SLOVENSKA
IZVOZNA
DRUŽBA

družba za
zavarovanje in
financiranje
izvoza
Slovenije, d.d.,
Ljubljana

SEC

BUSINESS

REPORT

2003

Company name:	Slovenska izvozna družba, Družba za zavarovanje in financiranje izvoza, d.d., Ljubljana (Slovene Export Corporation, Export Insurance and Finance Corporation of Slovenia, Inc., Ljubljana)
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Business activities of the SEC Group:

- export and domestic credit insurance
 (insurance against commercial and/or non-commercial risks)
    - credit information
    - assistance in debt collection
    - legal and business advice
    - factoring
- medium-term export credit insurance
- outward investment insurance
- financing of international business transactions
- issue of guarantees

Contents

For the purposes of accounting, preparation of financial statements and reporting on the activities of Slovenska izvozna družba, d.d., Ljubljana (Slovene Export Corporation, Inc., Ljubljana, hereinafter referred to as SEC or the Corporation), and in accordance with Articles 6/2, 10/2, 5, 14, 15 and 17 of the Law on Insurance and Financing of International Business Transactions (Official Gazette of RS, No. 2/04), which came into force on 14 February 2004, in line with the Companies Act, regulations applicable to banks and insurance companies and the relevant accounting and other standards shall be applied as appropriate in preparing annual reports on insurance and financing operations which the Corporation performs in accordance with the relevant general provisions, powers conferred upon the Corporation by the Republic of Slovenia and agreements on the insurance and financing of international business transactions, concluded with the Ministry of Finance, on own account or on account of the Republic of Slovenia, or with its guarantees. In accordance with the Companies Act (Official Gazette of RS, Nos. 30/93, 29/94, 82/94, 20/98, 84/98, 6/99, 54/99 and 45/01), the Supervisory Board shall express its opinion on and approve the audited annual report, and propose it to the Shareholders' Meeting. SEC shall report its business operations performed pursuant to the Law on Insurance and Financing of International Business Transactions, to the International Trade Promotion Commission and to the Ministry of Finance, whereas the Government of the Republic of Slovenia shall regularly report on the implementation of the Law to the National Assembly of RS.
The 2003 Annual Report of Slovene Export Corporation, eleventh since the founding of the company on 22 October 1992, contains a business report and financial statements (with annexes and notes) for the financial year ended 31 December 2003. The Annual Report was adopted at the meeting of the Supervisory Board and also describes the main events occurring after the end of the financial year, and will be presented to the Shareholders Meeting at the 14th Ordinary General Meeting of the Corporation. The Annual Report has been available to the shareholders and the general public since 24.5.2004 at the Corporation's main office. The Annual Report was audited in accordance with the Companies Act by the auditing firm KPMG d.o.o. Ljubljana.

Vision and Mission Statement

A successful and reputable financial institution, Slovene export credit agency, provides companies with a comprehensive offer of quality services and modern financial products, striving to facilitate their business transactions and financing by:
- **ensuring economic security,**
- **promoting trade, and**
- **strengthening the competitiveness of Slovene companies in domestic and foreign markets.**

Ensuring Economic Security, Trade Promotion and Enhancement of Competitiveness for the Slovene Corporate Sector

• through effective execution of high quality, internationally competitive and custom-made credit insurance services, which provide Slovene companies doing business at home and abroad with:
- timely, flexible and quality insurance coverage,
- adequate protection against commercial and political risks,
- conditions which enable them to offer competitive terms and conditions, increase sales, develop businesses, and operate safely in existing and emerging markets;

• by transaction financing which enables Slovene companies to be competitive and successful in exporting and investing;
- by offering terms and conditions that act as a supplement to the banks' offer in enabling Slovene companies to perform competitively in foreign markets;

• by issuing high quality guarantees and other sureties,
- which supplement the offer of commercial banks and insurance companies and ensure safe business with Slovene companies, enabling them at the same time to take advantage of the business opportunities in international and domestic markets;

• by quality and up-to-date credit information, advice, assistance in debt collection, and other services which supplement insurance and finance facilities.

SEC services are customer-friendly and benchmark the best comparable financial institutions.

SEC operates in accordance with the principles and strict professional standards of safety, liquidity and profitability. When performing insurance and financing of exports with an official support, SEC observes the internationally established rules and regulations on export credits.

In view of the conditions of insurance cover which the Corporation performs on account of the state, it is in the interests of taxpayers to provide companies and other institutions doing business in foreign markets with adequate economic security, within the capacities for such insurance and at the same time ensure that long-term business results reach at least the breakeven point and that paid and unrecovered claims and costs of such insurance are covered by the paid premiums and fees, which in turn ensures long-term and appropriate support of the state to the international business transactions undertaken by the Slovene corporate sector.

Foreword by the Management Board

In 2003, Slovenska izvozna družba, d.d., Ljubljana (SEC) again succeeded in increasing its business volume in all its main branches of activity: insurance, financing and service guarantees. In line with its strategic goals, the Corporation acted on its mission statement to provide effective support to Slovene exporters.

The volume of insurance business covered close to EUR 2.4 billion worth of transactions, an increase of more than 39% on the year before, which accounted for over 17% of Slovenia's total exports. In several foreign countries, its insurance coverage of Slovene export transactions reached beyond the mentioned rate, which further confirms that the Corporation is viewed by Slovene companies and banks as an important factor in entering international, especially higher risk, markets.

The growth of domestic and foreign export credit insurance also indicates that Slovene companies are becoming increasingly aware of the importance and benefits of export insurance as an important instrument of protection against losses caused by non-payment, as in the highly competitive environment of international markets they often experience debt collection problems. On the other hand, the attention paid to export credit insurance is closely linked to the popularisation of risk management. So far, despite harsh competition in insurance and reinsurance industry, the Corporation has successfully met the requirements and needs of Slovene clients.

Another operation which recorded considerable growth in 2003 was insurance of credits to buyers in higher risk countries and insurance of medium-term credits and investments which the Corporation performs on account of the state. Extensive involvement of Slovene exporters in investments abroad led to an increase in the volume of medium-term insurance as well as in the volume of investments.

The Corporation has made substantial progress in the financing of export transactions and issuing guarantees. Through external borrowing it secured adequate funds to increase financing and refinancing of Slovene companies and banks, and ended the year with nearly SIT 100 billion or EUR 412 million in approved loans.

Adopted at the end of 2003, the Law on Insurance and Financing of International Business Transactions came into force in February 2004. It regulates the foundations of the insurance and financing system applicable to international business transactions and determines the business conduct of the Corporation with regard to the operations it performs on behalf of and on account of the Republic of Slovenia.

In the future, the Corporation plans, through provision of its insurance and financing facilities, to maintain and further strengthen its role of an important partner of Slovene companies and banks who are actively involved in the main economic currents of international business environments.

Marko Plahuta
President of the Management Board

Ladislav Artnik
Member of the Management Board

Report by the Supervisory Board

In 2003 the Supervisory Board of Slovenska izvozna družba, d.d., Ljubljana (SEC) met at five regular and six correspondence meetings, and held one meeting together with the Exports Promotion Commission.

The Supervisory Board acted in compliance with the Rules of Procedures of the Supervisory Board, the Articles of Association of the Slovene Export Corporation and the provisions of the Companies Act, which all define its authorities in supervising the management of SEC operations.

The Supervisory Board maintained a constant watching brief on the course of business and the situation of the company with regard to its goals and strategic orientations on the basis of periodical reports by the Management Board, quarterly reports by the Internal Audit and Controlling, data on risk management and other general and specific issues related to the business operations of the Corporation. Through regular management reports, the Supervisory Board was informed about the activities undertaken by the daughter company, Prvi faktor, d.o.o. (Ltd.) in order to promote factoring facilities, and with the establishment of its subsidiary in Croatia as the most important activity in this respect.

At its meeting on 22 October 2003 the Supervisory Board was presented the report on the implementation of the SEC development strategy for the period 1997-2003, and adopted the main goals and guidelines for the period up to 2008. At the meeting, held on 11 December 2003, the Supervisory Board discussed and approved the Development Guidelines and Business Policy of the Slovene Export Corporation for 2004, assessed the plan of financial statements for 2004 and analytical basis for profit and loss account and balance sheet for the period 2003-2005, and adopted the plan for internal audit and controlling for the year 2004.

In 2003 the Supervisory Board discussed and decided on the following important issues:

– annual report of the Corporation for 2002 with the auditor's and actuary's reports,
– changes and additions to the Articles of Association,
– borrowings in international markets,
– activities relative to the adoption and implementation of the Law on Insurance and Financing of International Business Transactions,
– core elements of the establishment and operation of a credit insurance company,
– friendly termination of term of office of President of the Management Board, Mr Marjan Kramar.

In monitoring and supervising the business operations of the Corporation, the Supervisory Board obtained all the information necessary for continuous evaluation of results achieved and of the performance of the Management Board, and adopted decisions within its powers.

At the 15th regular meeting, held on 11 March 2004, the Supervisory Board adopted a proposal of the Management Board to use 50% of the Corporation's net profit from 2003 for other revenue reserves.

At its 16th regular meeting, held on 15 April 2004, the Supervisory Board examined in detail the Annual Report of the Corporation for 2003 together with the report of the certified auditors and certified actuary for the year 2003, which were prepared by the auditing firm KPMG Slovenija, d.o.o and the certified actuary Mr Matjaž Musil.

Upon examination of the mentioned reports the Supervisory Board finds that in 2003 the Corporation successfully followed its planned policy and achieved highly accelerated growth of its operations. The audit report with the positive opinion of the certified auditor confirms fair conduct of business operations and efficient asset management which in 2003 further strengthened its credit rating as the basis for planned future development of the Corporation.

mag. Sibil Svilan
President of the Supervisory Board

Highlights from the Business Report of 2003

- Increased Business Volumes in Insurance, Financing and Issue of Guarantees

- Total value of **business insured** by SEC was EUR 2,394 million (up by 39%) (which accounted for more than 17% of the total Slovenia's exports);
  - **Insurance** of export and domestic credits against marketable risks **on own account** – EUR 2,031 million (up by 42%)
  - **Insurance** of export credits and investments **on state account** – EUR 807 million (up by 9%)

  (certain export credits are insured both against marketable and non-marketable risks)

- **Financing** of international business transactions (as of 31 December 2003) – SIT 97.6 billion (EUR 412.3 million) (up by 33%)

- Value of **guarantees** issued – EUR 41 million (up by 51%)

+ Positive Insurance Result

- **Insurance on own account** – EUR 1.9 million (without recoveries in the amount of EUR 1 million); premium – EUR 5.8 million / claims paid EUR 3.9 million / loss ratio – 0.68

- **Insurance on state account** – premium EUR 6.5. million / claims paid EUR 416,000 / recoveries EUR 44,000 / increase in safety reserves (as of 31 December 2003) – EUR 88.8 million

- **Financing**: interest income SIT 5,044 million (EUR 21.6 million) / non-interest income SIT 145.2 million (EUR 0.6 million)

- **Total assets** (as of 31 December 2003) – SIT 115.4 billion (EUR 487.8 million) (up by 31%)

- **Long-term provisions** (as of 31 December 2003) – SIT 10.7 billion (EUR 45.4 million), in which insurance technical provisions make up SIT 5.4 billion (EUR 22.7 million)

- **Pre-tax profit** – SIT 368.7 million (EUR 1.6 million)

Table 1: *Key figures (1999-2003) - in EUR*

	1999	2000	2001	2002	2003
number of shareholders	84	83	81	89	**89**
nominal capital	47,251,000	44,082,000	42,110,000	40,490,000	**39,391,000**
capital & reserves	76,442,000	78,807,000	81,296,000	79,199,000	**78,227,000**
profit before tax	633,000	919,000	954,000	1,299,000	**1,558,000**
profit / nominal capital	1.3	2.1	2.3	3.2	**3.8**
number of employees (31 Dec.)	47	50	56	69	**74**

Note: Unless otherwise specified, SIT (Slovene Tolars) equivalents in EUR used for showing SEC business results at the end of each calendar year correspond to the middle (final monthly) exchange rates of the Bank of Slovenia on the last day of each calendar year. Thus the following exchange rates were used for expressing the data in EUR: 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; 31.12.2003: 1 EUR = 236.6903); For other operational figures the values expressed in EUR have been calculated from the average monthly exchange rates of the Bank of Slovenia in a given calendar year (1999: 193.6253 SIT; 2000: 205.0316 SIT; 2001: 217.1851 SIT; 2002: 226.2237 SIT; 2003: 233.7045 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 the text specifically states otherwise. As is clear from the notes and tables, the indices have been calculated from data containing more decimal positions.

Corporate Profile of Slovenska izvozna družba, d.d., Ljubljana

Legal Status

- **Slovenska izvozna družba, d.d., Ljubljana** (SEC) was established on 22 October 1992 as a specialised private-law financial institution for insurance and financing of exports. In accordance with the **Law on Insurance and Financing of International Business Transactions (ZZFMGP)** (Official Gazette of RS, No. 2/04), SEC continues to operate as an authorised Slovene export credit agency (ECA) although SEC, since the Law became effective in February 2004, has been performing insurance against non-marketable risks and the Interest Rate Equalization Programme **on behalf of the Republic of Slovenia** (previously on own behalf and on state account) but continues to carry out the insurance against marketable risks, financing and issue of guarantees **on own account**. In this respect, the state issues **guarantees** to cover SEC borrowings made to secure provision of funds to lenders in support of their international transactions, and to investors in support of their investments in SEC debt securities.
- The Corporation is entered into the Register of Companies at the District Court of Ljubljana with Decision No. SRG 8096/92 of 27 October 1992, under record entry number 1/19966/00.

Capital

- At the end of 2003 the nominal capital of Slovene Export Corporation was SIT 9,323,540,000 (EUR 39.4 million), divided into 932,354 shares, issued in several series, with a nominal value of SIT 10,000 per share;
- capital and reserves amounted to SIT 18,515,484,628 (EUR 78.2 million);
- audited book value per share, as of 31 December 2003, was SIT 19,859.

Shareholders

- The majority shareholder of the Corporation is the Republic of Slovenia, other shareholders being banks, insurance companies, the Chamber of Commerce and Industry of Slovenia, and many other Slovene companies. As of 31 December 2003 the Corporation had 89 shareholders.

Table 2: *Shareholders (31 December 2003)*

Shareholders	***Number of shares***	***Ownership (in %)***
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*
Chamber of Commerce and Industry	*85*	*0.01*
other companies	*17,105*	*1.83*
natural persons	*371*	*0.04*
Total	***932,354***	***100.00***

Activities

SEC is registered for a wide range of activities (activity code: 65.230 – other financial intermediation), issues financial instruments and performs a number of other activities which support and promote sales of goods and services and investments of Slovene companies abroad.

On its own account, SEC:
- insures short-term export and domestic credits against commercial and other marketable risks;
- finances international trade and investment transactions;
- issues bonds and guarantees for transactions that Slovene companies execute in foreign and domestic markets;
- provides credit rating and other credit information, business and legal advice, assistance in debt collection, and other supporting activities.

On account of the state, SEC as an authorised ECA performs:
- short-term export credit insurance against non-commercial and other non-marketable risks;
- outward investment insurance against political risks;
- medium-term export credit insurance against commercial and/or non-commercial risks;
- Interest Rate Equalization Programme (IREP) in financing international business transactions, and
- some other activities on special authorisation (i.e. as an agent of the state).

Through its daughter company Prvi faktor d.o.o. (Ltd.) SEC also provides factoring services for domestic and foreign markets.

