14% respectively, resulting from the high percentage of woman employees in SEC (almost 70%).

Internal Communication

The internal exchange of information and communication is provided with numerous already well- established tools and applications, such as: e-mail, internal e-newspaper and access to many databases (e.g. memos on business meetings, minutes and decisions of bodies of the corporation, internal rules and regulations, expert library, description of working procedures, proposals & ideas, etc.).

Trade Union

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

Working Environment

SEC shows special concern in ensuring adequate working conditions. In line with the provisions of the Law on safety and health at work and the implemented Statement on safety with risk assessment SEC organized training of employees for safe and healthy work and protection against fire risk, provided medical examinations and took all the measures to ensure optimum working conditions.

Internal Audit and Control

Internal audit in SEC is organized as an independent expert department, reporting directly to the Management Board and also to the Supervisory Board. Its organization and activities are defined by the Banking Act (Official Gazette of RS, Nos 7/99, 102/00 and 59/01) and the Insurance Act (Official Gazette of RS, Nos 13/00, 91/00 and 21/02) which define:

- expert knowledge required from the staff in internal audit,
- tasks and annual working program and
- reporting to the management board, supervisory board and the shareholders' meeting.

The SEC Internal Audit performs complete and permanent supervision of the operations of the Corporation, considering particularities of the operations and applicable regulations in the area of banking as well as insurance operations.

Among others, the SEC Internal Audit examines if the Corporation:

- executes financial services correctly and in line with the laws and regulations as well as internal rules, which are regulating operations of the corporation;
- keeps account books, drafts bookkeeping documents, values individual financial statements items, and prepares accountancy and other reports in compliance 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 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 the Supervisory Board. A special attention is given to the risk management (credit-, non-credit-, and operational risks). Within its activities the Internal Audit is working with the Bank of Slovenia, Agency for Insurance Supervision, and also with the internal audit committees of the Banking and Insurance association.

Auditors' Report

To the shareholders of Slovene Export Corporation, Inc.

1. Our opinion on financial statements of SEC, issued on 14 April 2003 and submitted hereafter, and the audited financial statements with disclosures are available at the headquarters of SEC. Only complete financial statements can present the position and results of the company correctly and allow understanding of its business operations.

2. "We have audited the balance sheet of the Slovene Export Corporation, Inc. Ljubljana as at 31 December 2002 and related profit and loss account, statement of cash flows, statement of changes in equity, and attachment to the financial statements for the year ended. We also checked the Management's report on operations. The financial statements and the Management's report on operations are the responsibility of the Management Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly in all material aspects the company's financial position as at 31 December 2002 and of the net profit, changes in equity and cash flows for the year ended, and have been prepared in accordance with Slovene Accounting Standards. The Management's report on operations conforms to the audited financial statements."

Ljubljana, 14 April 2003

3. The abstract of financial statements and disclosures presented on pages 80 to 83 is the responsibility of the Management Board. We confirm that the abstract conforms to the audited financial statements for the year 2002.

PricewaterhouseCoopers d.o.o.

PRICEWATERHOUSECOOPERS d.o.o.