Risk Management

The key risk management objectives of the Corporation may be summarised as follows:
- to identify individual risks,
- to draw up management policies for individual risks,
- to define the role of organisational units in risk management,
- to determine risk measurement methodology,
- to secure provision of information essential for risk management (risk measurements),
- to adopt appropriate measures to lower the risks without affecting profitability, or to increase profitability at the same risk exposure.

In risk management, SEC operates on the basis of banking laws and regulations and best management practice. Its main activity is insurance of the (credit) risk of non-payment, for which the risk is measured according to banking standards and, to a lower level, according to the insurance standards, whereas the other part of SEC risk management related activities are proper banking operations such as financing, guarantees and treasury.

In compliance with its business policy and the credit risk management policy, SEC has developed a methodology for the assessment of corporate credit rating and country risk. This methodology helps SEC to examine the credit reference and creditworthiness of companies with regard to credit, export credit and investment insurance, (re)financing of business transactions, issue of guarantees and treasury transactions, and to approve, on the basis of these findings, risk exposure limits for a client or a group of clients and other debtors, guarantors, etc. The mentioned documents also determine the policy of risk monitoring and potential ways of reducing risk exposure (reinsurance, guarantees, pledges and other types of payment insurance).

Management of market (non-credit) risks is determined by management policies covering individual market risks (liquidity, exchange rate and interest rate risks) and by the corresponding risk measurement methodologies. An important tool in market risk management is the ceilings which determine the maximum SEC exposure to a particular market risk.

Currently, the most important type of operational risk is the risk inherent in the operation of information systems. To ensure utmost performance of its information system, SEC has been actively co-operating with renowned experts specializing in information system development and audit. SEC management has decided to delegate certain decisions to be made on the level of business operations field to expert associates, and limit the scope of their decision-making by applying ceilings to individual types of transactions. In recent years, SEC has made marked progress in the field of information support to risk management so that it now able to carry out assessments of credit and market risks alike.

In terms of organisation, risk management is divided into three parts. Although supported by all business areas, credit risk management is mainly performed by the Credit Rating Department, while market risk management is dealt with by the Treasury Department. Operational risks are covered by Internal Audit. Expert College and A Commission are the consultative bodies of SEC responsible for balancing the credit and market risks which exceed the thresholds applied to individual organisational units. Final decisions are either taken by the Management Board, the Supervisory Board or, for major transactions of high national importance performed on state account, an interministerial commission appointed by the Government of the Republic of Slovenia. Supervision of risk exposure and management is performed by the internal and external audit services, and by the Bank of Slovenia, Insurance Supervision Agency and the Ministry of Finance, in accordance with their respective powers.

Principles of Operation and Supervision

The main operating principles of SEC are the principles of security, liquidity and profitability. The regulations which apply to SEC with respect to the standards of safe business operations, accounting, reporting, audit of financial statements and supervision of SEC operations are the same as for commercial companies and banks or, in case of marketable risks insurance which SEC performs on own account, the same as for insurance companies. Banking operations are supervised by the Bank of Slovenia, whereas insurance operations performed on own account are supervised by the Insurance Supervision Agency. Generally, SEC falls under the supervision of the Ministry of Finance.

Operations on Account of the State and the Role of International Trade Promotion Commission

Separation of Operations on State Account

In accordance with previous legislation, the operations which SEC as the national Export Credit Agency (ECA) performs on account of the Republic of Slovenia were clearly separated from the operations performed on own account in terms of business, management and accounting. However, the new Law, which came into force on 14 February 2004, provides that the Corporation shall perform insurance against non-marketable risks and the Interest Rate Equalization Programme on behalf of the Republic of Slovenia. Appointed by the Government of RS, the International Trade Promotion Commission, along with other competent bodies, plays an important role in these operations and in providing financing for international business transactions from resources for which guarantees of the Republic of Slovenia are issued.

Safety Reserves

Safety reserves which, together with budget appropriations, constitute the insurance capacity of the Corporation for insurance against non-marketable risks, before indemnities from insurance on account of the state might be paid out of the state budget, are formed of insurance premiums, fees, recovered paid claims and other income which the Corporation generates through operations relative to insurance and reinsurance against non-marketable risks. Pursuant to the new Law and a long-term contract between the Corporation and the Ministry of Finance, safety reserves, the management of which had rested with SEC until the new Law came into force, are primarily used for settlement of liabilities towards insurance policy holders, for prevention and reduction of claims, for coverage of potential losses from insurance transactions which the Corporation performs on state account, and for payment of expenses incurred by the authorised institution in performing these operations. Should it not be possible to settle claims from safety reserves, the Republic of Slovenia shall ensure funds for the payment of claims.

Services

Insurance and Financing of International and Domestic Trade

Compared to export credit agencies (ECA) from other countries, SEC is a one-stop-shop agency which offers its customers a wide and complete range of various financial services and products of:

- insurance,
- financing, and
- issue of guarantees,

which are further complemented by some additional services such as

- information on the credit rating of banks and companies,
- information on country credit risks,
- assistance in debt collection,
- legal and business advice, 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, marketable and non-marketable risks, and at the same time insures outward investments of Slovene companies against political risks. As a provider of insurance, SEC fully attends to its customers' sales, supplementing the offer of export credit insurance for business transactions with the possibility of direct or indirect financing in domestic or foreign currencies, including the purchase of receivables (factoring) and issue of guarantees. SEC does not only support its customers in entering foreign markets but also insures their domestic credits against commercial risks. By providing comprehensive cover, SEC can cover their whole turnover, which also applies to the guarantees SEC issues in favour of foreign beneficiaries and also for business transactions in the domestic market.

Trade Promotion and Risk Management

With its advisory role and preventive function of insurance services, SEC supports Slovene companies when entering foreign markets, pays their claims upon occurrence of insured events, and thereby insures them effectively against the risks of non-payment from their domestic and foreign buyers, debtors or guarantors, regardless whether the reason for non-payment is a commercial or non-commercial risk. SEC also assists these companies in debt collection, provides credit rating information, and legal and business advice.

Export, import and domestic credit insurance, investment insurance and the transfer of insurance rights to commercial banks and other financial institutions (e.g. factoring companies), makes external business financing more accessible for exporters.

With its services SEC:

- enables and facilitates access to external financing for its clients,
- ensures favourable conditions for their entering the markets with competitive sales on credit or deferred payment, and on open account, without any additional and costly warranties and, thereby,
- increases their sales,

and in doing so, SEC with its quality insurance facilities

- covers risks of non-payment due to buyers' insolvency or political risks
- improves companies' risk management and
- provides economic security in doing business in the demanding domestic and foreign markets.

Development Strategy

Already in 1999, the Government of the Republic of Slovenia adopted the development strategy of the system of insurance and finance of exports in the Republic of Slovenia and SEC strategic documents and development plans, which were also discussed by SEC Supervisory Board in 1997, 1998, 1999, 2001 and 2003.

Compliance with International Rules on Export Credits

The following documents were of utmost importance in the development of export insurance and finance system in the Republic of Slovenia: international WTO agreements, 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 SEC observes although Slovenia is not yet a member of this international organisation, the Knaepen package and the process of harmonisation of the OECD premium rates).These OECD rules, together with the Corporation's rules on export credits, are also assumed by the European Union *(acquis communautaire)* and form part of the Slovenia's national legislation after its accession to the EU on 1 May 2004. SEC development strategy considers *inter alia* the needs and possibilities of Slovene economy, development of domestic financial sector, present and future national legislation, the above mentioned international regulations on export credits as well as modern practice and trends in the field of insurance and financing of international business transactions.

Growth and Development of Services

Being a pre-condition for further dynamics and modalities of SEC development, excellence and constant improvement of the quality of insurance and financing activities for international business transactions which SEC provides as instruments of the state trade policy, are put in the forefront of the Corporation's development strategy. Therefore the primary goal of all SEC activities remains adequate growth and quality of business operations performed in domestic and foreign markets, along with the development and quality of its existing and new products and services.

In addition to planned development of E-business (SID-NET) and the forthcoming establishment of the Corporation's subsidiary, a specialised credit insurance company **SID - Prva kreditna zavarovalnica, d.d.** (SEC – First Credit Insurance Company, Inc.) onto which SEC will be able to transfer its portfolio of insurance against marketable risks, the Corporation will strive to:

- develop its offer towards service-based credit insurance which will, in addition to taking over the risks of non-payment, provide quality and up-to-date credit information, debt collection services, risk management advice, and other supporting activities,
- develop, in co-operation with its daughter company Prvi faktor, d.o.o., a synthetic product of insurance and disposal–assumption of trade receivables which will be available to the clients as a hybrid product and also in modules,
- ensure that the offer of its modern and sophisticated financial instruments will be tailored to the needs of clients and to the requirements of business transactions.

Law on Insurance and Financing of International Business Transactions

On 19 December 2003 the National Assembly of the Republic of Slovenia passed the Law on Insurance and Finance of International Business Transactions (ZZFMGP; Official Gazette of RS, No. 2/04) which regulates the basic principles of the insurance and financing system applicable to international business transactions. The Act, which came into force on 14 February 2004, replaced the Law on Export Insurance and Finance Corporation of Slovenia (Official Gazette of RS, Nos. 32/92, 37/95, 34/96 and 99/99) and the Law on Guarantees of the Republic of Slovenia for Loans Hired for Export Financing (Official Gazette of RS, No. 20/98).

> ZZFMGP only regulates those Corporation's operations which deal with insurance and financing of international business transactions as instruments of the state commercial policy, and does not cover other insurance and finance operations which SEC will continue to perform on own account, and in compliance with other existing laws and regulations.
>
> Therefore, all the services and products which constitute the offer of Slovene Export Corporation will be provided to Slovene corporate sector even after the adoption of the new law. In accordance with the EU legislation on export credits, the new law enables the state to further promote Slovene exports and investments through the instruments of insurance and financing applied by SEC, which benchmark the instruments provided by other export credit agencies and provide Slovene companies and banks doing business in demanding foreign markets with competitive insurance and financing conditions.

The need for new legislation which would support efficient operation of the insurance and financing system applicable to international business transactions arises from the following reasons:

- profound changes and contemporary trends in export credits worldwide,
- successful development of the Corporation and rapid development of export credit insurance and financing in Slovenia,
- upgrading of Slovene legal order,
- *acquis communautaire*.

Main Features of the New Law

- In accordance with international regulations, the Law on Insurance and Financing of International Business Transactions (ZZFMGP) regulates the principles of the insurance and financing system applicable to international business transactions as **important commercial policy instruments** of Slovenia, which ensure Slovene companies and financial institutions a safe and competitive performance in foreign markets.
- **Insurance of export credits and investments against non-marketable risks on behalf of the state:** In line with the new Law, the authorised financial institution (ECA – Export Credit Agency) will apply a wide range of instruments on behalf of the Republic of Slovenia in order to insure business transactions against non-commercial and/or commercial non-marketable risks and will keep these operations transparently separate from the rest of its operations (according to state aid regulations, only non-marketable risks can be insured with an official support). With regard to the efficiency and security of insurance schemes, the state is bound by law to provide adequate capacities, in particular in the form of **special reserves** for the insurance concerned, under a special agency contract, managed by the authorised ECA.
- **State guarantees for ECA's borrowings for financing of international business transactions:** In view of competitive involvement of Slovene companies and financial institutions in foreign markets, the state, using its guarantees, facilitates ECA's access to sources for financing international business transactions, and provides coverage for interest (and exchange) rate risks for eligible participants of the **Interest Rate Equalization Programme** (IREP), which is provided on behalf of the state by the authorised ECA that also manages the reserves for this programme.
- **Authorised ECA:** The new Law specifies demanding criteria for selection of the authorised financial institution which shall be duly qualified and shall avail of adequate knowledge, experience, personnel, information, technology, etc., as required for efficient implementation and development of export credit and investment insurance and financing schemes. Adequate agency contracts and other **agreements on operation of insurance and financing schemes** under the new Law shall be concluded with the authorised ECA, selected in an open bid, (pursuant to the Law, initially, this function will be held by SEC). The **International Trade Promotion Commission**, appointed by the Government of the Republic of Slovenia, will also hold a particular role and competences in the above ECA's activities.
- **Miscellaneous:** The new Law also regulates the rules of ECA's **safe operation and prudential supervision** of the authorised ECA's activities and of the implementation of the Law (Ministry of Finance, Insurance Supervision Agency, Bank of Slovenia).

The new Law did not cause any drastic changes in the efficient operation of the Slovene export insurance and financing system; it represented a »smooth transition« from the existing system into the insurance and financing of international business transactions under the new Law that SEC has been observing since it came into force on 14 February 2004.

SEC also continues to perform its other activities, which were under the old law performed on its own account; nevertheless, the status and business operations will be gradually harmonized with other regulations in force. In 2004 SEC will transfer its marketable risk insurance operations, performed on its own account, to the daughter company – a newly established specialised credit insurance company (**SID – Prva kreditna zavarovalnica, d.d.**) and fully harmonize its operations with insurance rules and regulations. Initially, the subsidiary will be 100% owned by Slovenska izvozna družba, d.d., but later it will form product and capital links with selected domestic and foreign strategic partners. Business operations relative to financing of international trade and investment transactions will be gradually (until the end of 2006 at the latest) harmonised with banking regulations; the Bank of Slovenia will lay down detailed procedures and terms according to the new Law.

Although the Law on Export Insurance and Finance Corporation of Slovenia and the Law on Guarantees of the Republic of Slovenia for Loans Hired for Export Financing are repealed by the Law on Insurance and Financing of International Business Transactions, their abolition, however, shall not constitute the termination of any legal or other guarantees of the Republic of Slovenia, granted for SEC's obligations under insurance contracts, issued guarantees and loan agreements, concluded by the Corporation prior to the effective date of the new Law.

International environment and the Slovenian economy

World economy

The forecasts of global economic recovery turned out to be over-optimistic. According to the IMF, world GDP growth was 3.2% in 2003, one of the lowest rates seen in the last three decades. Growth varied significantly from region to region: the European Union (EU), Slovenia's most important trading partner, performed the worst (0.5% growth), while Asia, excluding Japan, performed the best (6.4% growth). There were many reasons for the modest growth in advanced industrialised countries; the engine of the world economy, the most important of which were losses in the capital market experienced previously, financial fraud and the collapse of some renowned corporations. While the case of Enron appeared to be remote from Slovenian business, the bankruptcies seen in industrialised European countries (such as the financial collapse of Parmalat) provided evidence that wide-ranging and major risks may threaten businesses all over the world. In Western Europe alone, 157,138 enterprises became permanently insolvent, the most in recent history.

Consumption, especially investment, was low despite the historically low interest rates and relaxed fiscal policies which led to a wide budget deficit of around USD 400 billion in the USA and the breach of the Stability and Growth Pact in the EU. Household borrowing increased despite restrictions imposed on consumption, corporate profits declined, while world commodity prices, mainly oil, rose notably. A low level of confidence and weak growth additionally fuelled uncertainty related to the war in Iraq, possible US intervention in North Korea and Iran, terrorist threats and attacks (Iraq, Israel and Palestine, Chechnya, Congo, Nigeria, Liberia, Haiti etc), political instability (Venezuela, Pakistan, Zimbabwe, Serbia and Montenegro etc) and contagious diseases (SARS and avian flu). The economic situation improved somewhat towards the end of the year (mainly in the USA, but barely in the EU), however, these positive impulses were still too weak to ensure robust growth and market stabilisation.

EU members teetering on the edge of recession

Economic developments in Europe are of paramount importance for the small and open Slovenian economy because European countries account for as much as 93% of Slovenia's total trade, while developments in other parts of the world only have an indirect impact. Economic performance in the EU was poor in 2003 for the second year running. GDP growth is estimated to have been just 0.5% (growth was negative in Germany, the Netherlands and Portugal, and close to zero in France), unemployment climbed to 8.8%, the average budget deficit widened to 2.8% of GDP, while the current account deficit narrowed to an average of 0.4% of GDP. Labour productivity increased by 2.1% thanks to modest wage growth, however, unit labour costs rose by 1.1% at the same time. The USA and Japan performed better in both of these indicators. Real growth in exports is estimated to have decline a little, while imports rose by 1.7%, the least out of all regions in the world. The terms of trade improved by 0.9% as a result of the strong euro, which appreciated by 17% against the US dollar in 2003.

World reinsurance market

The insurance industry is an important part of the economy because it provides economic security by balancing risks; furthermore, it is well integrated into the global market through reinsurance and retrocession. This is why a healthy world reinsurance market is highly important for all national economies, and conditions in the reinsurance market significantly shape the credit insurance market. Credit insurance companies have a large part of their portfolios reinsured because of the nature of risks assumed on behalf of enterprises. The terms offered by reinsurers in annual renewal of reinsurance contracts can significantly affect the quality of insurance coverage provided by credit insurance companies as well as the scope of insurance coverage, covered risks, and the price of insurance.

The economy got accustomed to a long period of the soft market, given that insurers last operated in conditions of the hard market between 1984 and 1987 for all types of insurance. Insurance capacities were significant, premiums were low, partly due to stiff competition in the credit insurance market, and the diversified supply of services expanded insurance coverage to areas where insurers had less experience. As the capability and ambition of private insurers increased (depending, of course, on the cycle of the reinsurance market), a growing number and volume of international trade risks were covered and, as a result, the government withdrew widely from the area of insurance against marketable risks. The private reinsurance market is cyclical, while the credit insurance market depends a great deal on the reinsurance market. Changes in the reinsurance market, on the other hand, depend more on other factors than on conditions in the credit insurance market because credit insurance is just a niche in the total reinsurance market.

End of the soft market

As early as before 11 September 2001, there were signals that the world reinsurance market was hardening, which was the result of several inter-related trends. During the 13 long years of the soft market (premiums slumped by as much as 70% and more), expertise and experience were often neglected and strict technical insurance standards were ignored because high interest rates and rising prices in capital markets allowed insurers to enjoy high profits from investment and outweigh losses from insurance. The profitability of reinsurers was at risk. The years of 1999 and 2000 were very bad because of mounting claims. Then came 11 September, a watershed in the international scene. Direct claims which hit insurance and reinsurance companies following the collapse of the World Trade Centre in New York were significantly higher than any claim paid previously for a single event.

These events and the escalation of violence in the Middle East had a tremendous effect on international relations and world economy and, consequently, on the reinsurance and credit insurance markets. This also changed the perception of risk and increased the need for economic security. These huge claims, coupled with floods in Central Europe, accounting scandals, the collapse of Enron, Parmalat and other enterprises, financial crises in other countries, the slow recovery of Western economies, the low level of interest rates and falls in share prices, strongly affected the reinsurance market in 2002 and 2003. The payment of high claims, rises in provisions, low premiums from the period of the soft market, and falls in the value of assets of reinsurance companies caused by falling share prices and low interest rates put a strong downward pressure on profitability, financial standing and credit ratings. The leading agencies reduced credit ratings of some of the largest reinsurers which, together with accounting scandals, undermined the trust of investors. The new conditions in the market caused some noticeable exits from the reinsurance industry and bankruptcies, while some reinsurance companies increased their reserves and capital because of significant rises in premiums seen in the hard market, whereby institutional investors were also engaged in financing the initial phases of reinsurance operations.

Hard market

All these events and hardships of the reinsurance industry, and the overlapping of the dramatic hardening of the reinsurance market with the downturn of the world economy, led to a notable fall in reinsurance capacities, a lower supply of coverage services and increasingly difficult insurance terms. In other words, one got less insurance coverage for a higher price. In conditions of increased aversion to risk and greater need for economic security, a large gap between demand for and supply of insurance coverage emerged. A number of insurers changed (narrowed) the definition of risk they were still willing to cover, withdrew from high-risk and longer-maturity business, while others either withdrew from the credit insurance market or reduced their capacities for this type of insurance, and reduced insurance amounts or the percentage of coverage. Reinsurers put additional pressure on primary insurers in terms of insurance results and tightened criteria for assuming risk. As a result, many primary insurers had difficulty in renewing reinsurance contracts, while (re)insurance premiums increased.

In view of the cyclical nature of the reinsurance market, which does not necessarily overlap with the economic cycle, current conditions in this market seem to be an adjustment to the consequences of the prolonged period of the soft market. The entry of new players and fresh capital in the reinsurance market, with credit insurance (and other types of property insurance) being counter-cyclical in relation to the economy, normally enable enterprises to come out of a recession and contribute to employment growth in the economy. This, however, has not been sufficient enough to significantly reduce premium rates since the capacities and capital lost were higher than the volume of capital coming into the industry. The dynamics of insurance cycles show that the market can turn around in a very short period of time, especially if the hard market and huge claims are involved, while the soft market can last for a prolonged period of time, extending over the usual insurance cycle. Thanks to competition and excess capacities, insurance premiums tend to remain low for too long, and (re)insurers try to survive from investment income, while striving for the market share, instead of selling insurance services at a profit. In the period of high-value claims, when the deficiencies of the soft market are being corrected, reinsurers gain from growing premium rates caused by lower supply of reinsurance (or excess demand) as well as from the inelasticity of demand for reinsurance coverage from primary insurers. It should also be noted that premium rates tend to rise across the board in the hard reinsurance market regardless of the fact that a given sector (for example credit insurance) may not have been affected by events causing the hardening of the reinsurance market.

While the rise in premiums may be good news for reinsurers, this is not the case for primary insurers because they cannot put the burden of higher prices onto enterprises buying insurance coverage, especially in periods of economic downturn when enterprises are forced to reduce operating costs. Premiums also tend to climb for insurance policy holders, including those that have had a relatively good claims record, depending on the insurance portfolio. Increased risks in domestic and international trade (growing payment defaults, a chain of bankruptcies and collapses of well-known enterprises) may be an educational experience for managers and company owners: they assume a different perception of credit risk, feel the need for greater economic security (the utility of the product sold by insurance companies –

economic security provided by insurance – increases in the eyes of insurance coverage buyers) and, as a result, demand for insurance coverage rises. On the other hand, demand for coverage against political risks may fall (due to reduced direct investment, for example).
Demand also depends on the available income of insurance buyers (insurance is a superior product and demand grows in line with income) so pressure to cut costs during recession further undermines the ability of enterprises to pay the given price (premiums) for insurance.

These effects and the overall net impact will have significant consequences for further development of credit insurance in Slovenia. However, this is likely to be overshadowed by the 'post-transition phase' in development and ownership consolidation in Slovenian enterprises. With the introduction of corporate governance and appropriate ownership structures, risk management will gain importance equal to one enjoyed in advanced industrialised economies.

The reinsurance market is more important for credit insurance than other types of insurance. Credit insurance companies generally do not have enough capital to be able to assume all risks, some of which may be very specific. Credit insurance companies provide economic security to a much larger extent than other types of insurers, and they also use reinsurance services of large world reinsurance companies to protect their net assets and maintain stable profitability. The credit insurance market is not estimated to be severely affected by the hard market and crisis in the reinsurance industry because credit insurance is just a niche market in the huge world reinsurance market.

Oil prices and a brighter picture in Eastern Europe

Unlike EU members, other European countries performed relatively well. The macroeconomic environment chiefly improved in the Commonwealth of Independent States (CIS), recording average economic growth of 5.8%, according to the IMF, which was underpinned by rising commodity prices, increased domestic spending, and improved internal and external liquidity. Growth was above average in most CIS countries, including Russia, Ukraine and Kazakhstan, and significantly below average in Uzbekistan, Georgia, and Belarus. Inflation fell in practically all countries, most national currencies appreciated and the current account surpluses increased. The reform process slowed down chiefly in areas that are most important for advancing the private sector (restructuring of enterprises, infrastructure and the financial sector). In general, the risk of doing business with the CIS countries fell slightly, however, differences were significant from country to country and their dependence on external factors varied markedly, so conditions may be subject to sudden change.

No encouraging news from the western Balkans

The countries of former Yugoslavia, which are Slovenia's second most important trading partners after the EU and the principal destination of its outward investment, recorded dampened growth in 2003, while Slovenia's exports to this region stagnated. As Slovenia enters the EU, the free-trade agreements with some of these countries will expire, causing additional difficulty to exporters of agricultural and processed food products. Companies which have subsidiaries or mixed-ownership enterprises in this region will find it easier to maintain their market shares.

Croatia performed best: it sustained robust growth, kept a stable exchange rate and low inflation, and managed to reduce slightly the current account deficit. A serious threat may come from the growing external debt, with the debt servicing ratio likely to exceed 20% in 2004, while the pressure on the Kuna may increase.

Consolidation in Bosnia and Herzegovina is still hampered by the country's division and slow reforms. Nevertheless, the single customs administration and the single value-added tax have been introduced. GDP growth slowed down to a modest 3.5% from 2002, while the international grip on monetary and budgetary policies helped reduce inflation significantly. The slow restructuring process hampered exports, representing just 20% of GDP, so the current account deficit was wide despite the reduced import growth.

The new constitutional system brought little political stability to Serbia and Montenegro, where the division into three entities remains. Serbia is going through one of the hardest political crisis, while the formation of a stable and effective government is impossible due to election results and disputes. Montenegro is shattered by various crises. There is practically no dialogue between Kosovo and Serbia, while Albanians are trying to take over as much authority from the temporary UN administration as possible. It is therefore not surprising that last year's economic results were disappointing, while corporate insolvency and indebtedness and high unemployment were pressing problems. What also raises concern is the wide current account deficit (10.4% of GDP) and high external indebtedness compared to the level of exports.

The situation has improved somewhat in Macedonia, however, the peace treaty which has allowed this to happen is satisfactory neither for Albanians nor Macedonians. Political stability is still precarious because of the possibility of the outburst of new ethnic violence and social hardships. As in Bosnia and Serbia and Montenegro, the presence of the international community is still necessary for the normal functioning of the state. Macedonia managed to reduce markedly its budget deficit to about 2% of GDP, maintain a low inflation rate, keep the national currency stable, and narrow slightly the wide current account deficit.

Fiscal imbalance in Central Europe

As a result of the growing relations of Central European countries with the EU, economic growth began to slow down at the start of the new millennium and rebounded in 2003 to an average of 3.2%. Since all these countries (except Slovenia) wanted to step up economic development by loosening their fiscal policies, their budget deficits widened significantly and averaged about 5% of GDP (excluding Slovenia). All countries, except Slovakia, were successful in bringing inflation down, the second Maastricht criterion, with the Czech Republic and Poland almost recording 0% inflation. Hungary experienced strong pressure on the Forint's exchange rate because of inflows and outflows of short-term speculative capital. All countries saw a strong rise in international trade, and export growth was stronger than import growth in the Czech Republic, Poland and Slovakia. The balance of payments position was in line with these trends: in mid-2003, the deficit was the highest in Hungary (6.6% of GDP) and the lowest in Slovakia (1.3% of GDP), while Slovenia recorded a slight surplus.

The USA remains the engine of the world economy

One of the few OECD members that recorded relatively good economic growth was the USA. After faltering early in the year, economic growth accelerated in the second half of the year and achieved 3.1% in 2003 as a whole. It was supported by monetary, exchange rate and fiscal policies. Low interest rates and rising share prices also boosted private consumption. Such economic policy, however, entails certain problems. The budget deficit widened to an estimated 4% of GDP and the balance of payments deficit to 5% of GDP. The lever of growth is estimated to become productivity underpinned by expanding high technologies and exports based on the dollar's low value and foreign investment.

Developments in third-world countries in line with expectations

Countries of the Middle East, Africa, Asia and Latin America, which are set to become the biggest economic potential in the middle of this century, recorded higher average growth than industrialised economies. Asia was in the lead with close to 6% growth (mainly China, Vietnam, India and Pakistan) which was more underpinned by export growth than domestic consumption. This was partly due to the fixing of national currencies to the US dollar, which may produce strong inflows of speculative capital in the future or even cause financial crises.

African countries also managed to accelerate their economic growth to an estimated 3.6% in spite of their low level of economic development. This was largely due to relatively high and stable commodity prices, a partial write-off of external debt, restrictive fiscal policy and low inflation. Nevertheless, economic situation in this region remains relatively uncertain.

Countries of the Middle East and northern Africa saw average growth of around 5.4% and the surplus in their current accounts (over 6% of GDP) increased thanks to high oil prices. In 2004, economic growth in this region may be threatened by political instability, expectations of lower oil prices, and the necessary restrictions of public debt and budget deficits.

After going into recession in 2002 (caused by crises in Argentina, Uruguay and Venezuela), GDP growth was 1.1% in Latin America in 2003. Countries recording a downturn were Venezuela, the Dominican Republic and Uruguay, while Argentina recorded as much as 5.5% economic growth. This was fuelled by increased exports (coupled with the real depreciation of most national currencies), a successful issuing of government securities and fiscal constraints. Nevertheless, analysts are warning that large fiscal imbalances are persisting, the banking sector is weak, central bank independence is questionable, the judiciary is ineffective and social inequalities are too big to prevent new crises from emerging in the future.

Gradual recovery in 2004

The signs of a gradual recovery of industrialised world economies were first seen in the USA, Japan, as well as the EU towards the end of 2003. The European Central Bank's report confirms expectations of a further recovery based on the rise in business confidence, external demand and low interest rates. Interest rates are not expected to rise in the short run because inflation should not exceed 2% in 2004. The main setback may become the strong euro, which is estimated to rise close to USD 1.35 before the end of this year. Encouraging news is coming from Germany, where GDP growth increased to 0.2% in the last quarter of 2003 after having stagnated for two years. The German economy should achieve 2% growth in 2004.

The impending EU enlargement to 25 member states is not likely to boost economic growth in neither current nor future members in the short run. Inflation and budget deficits may increase in new members because of harmonisation of taxes and customs duties to Community regulation. According to the IMF's forecasts, this year's growth in new EU members should be 4.1% (5.9% in the Baltic states and 3.6% in Central European countries), the average inflation should climb by 0.7 of a percentage point, while the current account deficits should stay unchanged (4.4% of GDP). The IMF warns of the possibility of budget difficulties, a rapid narrowing of interest rate parities, balance of payments problems in some members, and the outflow of speculative short-term capital.

Development of other European countries in transition is estimated to be faster, albeit slower than in 2003. The best performing countries should be Bulgaria, Romania and Russia, as well as some Asian members of the Commonwealth of Independent States. Most of them (especially the countries of the western Balkans) will be hampered by large current account deficits and low export growth levels. A number of these countries (mainly those of the CIS and the Balkans) will continue to be dependent on international assistance, while political instability may still be a setback.