Plevnik Jože

Certified Auditor

Jože Plevnik

Marko Rus

Director

Marko Rus

Ljubljana, 28 May 2003

1. Balance Sheet as at 31 December 2002

SIT thousand

	31 December 2002	31 December 2001
cash and balances with the central bank	31	3.600
loans to banks	71,218,888	52,089,308
loans to non-banking customers	10,482,693	1,398,035
debt securities not held for trading	3,909,752	0
securities held for trading	0	766,766
long-term investments in equity of group enterprises	496,465	0
intangible fixed assets	7,711	0
tangible fixed assets	705,243	646,862
purchased own shares	0	0
other assets	799,300	571,925
deferred costs (expenses) and accrued revenues	749,399	281,297
TOTAL ASSETS	**88,369,482**	**55,757,793**
deposits and borrowings from banks	38,661,304	14,746,331
deposits and borrowings from non-banking customers	2,143,763	915,896
long-term liabilities arising from safety reserve funds	18,149,706	16,040,975
debt securities	3,768,806	980,160
other liabilities	697,616	323,716
accrued costs (expenses) and deferred revenues	124,890	177,678
long-term provisions for commitments and charges	2,619,735	2,004,286
technical provisions	3,966,725	2,569,110
subscribed capital	9,323,540	9,323,540
capital reserves	1,337,489	1,337,489
revenue reserves	2,173,322	1,973,239
equity revaluation adjustments	5,283,938	5,283,938
– general equity revaluation adjustments	5,283,938	5,283,938
net profit or loss for the financial year	118,648	81,435
TOTAL LIABILITIES	**88,369,482**	**55,757,793**
off-balance sheet items	21,292,199	5,967,030

2. Income Statement for the Year Ended 31 December 2002

SIT thousand

	2002	2001
interest and similar income	5,776,545	5,052,678
interest expense and similar charges	2,753,965	2,038,298
net interest and similar income	3,022,580	3,014,380
dividend income	38,361	0
fee and commission income	2,233,940	798,925
fee and commission expense	65,500	104,029
net fees and commissions	2,168,440	694,896
gains arising from financial transactions	880,814	316,374
losses arising from financial transactions	849,352	313,281
net profit from financial transactions	31,462	3,093
other operating income	62,234	31,317
labour cost	521,474	411,217
cost of materials and services	498,222	286,424
amortisation / depreciation and operating expenses from revaluation of intangible and tangible fixed assets	73,040	69,737
other operating expenses	1,045,736	235,353
losses on bad debts less recoveries	2,886,374	1,409,183
Profit from ordinary activities	**298,231**	**1,331,772**
extraordinary revenues	931	2,192
extraordinary expenses	25	1,122,645
- extraordinary expenses, excl. of equity revaluation adjustments	25	55
- extraordinary expenses from equity revaluation adjustments	0	1,122,590
extraordinary profit or loss	906	-1,120,453
Profit before tax	**299,137**	**211,319**
income tax	61,841	48,449
NET PROFIT FOR THE FINANCIAL YEAR	**237,296**	**162,870**

2.1. Appropriation of net profit for the financial year ended 31 December 2002

SIT thousand

	2002	2001
net profit for the financial year	237,296	162,870
net profit appropriated for covering of retained net loss from previous periods	0	0
net profit allocated to legal reserves	0	0
net profit allocated to reserves for own shares	0	0
net profit allocated to statutory reserves	0	0
net profit allocated to other revenue reserves	(118,648)	(81,435)
Total	**118,648**	**81,435**

Accumulated profit for 2002 amounts to SIT 118,648 thousand, taking into account net profit for the financial year and other items and reserves under Para 1, Article 228, Companies Act. A resolution on appropriation of accumulated profit is adopted by the shareholders' meeting.