Slovenian economy in 2003

Weak growth in the EU affects Slovenia's economy

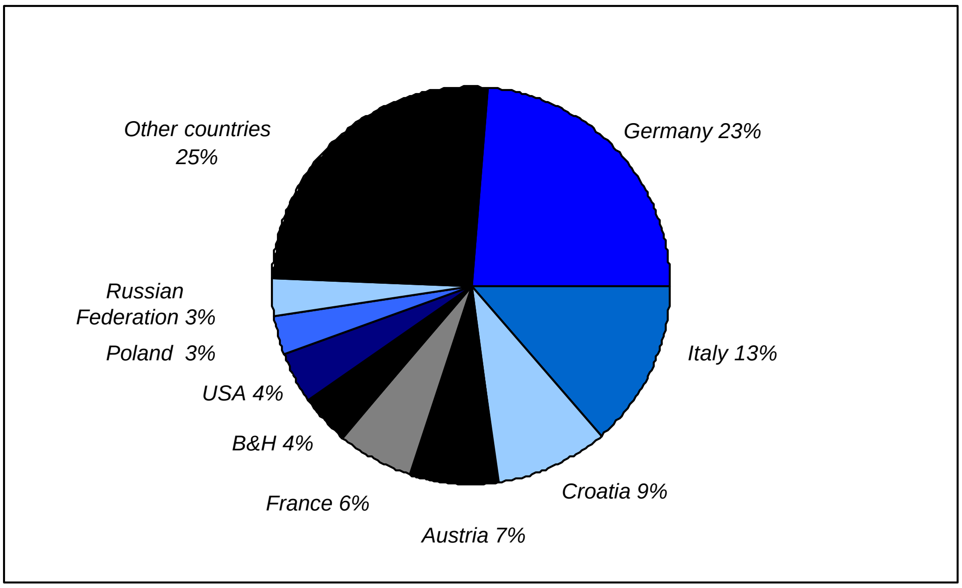
Economic developments in Slovenia were strongly affected by conditions in the international environment, as the main trading partners failed to experience any marked rebound in economic activity. This led to a significant slowdown in real export growth, which was about half of that seen in 2002. On the other hand, domestic consumption gained momentum, especially private spending (lending to households climbed due to falls in interest rates) and investment consumption (motorway construction and investment in equipment), which helped push Slovenia's economic growth up two percentage points above the growth rate of the EU average.

GDP growth continued to be modest in 2003 and was below the level of the past medium-term period (about 4.4%). According to figures from the Statistical Office of Slovenia, economic growth was 2.3%, exports of goods and services rose by 2.7% in real terms, while domestic consumption climbed by 4%. Export flows were chiefly influenced by modest economic growth in the EU and the slowdown in exports to the countries of former Yugoslavia. This, however, was partly offset by the rise in market shares in most important trading partners and exports to CEFTA countries and the USA.

Changes in international trade

Export growth (expressed in euros) was 2.7% in 2003 (7.1 % in 2002): exports of goods rose by 3.1%, while exports of services edged up 0.6%. Just like in previous years, EU markets accounted for around 60% of Slovenia's exports of goods, with the main trading partners remaining Germany, Italy, Austria and France. Exports to Italy and Austria climbed notably and Slovenia managed to increase its market share in these countries, while exports to Germany and France dropped compared to 2002, going down by 3.8% and 13.1%, respectively. High export growth rates were maintained with CEFTA countries (9.4%) and the USA (52% chiefly thanks to the increased sales of pharmaceutical products). Exports to Eastern European countries climbed by 9.0% over the year before, while the robust growth in exports to South-eastern European countries from previous years declined, except to Croatia. Imports of goods rose strongly (5.5%). Broken down by end-use product groups, imports of investment goods rose the most, followed by imports of consumer goods (5.6%) and intermediate goods.

Chart 1: *Regional distribution of Slovenia's exports of goods (2003)*



As imports rose faster than exports, the surplus in the current account of the balance of payments narrowed. According to available data for 2003, the trade deficit increased from EUR 265 million to EUR 544 million, while the surplus in services shrank from EUR 630 million to EUR 541 million mainly due to lower exports of financial services and higher imports of transport services. The current account balance was still positive (EUR 17 million), but significantly lower than in 2002, when it totalled EUR 330 million. Furthermore, the structure of the capital and financial account changed significantly. Foreign direct investment, which amounted to EUR 1.9 billion in 2002 chiefly thanks to the privatisation of the NLB bank and the take-over of Lek, a pharmaceuticals company, totalled a mere EUR 160 million in 2003. Conversely, Slovenia's outward direct investment rose markedly (mainly in the form of equity investment in Croatia, Serbia & Montenegro and Bosnia & Herzegovina) and totalled EUR 269 million.

Increased borrowing abroad

Given that borrowing terms were much more favourable abroad than in the country, international borrowing jumped in 2003. Banks borrowed the most (EUR 550 million in loans, almost twice as much as in 2002), while net borrowing of affiliated entities increased markedly (EUR 200 million). Gross external debt, which is given in euros according to the new methodology and incorporates external debt according to the old methodology as well as all debt financial instruments of the private non-guaranteed debt and instruments emerging after full liberalisation of the capital and financial account of the balance of payments, increased by EUR 1.5 billion in 2003 and totalled EUR 13 billion at the end of the year. Foreign exchange reserves fell by EUR 142 million and amounted to EUR 7.7 billion.

Corporate borrowing from domestic banks rose steadily in 2003. Enterprises raised SIT 237.3 billion in loans, almost twice as much as in 2002. While enterprises mainly borrowed in foreign currency, the share of Tolar borrowing still climbed from 12% to 28%. Borrowing through Tolar loans chiefly increased towards the end of the year. Enterprises took out 25% more loans abroad than in 2002; however, the share of international borrowing still fell from 53% to 43% of total corporate borrowing. Nominal interest rates continued to decline from the year before: interest rates on short-term loans dropped by 1.9 percentage points and those on long-term loans by up to 4.4 percentage points. In December, the average nominal interest rate on short-term loans, serving as working capital, was 9.95% and the interest rate on long-term loans was 10.27%. The interest margin of banks measured by net interest income relative to the total average assets was 3.0% (3.4% in 2002).

Lower prices and a more stable exchange rate

Inflation dropped markedly in 2003 and totalled 4.6% at the end of the year. This was largely due to improved co-ordination of prices, fiscal, monetary and wages policies and the Tolar's depreciation slowed down (the Tolar depreciated by 2.8% against the euro and appreciated by 1% against the US dollar in the year as a whole). Inflationary expectations were further anchored by gradual de-indexation in the financial field (mainly in short-term loans) and public-sector wages.

In November, the Government and the Bank of Slovenia prepared a joint Programme for Entering the ERM2 and Introducing the Euro, in which they commit themselves to taking measures to enter the ERM2 as soon as possible and estimate that it would be most appropriate to enter this mechanism by the end of 2004 in view of the current and anticipated macroeconomic conditions. This would enable Slovenia to introduce the euro at the beginning of 2007. The Programme lays down measures to further cut inflation for tax policy, the policy of administered prices and interest rates, envisages further de-indexation of wages and a gradual narrowing of the structural general government deficit, while the implementation of structural reforms should help bolster competitiveness.

Table 3: *Slovenian economy – selected economic indicators, estimates and forecasts (2002-2004)*

	2002	***2003****	***2004****
GDP			
- (EUR million)	*23,324*	***23,750***	*24,340*
- per capita (EUR, current exchange rate)	*11,710*	***11,935***	*12,220*
- (real) growth rates (v %)	*2.9*	***2.3***	*3.6*
Exports			
- real growth rates (v %)	*7.1*	***2.7***	*4.8*
- goods (EUR million)	*11,081*	***11,427***	*11,850*
- services (EUR million)	*2,449*	***2,465***	*2,712*
Current account			
- balance (EUR million)	*330*	***17***	*-180*
- balance (% of GDP)	*1.4*	***0.1***	*-0.7*
Unemployment rate (ILO; %)	*6.4*	***6.8***	*6.7*
Inflation (CPI; year-end; %)	*7.2*	***4.6***	*3.6*
General government deficit (% of GDP)	*2.9*	***1.6***	*1.7*

Sources: Statistical Office of the Republic of Slovenia, Bank of Slovenia, IMAD, Chamber of Commerce and Industry, CMSR

* *estimates/preliminary figures/forecasts*

Changes in budget spending look promising

According to preliminary figures from the Ministry of Finance, the general government deficit totalled 1.6% of GDP in 2003 (2.9% of GDP in 2002). As far as the structure of general government expenditure is concerned, the relative share of capital expenditure increased the most, the shares of transfers to individuals and households, expenditure on wages and contributions, expenditure on goods and services, and subsidies rose less, while the share of expenditure on pensions dropped. The Government prepared a programme for effective integration into the European Union, which proposes measures to rationalise public expenditure in order to enhance the flexibility of economic policy in responding to current economic conditions, and help boost the private sector's competitiveness by restructuring public expenditure and accelerating structural reforms. A number of other measures are also envisaged, mainly aimed at stepping up reforms in the most critical areas: the restructuring of expenditure (technological advancement, research, competitiveness of the economy, tertiary education, job creation, reduction of structural unemployment), tax reform, reinforcing structural reforms in the areas of telecommunications, energy sector and railways, increasing competition among local utility service providers, and streamlining the public administration.

Banking and insurance sectors

Slovenia is making good progress in the fields of regulation, supervision and harmonisation with the Community legislation, while weaknesses are persisting in the field of reforms related to competitiveness and efficiency of the financial system. Conditions are improving, albeit slowly, as suggested by the narrowing gap between Slovenia and EU members revealed by indicators of the level of development of the financial sector.

Banks (20 banks operated in Slovenia in 2003 compared to 28 in 1997) continued to be the key financial intermediaries in Slovenia, as they accounted for over 70% of the financial sector's value added in the past few years thanks to high interest rates. The assets of banks represented as much as 81% of the assets of all financial institutions. Banks' total assets drew close to the value of Slovenia's GDP, amounting to EUR 21.3 billion in 2003. The share of the largest bank in the banking sector's total assets fell to 33.6% last year, while the shares of medium-sized and small banks increased, especially those of foreign-owned banks (after privatising the NLB bank, one third of all capital of banks is in foreign ownership).

Restructuring is also taking place in the insurance sector, following the adoption of laws which regulate the privatisation of this sector. Privatisation of the Sava Reinsurance Company is completed, while privatisation is still under way in Slovenia's largest insurance company, which controls most of the insurance market (it had a close to 43% market share in 2002).

Credit insurance market

While life insurance rose rapidly in the past few years, credit insurance rose gradually and steadily. Growth was 2% and total gross premiums calculated amounted to SIT 6.1 billion in 2003. Credit insurance premiums were just 2.3% higher than claims paid, which totalled SIT 5 billion.

This segment of insurance has developed remarkably since the establishment of the Slovene Export Corporation over ten years ago (nevertheless, credit insurance, which is a niche product, only represents 2.1% of total gross premiums of Slovenian insurance companies). Credit insurance has become a well-established and significant instrument of protection against non-payment risks among Slovenian enterprises and banks, allowing them to supply competitive goods and services and increase sales by offering deferred payment. Credit insurance is a secure and price-competitive instrument that ensures economic security and effective risk management. In the small Slovenian market, three domestic insurance companies provide credit insurance services, and the SEC is the only insurer specialising in this field. The other two are general insurance companies where credit insurance (excluding retail and other credit) is marginal, representing a small share in their total portfolios.

Competition is relatively strong in the Slovenian commercial risk insurance market even though Slovenia is still not a member of the EU and is tightening further. There are a number of inferior substitutes, and the supply of credit insurance services directly from abroad is relatively extensive (as concentration is increasing, credit insurance is developing fast worldwide). Foreign suppliers, however, are likely to continue focusing on large enterprises which are operating in foreign markets, while small enterprises are not likely to attract the attention of foreign insurance companies in this small and demanding market.

Growth is set to pick up in 2004

The anticipated acceleration of economic activity in the world and Europe should boost Slovenia’s economic growth to around 3.6% in 2004. However, growth is still expected to be largely underpinned by domestic consumption fuelled by favourable lending terms, resulting from further falls in interest rates, as well as funds released from the first national housing savings scheme.

Economic policy will primarily focus on the fulfilment of the Maastricht criteria and entry into the ERM2, which is planned to take place in the second half of 2004 and Slovenia should join the euro zone at the beginning of 2007. As a result, inflation is expected to drop further, the Tolar’s depreciation should ease off, and the general government deficit should be maintained at around 1.7% of GDP. De-indexation of wages and some services will have to continue and the competitiveness of monopolies will have to be raised. Any rapid cuts in interest rates might be dangerous because they could cause a leap in household loans and, coupled with taxation of interest, undermine savings growth, which is still relatively strong.

Slovenia's accession to the EU is expected to help improve country risk rating and credit rating of banks and enterprises. Foreign investment should climb a s a result, while foreign owners are likely to close down or sell off some enterprises because of rising costs and the general tendency to move production facilities. Following the expiry of free-trade agreements, Slovenia's trading with the countries of fomer Yugoslavia is expected to fall and the share of trading with the EU is expected to rise to around 76% thanks to enlargement. Increased international competition is likely to turn over the current account surplus into a deficit, which should not exceed 1% of GDP before 2006.

Review of Operations in 2003

In 2003 SEC achieved its planned business objectives and **significantly increased the volumes of business** in all its business segments: insurance, financing and issue of guarantees for international business transactions.

- Total value of all insurance transactions (including own and state account business volumes) amounted to EUR 2,394 million (up by 39.2%), which accounts for approximately 17.3% of the estimated Slovenia's exports.
  - Insurance of export and domestic credits against marketable risks on own account rose by 42% to EUR 2,031 million,
  - Insurance against non-marketable risks on state account increased by 8% to EUR 807 million.

- With a 33% increase on the year before, mainly due to long-term financing of exports and investments, the year 2003 saw a considerable upturn in SEC financing operations, closing the year with SIT 97.6 billion (EUR 412.3 million) worth of export financing and other international business transactions.

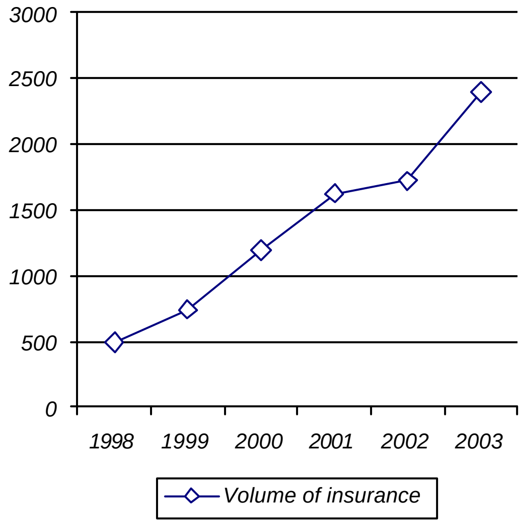
- Total value of issued guarantees went up by 51%, totalling EUR 41 million.

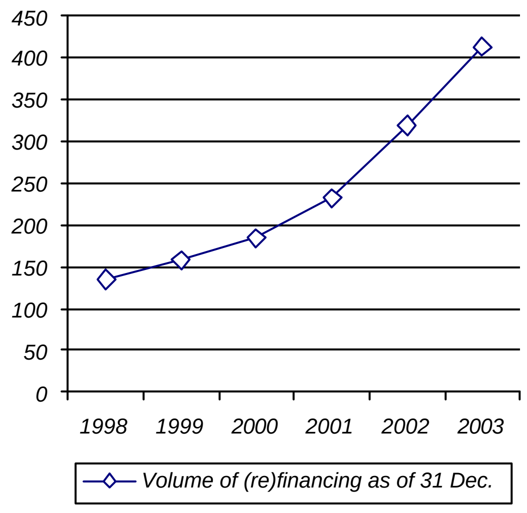
- Insurance on own account: – The gross loss ratio (excluding paid recoveries in the amount of EUR 1 million) was positive and stood at 68% (EUR 1.9 million). Total premium charged remained behind the volumes of business insured and reached EUR 5.8 million, whereas the paid claims in total value of EUR 3.9 million rose by 39% last year as a result of recession affecting some important markets.

- Insurance on state account: – The insurance result was also positive for insurance of export credits and outward investments against non-marketable risks. Premium charged reached EUR 6.5 million, and the claims paid amounted to EUR 416,000. The safety reserves for this type of insurance went up by EUR 10 million, closing the year 2003 at EUR 88.8 million (contingency reserves for insurance against exchange rate risks of EUR 4.7 million are included).

- Financing – In 2003 the interest income amounted to SIT 5,044 million (EUR 21.6 million), and the non-interest income was SIT 145.2 million (EUR 621,340).

Chart 2: *Volume of insurance and financing 1998-2003 (in EUR million)*





Last year the Corporation continued the implementation of the programme for borrowing on the international financial market, which began in 1999. In these markets, the Corporation contracted another long-term syndicated loan in the amount of EUR 100 million. Contracted 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 business transactions.

This announcement appears as a matter of record only | June 2003

SLOVENSKA IZVOZNA DRUŽBA

Slovene Export Corporation

EUR 100,000,000
Syndicated Dual Currency Term Loan Facility

Mandated Arrangers

Bank Austria Creditanstalt AG
SANPAOLO IMI S.p.A.

Arrangers

Banca Popolare di Verona e Novara S.c.r.l., London Branch
Bank [illegible], London [illegible]
BAWAG Bank für Arbeit und Wirtschaft AG
BayernLB
CAJA MADRID
CDC IXIS
Deutsche Postbank AG Luxembourg Branch
Erste Bank (Malta) Limited
Kommunalkredit Austria AG
Kreditanstalt für Wiederaufbau
LRP Landesbank Rheinland-Pfalz

Co-Arrangers

Baden-Württembergische Bank AG
Banca Monte dei Paschi di Siena S.p.A. Frankfurt Branch
Banque et Caisse d'Epargne de l'Etat, Luxembourg

Agent

Bank Austria Creditanstalt AG

Bank Austria Creditanstalt
SANPAOLO IMI

SID – Prvi faktor, d.o.o (SEC - First Factor, 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 per cent share of the nominal capital and a half of the voting rights in the company LB Factors, renamed last year as Prvi faktor, the other two shareholders being Nova Ljubljanska banka and its subsidiary LB InterFinanz, Zuerich.

Founded in 1994, LB Factors or Prvi faktor is the first and the leading factoring company in Slovenia which purchases short-term trade receivables and offers a full recourse and non-recourse factoring for domestic, export and import facilities, and is a member of the global network of factoring companies, Factors Chain International (FCI). Last year it expanded to Croatia, forming a subsidiary in Zagreb at the end of 2003, and to certain other south-eastern markets. At the beginning of 2004, its Shareholders' Meeting appointed a new Managing Director and set quite ambitious goals for the management.

Athough the knowledge of factoring in Slovenia is still fairly limited, this dynamic, flexible and comprehensive facility is becoming an important technique of external corporate financing, in particular for small, medium-sized and quickly growing companies, to which factoring brings the advantages of controlled cash flows and safe sales on open account. This is best proven by the growth of Prvi faktor, d.o.o. in the previous years. Last year alone, Prvi faktor purchased receivables in total value of EUR 82.7 million, a 27% increase on the year before. The biggest volumes were recorded in the area of domestic factoring (EUR 63.2.million). There was an increase in export factoring (EUR 14.6 million), but import factoring decreased (EUR 4.9 million).

Financial operations

Table 4: *Income statement summary for the year 2003 (in SIT million)*

	2001	*2002*	***2003***
net interest	*3.02*	*3.02*	***3.38***
net non-interest income	*0.81*	*1.30*	***0.88***
cost of labour, materials and services	*0.70*	*1.02*	***1.09***
depreciation	*0.07*	*0.07*	***0.08***
net provisions	*1.39*	*2.89*	***2.73***
profit before tax	*0.21*	*0.30*	***0.37***
income tax	*0.05*	*0.06*	***0.09***

The profit before tax for 2003 amounting to SIT 368,743 thousand increased by 23% compared to 2002.

Interest income totalled SIT 6.1 billion (an increase of 5%) whereas interest expenses dropped by 2.6% so that net interest income came to SIT 3.4 billion and was 11.9% higher than in 2002.

Taking account of estimated operating expenses and investment income, the technical result of short-term commercial insurance was SIT -1,095,003 thousand. Net income from insurance premiums was SIT 387,089 thousand, which was reduced by net expenses for claims incurred in the amount of SIT 1,357,558 thousand. Detailed presentation of technical result is available in 5.9. Notes to Financial Statements.

The most important item in net non-interest income is income from net fees and commissions. The largest, 47.6 per cent share in net fees and commissions income, which dropped by 7.9% on the year 2002 and totalled SIT 1.08 billion, is represented by net income from insurance premiums and commission, earned from insurance against short-term commercial risks (on own account). In this presentation the income, which in 2003 decreased by 30.1%, is further reduced by claims paid and allowances for recoursed claims, and are listed in the income statement under other operating expenses. Net premiums from insurance on state account represented 39% of the total commission income, commission income from financing made up 3.4%, and net commission income from issued guarantees accounted for 6.2% of the total commission income.

In 2003, operating expenses totalled SIT 1.17 billion and were 6.5% higher than in 2002. In the structure of operating expenses, labour costs accounted for 56.4%, cost of services 33.5, depreciation 6.8% and cost of materials 3.3%. The percentage of operating costs as of assets lowered from 1.15% in 2002 to 1.14% in 2003.

Net expenses decreased by 5.5% over the year 2002 and amounted to SIT 2.7 billion, of which SIT 1.4 billion went to insurance technical provisions.

Table 5: *Balance sheet summary for the year 2003 (in SIT billion)*

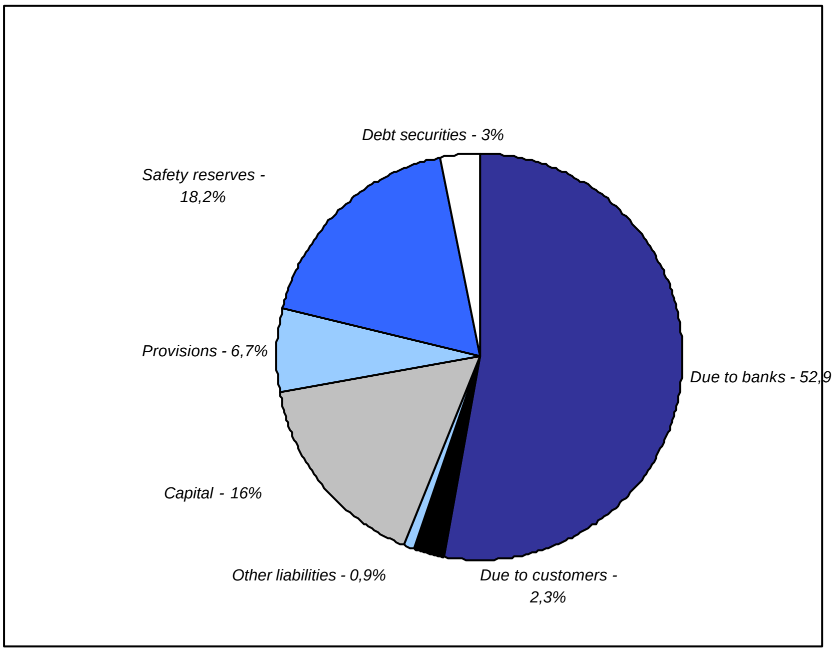
	2001	*2002*	***2003***
total assets	*55.76*	*88.37*	***115.44***
capital	*18.00*	*18.24*	***18.52***
provisions	*2.00*	*2.62*	***2.39***
insurance technical provisions	*2.57*	*3.97*	***5.38***
off balance sheet items	*5.70*	*21.29*	***26.31***

As of 31 December 2003, total assets of SEC stood at SIT 115.4 billion, an increase of 30.6% on the year before. In the structure of liabilities, the biggest share of 52.8% is taken up by liabilities to banks in the amount of SIT 61 billion, which went up by 57.8% in 2003. The highest percentage of total liabilities (49.7%) is debts in foreign currency.

Safety reserves for the state account insurance, including the special safety reserves for insurance against exchange rate risks, increased by 15.9% in 2003 and stood at SIT 21 billion (18.2%) of total liabilities. Long-term provisions, totalling SIT 7.8 billion, rose in 2003 by 18% and accounted for 6.7% of total liabilities. In this respect, insurance technical provisions rose to SIT 5.4 billion, and bank provisions amounted to SIT 2.4 billion.

At the end of 2003 the Corporation's capital and reserves stood at SIT 18.5 billion, which is 16% of total liabilities, and had increased by 1.5% through generated net profit.

Picture 3: *Liabilities structure as of 31 December 2003 (in %)*



The growth of total assets in 2003 again resulted from extensive financing activities. Loans to banks increased by 26.3% and amounted to SIT 89.9 billion, making up 77.9% of total assets. Loans to customers increased by 41.6% and amounted to SIT 14.8 billion, making up 12.9% of total assets. At the end of 2003 the Corporation had debt securities in the amount SIT 7.5 billion, which is 6.5% of total assets. An equity investment in the factoring company Prvi faktor d.o.o Ljubljana was SIT 0.4 billion, which made up 0.3% of total assets.

Picture 4: *Assets structure as of 31 December 2003 (in %)*

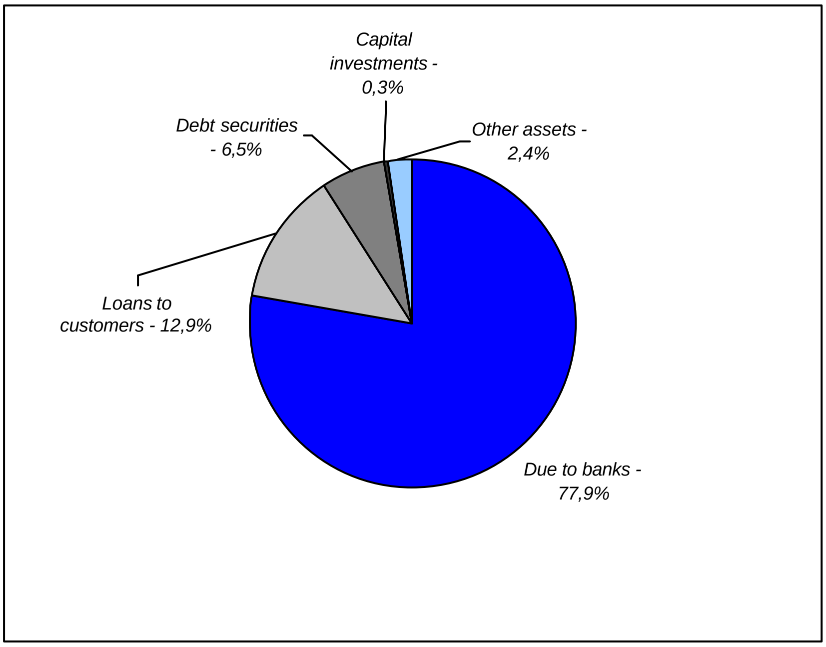


Table 6: *Selected figures*

	2001	2002	2003
number of employees	*56*	*69*	***74***
number of shareholders	*81*	*89*	***89***
number of shares	*932,354*	*932,354*	***932,354***
par value of a share (in SIT thousand)	*10*	*10*	***10***
book value of a share (in SIT thousand)	*19*	*20*	***20***
capital adequacy (in %)	*33.40*	*19.10*	***19.33***
doubtful and unrecoverable balance sheet receivables/assets (in %)*	*1.05*	*0.64*	***14.98***
provisions for balance sheet receivables/assets (in %)	*1.63*	*3.42*	***4.38***
interest margin (in %)	*6.43*	*4.28*	***3.37***
return on assets (ROA) (in %)	*0.44*	*0.42*	***0.36***
return on equity before tax – ROE (In %)	*1.22*	*1.65*	***2.01***
return on equity after tax – ROE (in %)	*0.94*	*1.31*	***1.52***
operating expenses / total assets (in %)	*1.58*	*1.51*	***1.25***

* High value of the index for 2003 is a result of implementation of internal guidelines on investment classification (all investments approved to non-bank customers are in the first half of contract period normally classified as Class B investments ranking among doubtful and unrecoverable receivables according to a Decision of the Bank of Slovenia and not as a result of an worsened investment portfolio).

Table 7: *Insurance on own account - key figures (2003/2002)*

		in SIT	2003	2002 *	2002
growth of gross invoiced premium (index)	gross invoiced premium in current year x 100 / gross invoiced premium in previous year	1,350,470,918 x 100 / 1,022,492,304	132	122	122
net invoiced premium as % of gross invoiced premium	net invoiced premium x 100 / gross invoiced premium	388,486,717 x 100 / 1,350,470,918	29	30	30
changes in gross claims paid (index)	gross claims paid in current year x 100 / gross claims paid in previous year	920.770.540 x 100 / 650,964,600	141	129	129
average indemnity (SIT) in SIT	gross claims paid / number of claims paid	920,770,540 / 150	6,138,470	7,938,593	7,938,593
loss ratio	gross claims paid / gross premium charged	920,770,540 / 1,350,470,918	0.68	0.64	0.64
operating expenses as % of gross invoiced premium	operating expenses** x 100 / gross premium charged	517,766.104 x 100 / 1,350,470,918	38.34	44.55	21.20
net loss provisions in % of earned premium	net loss provisions x 100 / earned premium	5,117,019,630 x 100 / 387,087,877	1322	1308	1308
average value of net technical provisions relative to earned premium	average value of net technical provisions x 100 / earned premium	4.671.980.545 x 100 / 387,087,877	1207	1065	
gross premium charged relative to number of employees (in SIT)	gross premium charged / average number of employees	1,350,470,918 / 17	79,439,466	68,166,154	

Indices for 2002 are re-calculated in accordance with the Decision Amending the Decree on Annual Reports of Insurance Companies (Official Gazette of RS, Nos. 36/03 and 129/03).

*** Operational costs comprise operating expenses with regard to insurance on own account and were estimated by applying a special methodology.*

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 pursuant to Article 171 of the Insurance Act and the Decision Amending the Decree on Annual Reports of Insurance Companies - SKL 2002, subject to Article 355 of the Insurance Act.

Insurance

With its insurance services and a pro-active marketing approach SEC has managed to develop domestic market and increase companies' demand for credit insurance in just over 10 years of its operation.

The use of SEC services in domestic market is increasing, both in frequency and in scope. The majority of big Slovene exporters who are well aware of the importance of effective risk management consider credit insurance as a major tool of risk management. This is the result of intensive structural changes in Slovene economy, which is successfully completing transition and entering an era when risk management will play an ever more important role. Companies and their management will not only focus on production and sales, but also on ensuring adequate protection against risks of non-payment, which are caused by the increasing demand in domestic and foreign markets that the goods and services be sold on credit or by deferred payment, under highly competitive conditions and even on open account, without expensive warranties that would ensure fulfilment of obligations by buyers – debtors.

Growth of Insurance Volume – 17% of Total Slovenia's Exports Covered

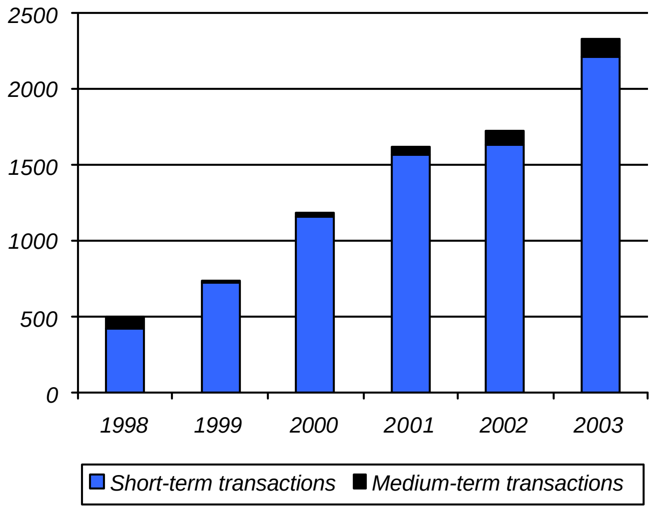
In 2003 there was a considerable increase in the Corporation's insurance business evident in the total value of insurance operations which:

- grew by 39.2%, and
- amounted to EUR 2,394 million.