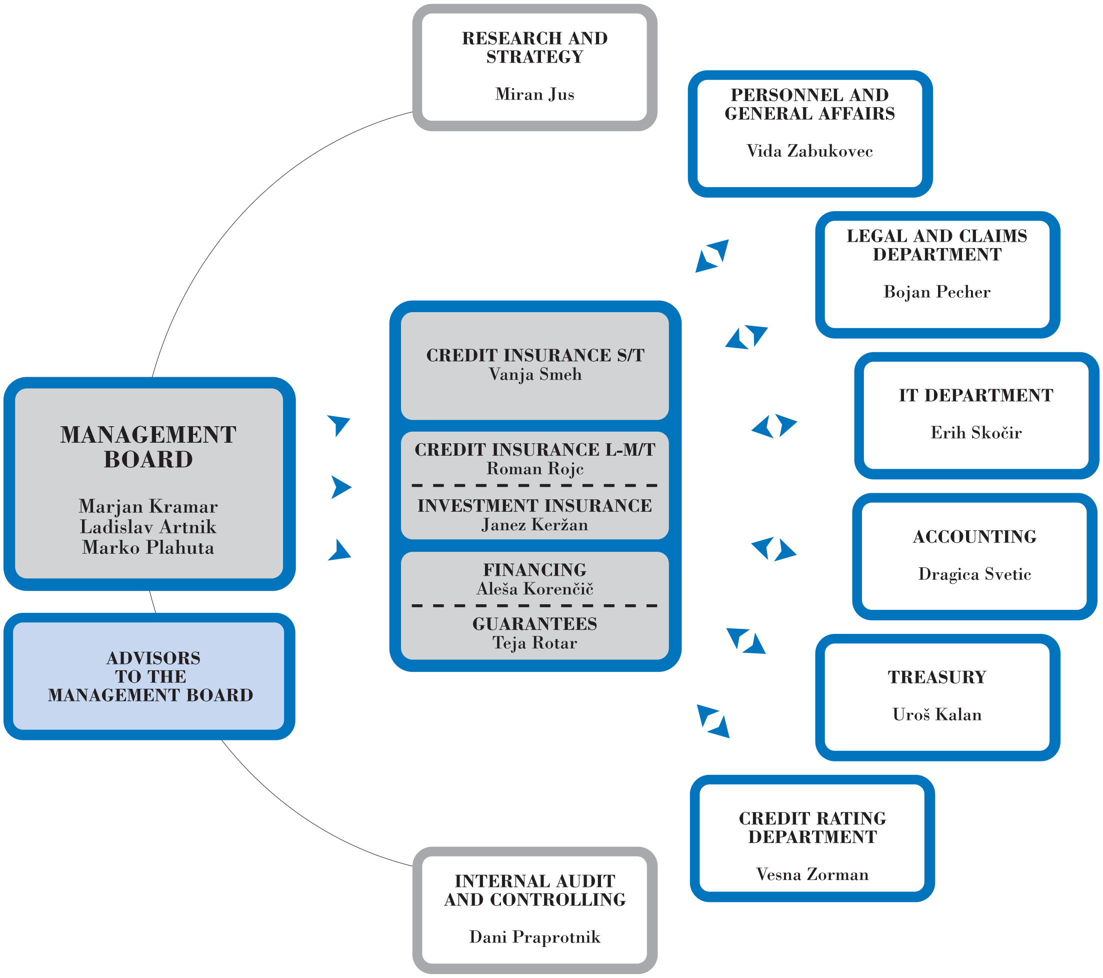
3. Cash Flow Statement for the Year Ended 31 December 2002

			SIT thousand
		2002	**2001**
A. CASH FLOWS FROM OPERATING ACTIVITIES			
a)	**Inflows**	**7,115,960**	**5,525,507**
	interest and similar income	4,929,848	4,765,804
	fee and commission income	1,938,246	720,710
	income from recovered bad loan debts	115,809	4,583
	income from investments in equity	38,361	0
	net profit or loss from financial transactions	31,462	3,093
	other operating income	62,234	31,317
b)	**Outflows**	**4,492,092**	**2,987,934**
	interest expense and similar charges	2,338,610	1,874,958
	fee and commission expense	31,941	136,472
	payments to employees	521,474	411,217
	other operating expenses	1,543,958	521,777
	income tax	56,109	43,510
	Total operating income / expenses before the change in operating assets and liabilities	2,623,868	2,537,573
c)	**(Increase) / decrease in operating assets**	**-28,103,292**	**-14,709,137**
	net (increase)/ decrease in loans to banks (excl. of revaluation)	-18,761,237	-12,861,776
	net (increase) / decrease in loans to non-banking customers (excl. of revaluation)	-9,881,446	-1,386,064
	net (increase)/ decrease in securities held for dealing purposes (excl. of revaluation)	766,766	-703,267
	net (increase)/ decrease in other operating assets (excl. of revaluation)	-227,375	241,970
d)	**Increase / (decrease) in operating liabilities**	**508,129**	**13,911**
	net increase /(decrease) in deposits from non-banking customers (excl. of revaluation)	508,129	13,911
e)	**Net cash from operating activities**	**-24,971,295**	**-12,157,653**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Inflows**	**3,105,512**	**12,841**
	inflows from gains on debt securities disposal	3,104,538	10,841
	inflows from gains on asset disposal	974	2,000
b)	**Outflows**	**4,556,106**	**26,865**
	outflows from the purchase of debt securities	3,909,752	0
	outflows from the purchase of investments in equity	500,220	0
	outflows from the purchase of tangible and intangible fixed assets	146,134	26,865
c)	**Net cash used in investing activities**	**-1,450,594**	**-14,024**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Inflows**	**59,095,124**	**19,749,905**
	borrowings	56,030,936	18,500,483
	increase in value of debt securities and subordinated liabilities (excl. of revaluation)	2,788,646	980,160
	gains on own shares disposal	275,542	269,262
b)	**Outflows**	**32,230,409**	**7,680,129**
	loan repayment	31,954,867	7,430,129
	outflows from the purchase of own shares	275,542	250,000
c)	**Net cash used in financing activities**	**26,864,715**	**12.069,776**
	effect of the change in exchange rates on cash and cash equivalents		
D.	**CASH AND CASH EQUIVALENTS AT END OF PERIOD**	**446,462**	**3,636**
	x) net increase (decrease) in cash and cash equivalents	442,826	-101,901
	+		
	y) nash and cash equivalents at beginning of period	3,636	105,537