Although the volume of operations insured by SEC has been rising for a number of years, 2003 was the first year when it exceeded EUR 2 billion, which is over 17% of the total Slovenia's exports made in that year.

The share of SEC-insured exports in the total Slovenia's exports to foreign markets also gained in importance. In 2003, SEC covered 24.4% of total exports to Croatia, 21.5% of exports to Russia, 26.7% of exports to Hungary, 36% of exports to Algeria, etc. A considerable part of Slovenia's exports, especially to higher risk markets, would most certainly not have been realised without SEC insurance and the exporters could not have offered competitive finance conditions in selling their products. Consequently, the Corporation plays a very important role in opening certain markets for Slovene corporate sector, and contributes to a more favourable balance of payments and higher level of employment in the national economy.

Chart 5: *Insurance on SEC own account and on account of the Republic of Slovenia: short-term and medium-term insurance transactions for 1998-2003 (in EUR million)*



In 2003 there was an unexpected rise of 39.2% in business insured, resulting from the increased volume of both short-term export credit insurance and insurance of medium-term transactions. The growth of short-term insurance is believed to result from completed transition and better risk management, and in particular from better awareness of the risks of non-payment and the consequences brought about by recession, bankruptcies and losses in markets which are of high importance for Slovene economy, especially in Germany, Austria and Italy.

On the other hand, increased volumes of medium-term insurance mainly resulted from increased demand for export insurance to the Russian Federation and other CIS countries, as well as from a number of transactions effected in Croatia, Serbia and Montenegro and a major deal in India. As regards traditional medium-term export credits (supplier credit and foreign buyer credit), nearly EUR 80 million worth of business was insured in 2003 (the figure only includes the principal, without insured interest or prepayments by foreign buyers), showing a substantial increase on the year 2002. Exceptionally high growth was again recorded in the field of insurance of investments of Slovene companies and banks in foreign markets, with insurance transactions amounting to EUR 100 million, a 43% increase on the year before. Stable growth in insurance of domestic short-term credits was maintained in 2003, evident mainly in the share of total short-term business transactions insured by SEC on own account, which rose from 16% in 2002 to 19% in 2003. Similar growth trends were also seen in insurance of short-term export credits against commercial (non-marketable) risks in certain higher risk non-OECD countries, where this type of insurance is performed on account of the state.

Table 8: *Business insured: volume, premiums, claims for 1998-2003 (in EUR million)*

	1999	***2000***	***2001***	***2002***	***2003***
Business insured	*738.5*	*1,191.6*	*1,624.0*	*1,719.6*	***2,393.5***
short-term transactions	*719.4*	*1,154.3*	*1,561.3*	*1,629.8*	***2,215.6***
medium-term transactions	*19.1*	*37.3*	*62.7*	*89.8*	***177.9***
Premiums	*3.7*	*5.6*	*6.7*	*7.7*	***12.3***
short-term transactions	*2.8*	*4.8*	*5.3*	*6.1*	***7.9***
medium-term transactions	*0.8*	*0.8*	*1.3*	*1.6*	***4.4***
Claims	*2.5*	*1.8*	*2.5*	*3.4*	***4.3***
short-term transactions	*0.5*	*1.4*	*2.5*	*3.3*	***4.3***
medium-term transactions	*2.0*	*0.4*	*0.0*	*0.1*	***0.0***
Recoveries	*-*	*0.4*	*0.2*	*1.1*	***1.1***
short-term transactions	*-*	*0.1*	*0,2*	*0.6*	***1.1***
medium-term transactions	*-*	*0.3*	*-*	*0.5*	***0***

The majority of the transactions insured in 2003 were short-term but the value of insured medium- and long-term transactions was on the increase, mainly due to higher volume of investments insured, and amounted to nearly EUR 180 million (promises of insurance excluded). As EU Member States and OECD countries are the most important Slovenia's partners in foreign trade, the majority of insured exports were to these countries. In line with the increased export to countries of SE Europe, CEFTA and Russia, the volume of insured transactions with these countries increased accordingly.

- Higher volume of business insured and its changed structure in favour of higher risk transactions led to a rise in the total premium charged, which rose by 59.7% to EUR 12.3 million in the year 2003. The majority of the premium came from insurance of short-term credits (EUR 7.9 million) and the rest (EUR 4.4 million) was generated from insurance of medium-term credits and investments.

Even though the total premium charged rose by nearly 60% in 2003, there was a slight decline in the average premium rate for insurance of short-term credits, mainly because the Corporation had acquired as its clients several large Slovene and multinational companies which, by various methods and efficient risk management, lower their inherent transaction risks which, along with higher volume of business insured and diversification of risk portfolio, leads to a decrease in average premium rate.

in 2003 no substantial claims were paid for medium-term credit or investment insurance, but in the field of short-term insurance transactions claims paid rose by 30.3%, largely on account of recession affecting certain important Western European markets (claims paid to cover non-payment by Slovene companies - domestic sales – were up 2.5-fold) and amounted to EUR 4.3 million. At the same time the value of recovered claims increased, totalling EUR 1.1 million.

Short Term Credit Insurance (Commercial Risks)

This type of insurance, which is currently provided by the ST Credit Insurance Department, will be the main business activity of the newly established Corporation's subsidiary, a specialised credit insurance company, to which the Corporation will transfer the marketable risks insurance operations. At the end of 2003 there were 18 employees working in this department.

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 or abroad at deferred payment and, normally, on open account. The insurance contracts are normally made on a whole turnover revolving basis covering risks of non-payment in foreign and domestic markets. As for this type of insurance, SEC is the leading insurance company in Slovenia.

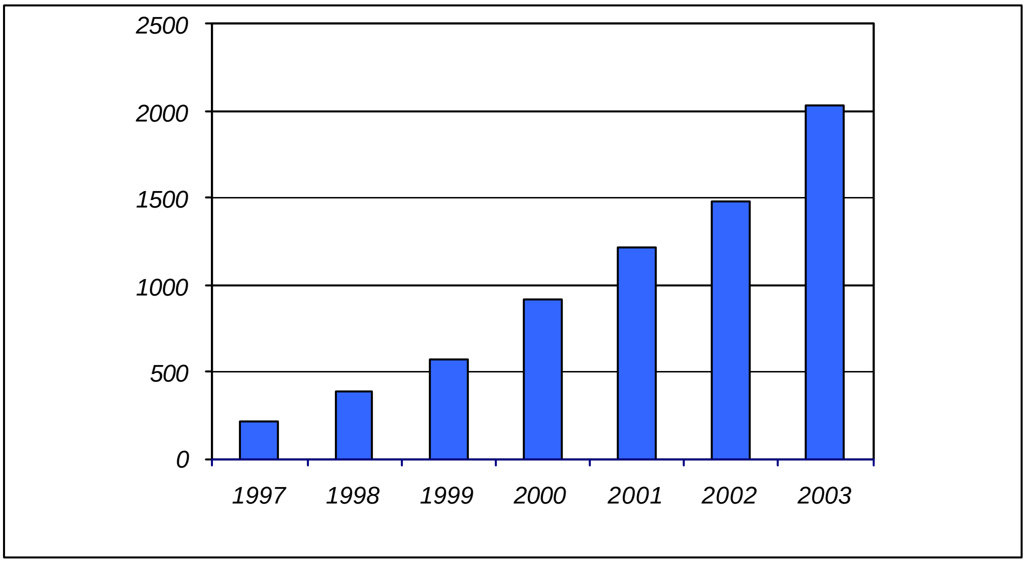
Growth of Volumes

The insurance of short-term export and domestic credits against commercial risks increased by 36% in **export credits** and by 73% in **domestic credit insurance**, which was considerably higher than the growth rate recorded in total Slovenia's credit insurance volume.

The value of business insured against short-term commercial (marketable) risks, insured on own account and reinsured in the private markets with first-class foreign and domestic reinsurers, increased significantly (by 42% compared to 2002) and amounted to

- **SIT 474.6 billion (EUR 2,031 million).**

Chart 6: *Business insured – short-term commercial (marketable) risks, 1997-2003 (in EUR million)*



Slovenia's international trade shows a very diversified structure of products, economic sectors and partnerships although the majority of exports go to the developed EU and the neighbouring markets, and a small part of exports go to the countries of South Eastern, Central and Eastern Europe. Geographical distribution of Slovene exports is reflected in the geographical destination structure of insured exports.

In 2003 the majority of export credits were insured against commercial (marketable) risks of buyers in Slovenia and Germany, followed by Italy, Croatia, Austria, France, United Kingdom, Hungary, Poland, Netherlands etc. Policy holders mainly came from metal and metal-working industry, manufacturers of electrical and optical devices, household appliance producers, machine engineering, vehicle and vessel producers, chemical industry, paper and wood industry, etc.

SEC clients are many large and important Slovene exporters, but the number of medium and small enterprises which are granted the same treatment as the large companies is also increasing.

SME Programme and Co-operation with PCMG

In addition to implementing a special SME Programme, designed to facilitate access to insurance and financing facilities for small and medium-sized enterprises, SEC strives to further improve its services for SMEs in co-operation with the Slovenian Enterprise Promotion Center (PCMG) as these enterprises need financing as well as effective cash flow and asset management in order to successfully overcome the ever-present risks of non-payment and late payment. As it is, claims on buyers represent a substantial part of the companies' assets. The Programme gives small and medium-sized enterprises an opportunity to access credit insurance through regional development centers (PCMG) where they will be able to obtain all the needed information on SEC services and insurance procedures.

A significant rise of 22% was recorded in **exposure** from the insurance against short-term commercial (marketable) risks, reaching SIT 219 billion (EUR 926 million) on 31 December 2003. Exposure was highest among buyers from Slovenia and Germany, followed by those from Italy, Croatia, Austria, France, the United Kingdom, Poland and Hungary. In 2003 SEC insured exports against short-term commercial (marketable) risks to 66 countries.

Table 9: *Insurance: business on own account, 1997 – 2003 (in EUR million)*

	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
business insured	*217*	*390*	*572*	*914*	*1,219*	*1,480*	***2,030***
exposure (31 Dec.)	*92*	*142*	*255*	*384*	*520*	*760*	***926***
premiums	*0.8*	*1.4*	*2.2*	*3.3*	*3.9*	*4.5*	***5.8***
claims paid	*0.3*	*0.4*	*0.5*	*1.3*	*2.3*	*2.9*	***3.9***
number of claims	*4*	*13*	*28*	*66*	*68*	*82*	***150***
recoveries	-	*0.1*	*0.1*	*0.1*	*0.2*	*0.6*	***1.0***

Slovene companies are becoming increasingly aware of the usefulness of export insurance and of the advantages it brings in comparison to other instruments of protection against non-payment. Credit insurance is a secure, price-competitive and relatively simple instrument of protection against risks of non-payment which facilitates risk management and competitive sales on credit and on open account, without additional warranties which would otherwise need to be provided by buyers (debtors). In addition, Slovene enterprises have realised that the risks of non-payment and insolvency may also occur in the markets of developed countries, and that without adequate protection these risks may pose a serious threat to the profitability of their business and even their existence. In part, the increased volume of this type of credit insurance results from the enterprises' negative experience with bankruptcies and bad payment discipline in Slovenia, but it is also promoted by SEC extensive marketing activities and increased interest of commercial banks and other financial institutions in additional forms of insurance applied in financing their own clients. After eleven years of SEC operation it can be concluded that the company has succeeded in developing Slovenia's credit insurance market, which is becoming an increasingly important factor in the risk management of companies.

TRIMO: High Performance and Growth of Sales, with SEC as a Partner

In 1998, Trimo, d.d., one of the leading European producers of metal constructions, decided to transfer the management of risks of non-payment from foreign buyers onto SEC, with which it concluded a credit insurance contract. Having signed the insurance contract with SEC, Trimo was able to fully devote its valuable time and resources to its core business activities, gaining footholds in new markets, acquiring new customers, to new ideas and development. In the same year, Trimo expanded its insurance cover to include the sales of its two daughter companies in the Slovak Republic and Germany. In 1998 Trimo had a turnover of SIT 6.9 billion, most of it generated in foreign markets, and its sales grew year by year, which was also reflected in the increased volume of business insured by SEC. A year later, Trimo filed its first claim due to the bankruptcy of a buyer from Germany, and in 2001 the second claim when his buyer from the Czech Republic was more than 6 months late with payment. In 2002 when the total Trimo turnover rose to SIT 15.2 billion the company had another insured event, again caused by late payments of a Czech customer. In all the mentioned claims, SEC paid out the indemnity, which enabled Trimo to control its liquidity and protect its balance of payment which could have become rather vulnerable on account of outstanding balance.

Trimo has adopted credit insurance with SEC as part of its business strategy and operates in line with its belief that all sales on credit or on deferred payment, if made on open account and without additional warranties, need to be insured. Whenever Trimo operations have expanded to new markets and new customers, the company has included these into its insurance cover. In addition to sales in foreign markets, Trimo's insurance policy also covers sales through its subsidiaries at home and abroad.

When Trimo took over the company Akripol d.d. Trebnje, which has had a credit insurance contract with SEC since 1997, SEC granted more favourable conditions also for Akripol as the two companies are now regarded as a group.

Since Trimo is well aware of the importance of non-payment risks in the domestic market, which is seriously affected by bad payment discipline, numerous forced settlements and bankruptcies, it started in 2003 the activities for expansion of its insurance cover to include credit insurance to Slovene buyers. In co-operation with SEC, Trimo will use high security of its business operations as its advantage in further maintaining and increasing the sales in the domestic, European market and in the non-EU countries.

With its offer of credit insurance, SEC reaches beyond the borders of Slovenia's market. It has started to offer its services also outside Slovenia, acting both as a primary insurer and as an active reinsurer. In 2001 SEC concluded a contract on quota reinsurance of short-term export credits with MBDP Macedonia, the financial institution which insures credits of Macedonian exporters against commercial risks of private buyers from developed countries. In this project, SEC provided technical support – advice in risk underwriting – and transfer of information system technology. Nevertheless, SEC continues to be responsible for the assessment of risks for individual buyers and the decisions on entering into an insurance contract. Owing to the current situation in Macedonia, the volume of operations remains rather limited.

Solid Insurance Result

With a 32% increase on the year 2002 (28% in export credit insurance and 54% in domestic credit insurance), the premium charged in insurance against short-term commercial risks on SEC own account did not keep up with the overall increase in the company's business volume, and at the end of 2003 reached

- **SIT 1,350 million (EUR 5.8 million).**

In 2003 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. The subject of the treaty was the risks assumed directly and the risks assumed with the agreement on active reinsurance between SEC and MBDP. The premium paid for this reinsurance in 2003 amounted to

- SIT 962 million (EUR 4,1 million).

Owing to the continued slowdown in some important markets, claims paid from insurance of short-term credits against commercial risks on own account increased in 2003 by 37%, rising at a higher rate than the premiums. In 2003, 150 claims arising from this type of insurance were paid

- **in the total amount of SIT 921 million (EUR 3.9 million).**

Most claims were paid for the transactions in Italy, Slovenia, Germany, France, Croatia, Poland, Czech Republic, Austria, Slovak Republic, United Kingdom, Turkey, USA, South African Republic, Greece, Israel, Portugal, Canada, Estonia, Switzerland, Belgium, Hungary and Spain.