4. Statement of Changes in Equity for the Year Ended 31 December 2002

SIT thousand

	Subscribed capital	***Capital reserves***	***Revenue reserves***	***General revaluation adjustments***	***net profit or loss for the Financial year***	***Total***
OPENING BALANCE (31 December 2001)	***9,323,540***	***1,337,489***	***1,973,239***	***5,283,938***	***81,435***	***17,999,641***
Transfer to equity	***0***	***0***	***0***	***0***	***237,296***	***237,296***
- net profit for the financial year	*0*	*0*	*0*	*0*	*237,296*	*237,296*
Transfer within equity	***0***	***0***	***200,083***	***0***	***-200,083***	***0***
- allocation of net profit to revenue reserves	*0*	*0*	*200,083*	*0*	*-200,083*	*0*
Transfer from equity	***0***	***0***	***0***	***0***	***0***	***0***
CLOSING BALANCE (31 December 2002)	***9,323,540***	***1,337,489***	***2,173,322***	***5,283,938***	***118,648***	***18,236,937***



Shareholder's Assembly

mag. Simon Oblak - Chairman
Assistant General Director of LEK Inc., Ljubljana
Ludvik Hribar - Deputy Chairman
Former General Director of RUDIS, Inc., Trbovlje

Supervisory Board

1. mag. Sibil Svilan - Chairman (since 22nd July 2002)
   State Secretary, Ministry of Finance
   mag. Darko Tolar - Chairman (until 26th June 2002)
2. Janez Lotrič - Deputy Chairman
   Chairman of the Management Board of Petrol, Inc., Ljubljana
3. mag. Mateja Mešl
   State Secretary, Ministry of Economy
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 - Chairwoman
   State Secretary, Ministry of Economy
2. dr. Mojmir Mrak - Deputy Chairman
   University professor, Faculty of Economics, Ljubljana
3. mag. Janez Košak
   Vice Governor, Bank of Slovenia
4. Stanka Zadravec Caprirolo
   State Under-Secretary, Ministry of Finance
5. Bojan Guček (until 6th March 2003)
   Advisor to the Government of the Republic of Slovenia
   Mitja Štrukelj (since 6th March 2003)
   Secretary General, Ministry of Foreign Affairs
6. mag. Marta Kos Marko
   Vice President, Slovene Chamber of Economy

1992

- June 17 - the Law on Export Insurance and Finance Corporation of Slovenia was adopted (Official Gazette of the RS No. 32/92); later on the Law was amended several times (Official Gazette Nos. 37/95, 34/96, 31/97 and 99/99);
- July 8 - 87 founding shareholders formally signed the Contract on Establishment of the Slovene Export Corporation; during the same year the first of the three installments of the subscribed capital was paid in;
- October 22 - the founding Shareholders' Meeting of the Slovene Export Corporation, Inc., Ljubljana (entered into the Court Register on October 27).