The result for this insurance (measured as the ratio between premiums and claims, without recoveries which increased last year and reached EUR 1 million) was **positive**, rising to the amount of EUR 1.9 million. The insurance-technical result was even better than the year before, and the claims paid for this insurance in 2003 made up 68% of the total premium charged. Some claims, arising from insurance transactions of 2002 that were in process or recorded as potential claims on 31 December 2003, will be paid out in 2004.

Besides, last year SEC was quite successful in debt collection so that the **recoveries** arising from insurance against short-term commercial (marketable) risks nearly doubled. SEC received 54 recoveries in the total amount of EUR 1 million (15 recoveries from Italy and Slovenia, 14 from Poland, 3 from Sweden, 2 from Germany and Croatia and one from Turkey, Czech Republic and the USA).

Recently, SEC has given a lot of attention to reducing potential daims, both before the claim for insurance benefit is submitted and after its initial submission. Working with the insured, the Corporation tries to secure payment from the date when it is first informed that the insured credit was not settled in due time. It is estimated that in the previous year alone this practice has helped the Corporation to prevent claims in the amount of 6-8% of the total claims paid in 2003.

E-Business: SID-NET

On-line Business Brings New Opportunities

For the Slovene corporate sector and providers of financial facilities, e-business (B2B and B2C) is not only a thing of the future or a new challenge, it is already a fact. E-business brings major changes also to the field of credit insurance and other activities of export credit agencies. Development of e-business has been redefining the role and importance of various market participants and financial products, causing changes in communication with customers and in the offer of insurance and financial services providers. Answering the challenges of the on-line business, suppliers of financial products and services and several insurers have begun to offer new products and/or break the existing products down into smaller products and offer separately the services of risk management, insurance cover, credit rating and other information as well as supporting services such as debt collection. The use of the internet and other contemporary tools enable companies to promote their products and services, facilitate collection and processing of information, lower operating costs, shorten response times, and offer quality custom-made products and services.

Quick and Safe Access to SEC Facilities

SEC has answered the challenges posed to export credit agencies by e-business by developing a system called SID-NET, which enables companies to operate through the internet and ensures safe, quick and effective on-line access to SEC facilities.

Easier Operation and Better Risk Management

SEC clients, registered users, consider e-business a new distribution channel which, primarily in the field of short-term credit insurance to foreign and domestic buyers, enables the following:

- quick and safe acquisition of quality and up-to-date credit rating information on buyers, debtors and guarantors from numerous databases and supported with additional analyses, based on the high professional standards used by the SEC credit rating department;
- credit rating information, supported with credit limits for individual buyers (discretionary limits) and secured through the insurance cover limit, up to which SEC is willing to insure credits to a debtor;

SID-NET also provides companies with:

- automatic access to all relevant information on their transactions with SEC (registration with user name and password);
- access to all relevant information produced in the process of SEC operations with the use of simple software and no additional software costs.

SID-NET and Insurance of Short Term Credits

The on-line insurance of short-term credits provides:

- user-friendly credit limit application procedure, with automatic application processing and approval of credit limits;
- review of approved limits and applications in process;
- reporting to the insurer on applications for credit limit increase, changes of payment terms, late payments, etc.;
- regular (monthly) declarations of sales (new credits).

Advantages of SID-NET

Companies will benefit greatly from using SID-NET, as:

- response times will shorten, since their applications for insurance or financing will be processed in a shorter period of time,
- they will be able to perform their operations more quickly and at lower costs;
- e-business will facilitate document handling by offering daily insight into their operations with SEC in all phases (e.g. insurance application, offer and entering into insurance contract, declarations of sales, payment of premium, monitoring of risks, handling and liquidation of claims, collection of debts, recoveries, etc.);
- risk management in companies will be simplified, even though personal contacts with the insured and external provider of funds will not lose in importance, thus providing SEC clients with quality services under the conditions which are only offered by several credit insurance companies and other financial institutions in the world.

Credit Rating and Other Credit Information

Insurance of export and domestic credits and investments abroad, issue of 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 operate in a highly competitive, dynamic, rapidly changing and uncertain environment, which requires from them to be well-informed and to respond quickly and adequately to the ever-changing situation on the market.

Aware of these requirements, SEC continued to develop its own Credit Rating Department also in 2003. In its work, the department uses up-to-date professional methodology of risk assessment, internal information system, existing and regularly updated 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, which is also exchanged among the members of the Berne Union.

In assessing country risks of foreign markets, SEC, in co-operation with certain ministries and diplomatic consular representatives, works closely in particular with the Centre 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 regularly updates the lists of acceptable banks in individual countries and their approved limits. For the purpose of issuing guarantees and some types of insurance, the department prepares credit rating reports and suggested credit and exposure limits. Additionally, the Corporation provides such information to other domestic and foreign financial institutions whose interest in credit rating information is increasing, in particular as regards information on certain markets, companies and banks in Slovenia and in those countries of South Eastern, Central and Eastern Europe where Slovene enterprises have gained rich experience, and where SEC has gained specific information and experience in performing insurance services.

Credit Rating Information on Companies and Banks

In addition to country risk assessments and information on individual markets, SEC clients and other customers can order with SEC credit rating department:

- credit information on Slovene companies,
- credit information on Slovene banks,
- credit information on banks, in particular those from South Western, Central and Eastern Europe,
- credit information on companies, in particular those from the countries of South Eastern, Central and Eastern Europe.

Access to Credit Information via the Internet

Credit Rating Department services were the basis for the transfer of SEC operations to e-business platforms. As a result, credit information on Slovene companies, prepared by SEC, is now readily available to registered users also via the internet. The Corporation has established connections with the best providers of credit rating and other credit information for individual markets and created extensive and up-to-date databases and links which are supported by analyses carried out by the Corporation's own experts. Registered users are thus provided with a fast and safe access to quality and up-to-date information, in particular with regard to Slovene companies, which enables SEC clients better performance, faster decision-making with regard to business operations, assumption of insurance-related risks, definition of underwriting conditions and risk monitoring.

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

Business Insured on Account of the Republic of Slovenia

With the exception of 2002, the volume of business which SEC as the Slovene export credit agency insures on account of the state due to special nature of political and other non-marketable risks and because of limited capability and willingness of the private reinsurance sector to undertake insurance on state account, increased again in 2003 as it has in all the years since the Corporation was established. In 2003 the volume of credits and investments insured on state account was EUR 806.6 million (8% increase on 2002 when insurance on state account totalled at EUR 748.8 million).

The main reason why the growth rate in insurance on state account does not keep up with the growth of total volume of SEC business insured, which also includes insurance covers on own account (marketable risks), resulted from the lack of interest of exporters to insure against political risks in the OECD countries. The volume of insured short-term export credits against political risks reduced in 2003 by an additional 15%, showing that with the accession of Slovenia to the EU these risks are in fact becoming trivial. On the other hand, strong growth was recorded in other types of insurance that SEC performs on state account, in particular in high-risk and long-term transactions which have entirely compensated the drop in insurance of short-term export credits against political risks. The volume of medium-term insurance, including investment insurance, increased in 2003 by 98%, and the volume of short-term insurance against commercial, non-marketable risks rose by 49%.

In 2003 the volume of export credit and investment insurance against non-commercial risks and against medium-term commercial and other non-marketable risks on account of the state was again higher than in the year before, and

- **amounted to EUR 806.6 million.**

This means that through SEC the Republic of Slovenia, according to the official preliminary estimations for 2003, supported nearly 6% of total Slovenia's exports of goods and services, the percentage being even higher in certain higher-risk countries. With these state insurance capacities, foreign markets are open to the Slovenian corporate sector. Furthermore, this insurance provides companies with the much needed economic security and with external financing of international transactions, thereby ensuring competitive advantages of Slovene exporters in demanding foreign markets and promotion of exports and investments. All in all, this promotion has favourable effects on the balance of payments and encourages economic growth and employment. Without adequate insurance against commercial and political risks companies would not be able to fully take advantage of business opportunities, and many transactions, in particular medium-term projects, could not be executed.

The volume of business insured by SEC on state account was also caused by extensive marketing activities targeted at enterprises and banks, better knowledge of exporters about the services and products provided by SEC and improved economic and political conditions in certain markets (CIS countries).

Trends and Future of Non-Marketable Risks Insurance

A drop in the business insured on state account was expected to follow diminished demand for insurance of short-term export credits against political risks in the markets of developed countries where these risks are practically negligible. Considering that the trend of decreasing insurance volume for exports to developed countries against political and other non-commercial risks is expected to continue, and even strengthen after Slovenia's accession to the EU, these political risks will remain part of the insurance cover, but will be treated as marketable risks insured by SEC on own account and reinsured in the private insurance market.

Growth of business volumes on state account will be generated by an increased demand for medium-term export credits and outward investment insurance as well as for insurance of short-term export credits in package with insurance against commercial and non-commercial risks (non-marketable risks) in non-OECD countries. The interest and capacities for the mentioned types of insurance in the private (re)insurance market are limited so that the role of the state and its insurance capacity will be crucial for Slovene economy. A decline of an additional 15% (compared to the year 2002 when the drop exceeded 25%) in short-term export credit insurance against political risks in developed countries was toned down last year and fully compensated by other types of insurance on state account. In this respect, the volume of insurance of medium-term export credits and investments plunged in 2003, rising by 98% and reaching EUR 178 million, insurance volume of short-term export credits against commercial and non-commercial risks in non-OECD countries rose in 2003 to EUR 169.9 million and SEC finished the year with 1,059 approved buyer's limits on state account which is 17% more than at the end of 2002, and the figures are still 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 in importance against insurance of short-term export credits against political risks in developed countries.

Short Term Export Credit Insurance on State Account

The structure of Slovene economy, having relatively few producers of equipment and other capital goods, is reflected in the structure of insured export transactions with consumer goods and durable consumer goods, normally sold on short-term credits, taking up the main part of the export insurance volume. Therefore, short-term credit insurance is the predominant element of business insured by SEC, in particular in developed countries.

In 2003 insurance of short-term export credits against non-commercial risks still represented a high 58% (a drop from 73% in 2002) of all insurance performed by SEC on account of the state and amounted to EUR 464.6 million. In view of the destination structure of Slovenia's exports, being predominantly oriented to markets in the EU and other developed countries, and the fact that these transactions are normally included in a comprehensive cover against commercial and non-commercial risks performed by SEC on state account, it is quite logical that the majority of insured short-term credits are extended to buyers from developed countries. The majority of exports covered went to Germany (EUR 105 million in 2003, and EUR 144 million in 2002), Italy (EUR 84 million), France (EUR 48 million), Croatia, Austria, Sweden, USA, Netherlands, United Kingdom, Switzerland, etc.

As already mentioned, short-term export credits insurance against commercial (non-marketable) risks in certain higher risk, non-OECD countries is gaining in importance. Its volume rose to EUR 164 million last year, and the growth is expected to continue in the coming years. Under this scheme, exports to the following countries were insured in 2003: Russian Federation (EUR 39.3 million or 25.5%), B&H (EUR 38.9 million or 25.5%), Serbia and Montenegro (EUR 34 million), Romania, Macedonia, Bulgaria, Ukraine, Belarus and Iran.

Medium Term Export Credits

Unlike in previous years when investment contractors were mainly focused on making the most of the opportunities arising from large investment projects in Slovenia (highways, investments into energy industry and infrastructure), in 2003 investors became actively involved in foreign markets, for the first time since SEC was founded and Slovenia became an independent state. Increased demand for insurance and financing of these transactions was maintained throughout the year, coming mainly from companies investing in Russia and other countries of the CIS market. In 2003 positive economic indicators, resulting from favourable prices of raw materials as a Russian export product, along with the strong ruble and continued implementation of internal economic recovery, attracted foreign investors, companies and banks for the first time since the Russian financial crisis of 1998.

Normally, preparations for such transactions are rather time-consuming; nevertheless, in 2003 SEC managed to realise EUR 35 million worth of medium-term export credit insurance in Russia alone, in particular in the construction industry (high construction buildings), and exports of furniture and telecommunications equipment. The year ended with EUR 60 million in insurance offers and the enquiries for medium-term export credit insurance in Russia rose to EUR 800 million.

For reasons arising from the state of Slovene economy and on account of political and economic conditions, especially as regards medium-term export credit insurance in markets which are, besides CIS markets, of particular importance for Slovene economy (sluggish economic growth and reduced inflow of donations into Bosnia and Herzegovina, slow privatisation of the banking sector and other transition-related issues in Serbia and Montenegro, reduced demand for export insurance in oil producing countries, etc.), medium-term export credit insurance does not represent a significant part of total business insured by SEC on account of the state. In 2003 the total value of 45 new medium-term export credit insurance contracts amounted to EUR 79.1 million 9.8% of the total business insured on state account), whereby only the principals of these contracts, approved to cover financing of medium-term export transactions, were taken into account and not the advance payments and contractual income. It should be noted that due to a small number of completed, potentially large projects, the volume of this insurance can easily be affected by the importance of a larger deal, making the year-to-year comparison and trend analyses difficult.

Slovene Construction Companies in the Russian Market

For reasons mentioned, the Russian market has again become very interesting for foreign companies, its attraction further enhanced by improved country risk assessments as the essential piece of information in determining the height of premium for assumed risks. With Russia improving its country risk status by two classes, the price of export credit insurance dropped. In general, foreign lenders decreased their prices for loans to Russia and extended loan maturity. This contributed to the attractiveness and the possibility of obtaining long-term credits for transactions in Russia, primarily intended for investment operations and exports of equipment and other capital goods. National export credit agencies have maintained their crucial role in providing for insurance of these loans since exporters to the Russian market and the banks granting loans are still not willing to assume such risks, or their capacity is limited to a few leading or strongest Russian companies.

Besides certain other economic branches, Slovene construction industry expanded its activities in the Russian market in 2003. With regard to short-term export credit insurance, the year 2003 can even be called »the year of Slovene construction companies in the Russian market«.

In addition to the well-known Hotel Budapest in the centre of Moscow, which is being renovated by Riko Inženiring, Ljubljana-based company Energoplan, in co-operation with SEC, executed two large projects in the total amount of USD 25 million (construction and installation works and supply of equipment for a business building in a high-class part of Moscow, and construction of a printing house in Krasnogorsk), Velenje-based company Vegrad carried out two projects in the total amount of nearly USD 5 million (car sales & service centre, fitness centre in Moscow) and Smelt won the project for construction of a new border crossing Gukovo between Russia and Ukraine, worth nearly USD 7 million even though the actual demand was much higher. SEC ended the year 2003 with over EUR 800 million worth of export transactions to Russia in different processing phases, of which transactions in the minimum amount of at least EUR 350 million can be considered very promising. As it is, such export transactions would require long-term lending to Russian buyers.

Normally, such projects are financed through credit to foreign buyer or bank, which is granted by one of the banks (Nova Ljubljanska banka, d.d. for all mentioned cases, except for the Hotel Budapest project), which means that a Slovene exporter obtains funds for works done or equipment delivered immediately upon the fulfilment of its obligations, and the borrower (buyer of its bank) pays off the credit insured by SEC over the agreed period. Despite complex preparations which are necessary on account of the scheme and a large number of participants, this insurance operation brings numerous advantages to the exporter, as the exporter does not bear the risk of credit non-payment, and the credit does not affect its financial results.

The reputation that these projects won for Slovene economy, engineering enterprises, equipment suppliers, civil engineering enterprises and Slovene banks, becoming actively involved in financing of large and more complex operations in foreign markets, shall stand them in good stead for acquiring new projects in the fast-growing and sizeable Russian market.