1993

- The first reinsurance arrangement closed (Quota Share Treaty on outward and inward reinsurance);
- Beginning of operations - export credit insurance and export credit refinancing;
- Finnish technical assistance to SEC financed by EBRD.

1994

- Significant growth of insurance volumes;
- First claim paid in the insurance on state account (later on wholly recovered from the Iranian bank).

1995

- Introduction of medium-term export credit insurance against commercial risks;
- The Law on the Use of Funds, Acquired from the Proceeds on the Basis of the Ownership Transformation Act was adopted, which provided building up of safety reserves for the state account insurance and an increase of SEC equity;
- EBRD financed technical assistance (consultants ACE/IFC, Vienna);
- Adoption of the medium-term business plan;
- Short-term export credit insurance against commercial risks - in addition to the permanent insolvency also protracted default could be covered;
- Refinancing available also for exports of consumer durables, investments, and marketing activities.

1996

- Development of own integral information system (SEC IS);
- Establishment of own Credit Rating Department;
- Introduction of new facilities: refinancing of outward investments, insurance of guarantees;
- SEC started attending meetings of the newly established ECAs with the Secretary General of the Berne Union;
- technical assistance provided by COFACE (EU Phare program).

1997

- Development strategy of the system of exports insurance and financing of the Republic of Slovenia was adopted;
- Amendments to the Law on SEC provided accomplishment of the project on the introduction of the exchange risks insurance facility; new facility: insurance of credit lines; modification of facilities and adoption of new General conditions on investment insurance (growth of this insurance scheme);
- Introduction of export credit insurance against short-term commercial risks in non-OECD countries on state account;
- Active networking with other ECAs by closing various types of agreements.

1998
- Law on Guarantees of the Republic of Slovenia for the Loans Hired for Export Financing was adopted (Official Gazette of the RS, No. 20/98), enabling SEC to enter international financial markets and borrow funds to finance exports in foreign currency,
- October 21 - at the 55th annual general meeting of the Berne Union (Cape Town, South African Republic), SEC was elected observer member of the International Union of Credit and Investment Insurers;
- May 24 - 27 - at the 15th annual general meeting in Vancouver (Canada) SEC was elected observer member of the Pan American Surety Association (PASA);
- Introduction of the SME program, which facilitates access to insurance cover and refinancing also to small and medium sized enterprises.

1999
- In ten years of operation the only year, when the result of the insurance on state account was negative (two major losses due to bankruptcy of two Croatian banks);
- First loan hired from a foreign financial institution (KfW);
- Successful start of domestic credit insurance;
- Amendments to the Law on SEC - privatization of SEC made possible, whilst the proceeds would be used as safety reserves.

2000
- Volume of insurance for the first time exceeded one billion Euros (EUR 1.192 Million);
- October 18 - at the 57th annual general meeting in Amsterdam (the Netherlands) SEC was elected full member of the Berne Union;
- Further borrowings on the international financial markets (syndicated loans).

2001
- SEC for the first time active as a consultant in a bilateral government program of technical assistance (MBDP, Macedonia);
- Adjustment of the premium system of the insurance on state account (OECD - Knaepen package);
- Introduction of direct (resident and non-resident) financing.

2002
- October 10 - equity investment and acquiring of fifty percent share in the daughter company Prvi Faktor Ltd.;
- Launching of the programme for SMEs financing (cooperation with KfW and Council of Europe Development Bank;
- Hiring of the biggest syndicated loan facility (EUR 70 million) arranged by BACA, Citigroup, SMBC in WestLB.

2003
- Insuring and financing of the project of renovation of the Budapest Hotel in Moscow;
- Launching the online E-business facility (SID-NET);
- Online access to credit rating reports of Slovenian companies (SID-BON).

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