In 2003, the largest project to be financed by medium-term credit was concluded in Russia, its principal amounting to EUR 12.6 million. In that year, insurance of medium-term export credits was also concluded for exports to Croatia, Ukraine, India, Kazakhstan, Serbia and Montenegro, Bosnia and Herzegovina and Egypt, the goods in question being telecommunications equipment and various investment operations.

Supporting Exports of Slovene Technology

Since one of the priorities of the Slovene foreign trade policy is supporting exports of equipment and transfer of technology and know-how as high value added products, such transactions represent a significant share of the overall SEC insurance activities on account of the state. So, for instance, the insurance of medium-term credits for exports of telecommunications equipment to the countries of Eastern and South Eastern Europe has been the most important export product of SEC throughout its existence. In 2003 the Corporation provided support to 15 projects in the total value EUR 42 million for exports of Slovene-made equipment to Ukraine, Kazakhstan, Serbia and Montenegro, Russia, Iran, Egypt, Croatia and Bosnia and Herzegovina.

Besides Iskratel, traditionally the biggest user of these facilities, SEC has long cooperated with Maribor-based TSN and its associated companies (Elko Maribor, IMP Telekom Ljubljana). So far, SEC has insured 29 projects for these companies, supporting in 2003 alone 9 projects in the amount of EUR 5.7 million, in the markets of former Yugoslavia (Croatia, B&H, Serbia and Montenegro) and Iran. The projects insured were exports of broadcasting equipment, that is transmitters, transformer stations and similar equipment. Supplier credit was applied in these deals in which, contrary to the foreign buyer credit, the exporter finances the buyer by selling him the goods on deferred payment or long-term consumer credit, and insures these claims with SEC. On the basis of insured credit or SEC insurance policy, exporter can obtain finance from favourable sources with the banks, and uses the insurance policy as an additional guarantee of bank loan by assigning the insurance policy rights onto the bank.

In 2003 SEC insured the claims arising from the sale of EUR 1.9 million worth of broadcasting equipment (broadcast transmitters) which IMP Telekom has supplied to a Croatian company Odašiljaci i veze from Zagreb. The buyer paid a 15% advance payment, as agreed, and will settle the remaining part of the amount in several monthly instalments. SEC concluded insurance on this credit without requiring any additional bank guarantees.

In addition to the mentioned 9 projects, SEC insured for TSN company also its acquisition of a Serbian company specialising in similar products, against political risks in that market.

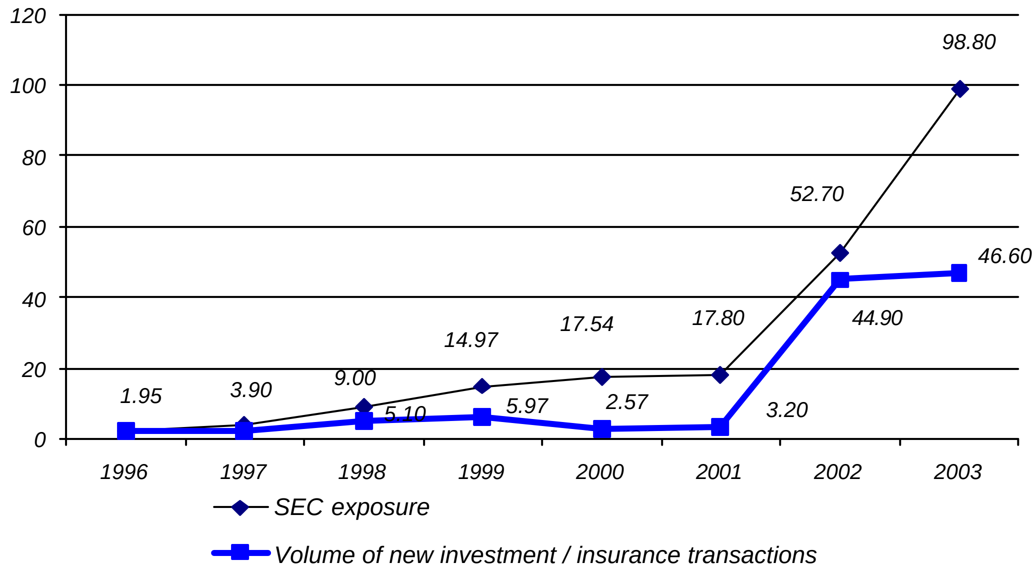
In 2003 SEC supported Iskratel in two projects in Ukraine (USD 25 million), in Russia (two projects in the total amount of USD 12 million) and in Kazakhstan (project worth USD 5 million).

Since at the end of the year 2003 the volume of valid insurance offers regarding these projects was as high as never before and a significant increase in the demand can be expected to occur in 2004, exceeding EUR 100 million. The trend will be further enhanced by the revitalization of certain traditional markets as well as the recovery and growth of economy and investment operations in the countries of Eastern Europe.

Investment Insurance

In recent years, Slovene companies have intensified their investments in foreign countries, in particular in the countries of South Western, Eastern and Central Europe. The increase in direct outward investment has led to the growth of insurance against political risks, which amounted to EUR 98.8 million in 2003. In addition to investments insured in 2003, SEC finished the year with eight other applications for insurance, totalling EUR 54 million, which clearly shows that the trend of growing interest for outward investment insurance is likely to continue. The change in the attitude of several Slovene exporters to insuring investments of Slovene companies in foreign countries may be a result of completed transition and clearer ownership structure of Slovene companies, which sets high demands for this property to be insured, and could have been spurred by the experience Slovene exporters have gained from incidents in Macedonia, or by the feeling of insecurity that swept the world after 11 September, 2001. The latter has clearly shown that political risks exist everywhere and at all times. Although the general perception of insurance has changed and certain awareness of the consequences of political risks exists, some features that had determined insurance investment in the past were also observed in 2003: firstly, investors still viewed insurance premiums as a cost; secondly, some investments are undersigned; thirdly, additional investments in the growth of project companies and reinvested profit in the form of reserved insurance amounts are rarely insured, etc.

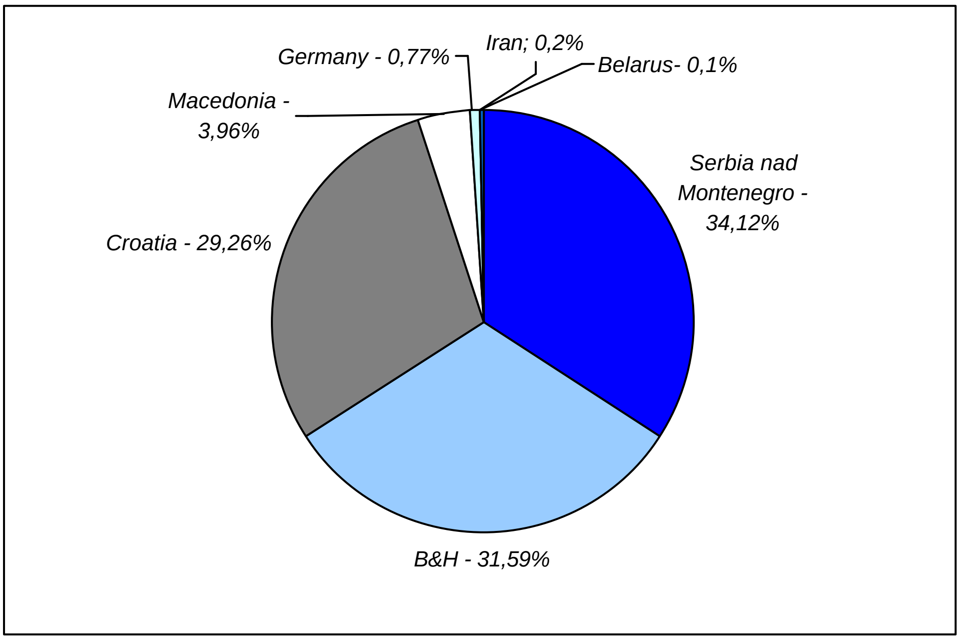
Chart 7: *Investment insurance: exposure (as of 31 December) / new investment insurance policies by year (in EUR million)*



In 2003 SEC secured nine new insurance transactions covering direct investments of Slovene companies abroad (two transactions in Bosnia & Herzegovina – food industry and trade; one transaction in Iran – metal processing industry; six transactions in Serbia & Montenegro – forestry industry, trade, metal processing industry, electronics and chemical industry) with a total insurance sum of EUR 46.6 million, which accounts for 48% of all investments insured at the end of 2003. In addition, SEC concluded an agreement to insure all current and future investments of a leading Slovene investment company. Prior to this agreement, the investment company had already insured two investments with SEC, totalling EUR 6.8 million, and is bound by the stated agreement to take out new insurance in the value of EUR 40 million by the end of 2005.

By the end of 2003, the company portfolio had included 19 investment insurance transactions of Slovene companies and banks worth EUR 93 million, and together offers the SEC exposure in investment insurance was EUR 114.8 million as of 31 December 2003.

Chart 8: *Investment insurance – exposure by country (as of 31 December 2003)*



Insurance on Account of the State – Exposure (as of 31 December 2003)

In 2003, SEC provided insurance for transactions on account of the Republic of Slovenia in 76 countries, on all continents.

Its **exposure from insurance on account of the state** on 31 December 2003 was

- EUR 485.5 million, a 21% increase on the year before.

In fact, the year 2003 showed a considerable increase of 92% in the exposure resulting from insurance of short-term export credits and Slovene investments abroad, amounting to EUR 232 million. The main factor contributing to the growth was the volume of medium-term export credit insurance transactions concluded in 2003 as it recorded a 104% growth on the year before and reached EUR 138.9 million. A considerable increase was also recorded with the exposure from insured outward investments of Slovene companies abroad, totalling EUR 93 million.

For similar reasons, the exposure structure by type of insurance on account of the state is also changing. Last year the exposure from covering short-term export credits against political risks in the markets of developed countries fell from EUR 219.9 million to 169.4 million, whereas the exposure from transactions in non-OECD countries (insurance against non-marketable commercial risks) grew by 36% to EUR 84.2 million.

The overall exposure from SEC insurance transactions on account of the state in the amount of EUR 485.5 million represents a 37% employment of the earmarked limit for this insurance, laid down in the Budget Implementation Act of the Republic of Slovenia. Taking into account also offers pending, the overall exposure from insurance on account of the state increases to EUR 568.8 million, which represents a 35% employment of the budget limitation.

The most important part of the SEC exposure from medium-term export credit insurance is linked to the markets of the Russian Federation, followed by Croatia, Ukraine, India, Serbia and Montenegro, Kazakhstan, Bosnia and Herzegovina, Algeria, Macedonia and Egypt. As for insurance of short-term export transactions against non-marketable commercial risks, exposure is highest in the markets of the Russian Federation (EUR 21 million or 25%), Serbia and Montenegro (EUR 20 million), Bosnia and Herzegovina, Macedonia, Romania, Bulgaria, Macedonia, Iran, Belarus, Syria, Algeria etc.

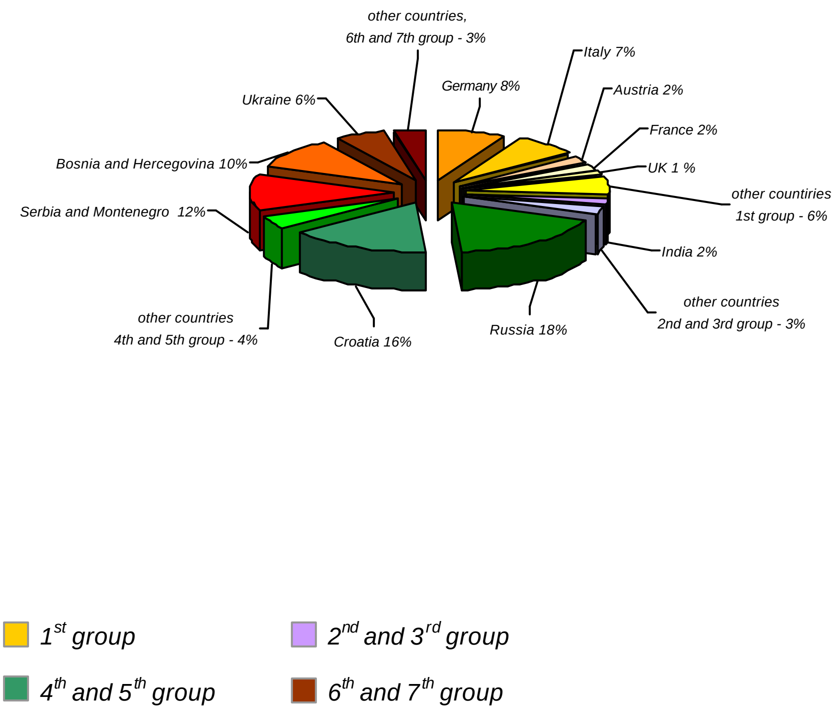
Concentration Risk

The regional structure of insurance against non-commercial and other non-marketable risks is still relatively favourable for both the SEC and the state although it has been worsening for some time now (portfolio concentration risk, regarded by IFI as the logical consequence of adverse selection in insurance transactions in markets where insurance through private institutions is not possible) and has gradually come to resemble the exposure structure of other export credit agencies. However, the exposure structure for insurance against commercial risks, both short-term and medium-term, taken out on account of the state, remains unfavourable for the SEC and the state, and is linked to the geographical structure of Slovene exports or, to be more precise, to certain markets which are either a traditional export destination or higher-risk countries, most of them in the countries of the former Soviet Union or former Yugoslavia.

When taking into account the existing classification of countries and territories into risk classes (according to SEC classification, there are seven groups, group 1 consisting of the lowest-risk countries), risk exposure in higher-risk countries (Groups 6 and 7) represented 31% of the overall SEC exposure to the mentioned risks (excluding pending insurance offers).

Currently, risk concentration and risk spreading are still favourable if compared against the overall exposure from insurance on account of the state by country. On 31 December 2003 Germany took up 8% of overall exposure against non-commercial and other non-marketable risks, which set it before Italy (7%); the next OECD country in the list is Austria with only 2%, and it is only outdone by 4 non-OECD countries: Croatia (16% or EUR 75.7 million), Russia (18%), Bosnia and Herzegovina (10%) and Serbia and Montenegro (12%). The percentage of developed countries in this portfolio increased last year, whereas the percentage of other countries dropped.

Chart 9: *Exposure - insurance on account of the state (31 December 2003)*



Positive Result of Insurance on Account of the State

In 2003, SEC again recorded positive results in insurance on account of the state:

- Premiums exceeded claims paid by EUR 6.1 million (loss ratio 6.4%),
- Premiums and received recoveries exceeded claims paid and handling expenses by EUR 4.3 million
- **Total premium** charged was EUR 6.5 million, which is 103% higher than in the year before (nearly two thirds of the amount were taken up by premiums for medium-term and long-term insurance).
- **Claims paid** decreased by 18%, totalling EUR 416,000.
- The volume of processed claims, however, rose to EUR 2.4 million as of 31 December 2003, and the value of potential claims rose to EUR 8.2 million.

SEC insurance on account of the state showed record results for 2003. The premium charged for this type of insurance amounted to EUR 6.5 million, 68% of which was taken up by insurance of medium-term export credits and investments (a rise of 176%) and the rest was taken up by short-term transactions (a rise of 30%). The fees for handling of insurance applications and issue of insurance offers came up to EUR 70,000, whereby it should be stressed that these charges refer to unrealised transactions (once the transactions are implemented or the insurance policy is issued, the money is either returned to the insured or taken into account in the insurance premium calculation).

In 2003 SEC paid out 15 **claims** arising from insurance on account of the state, referring to insurance of short-term transactions with buyers from non-OECD countries (non-marketable insurance) in the amount of EUR 416,000 (cover of insolvency and late payment risks).

The Corporation successfully **recovered** EUR 44,000 from claims paid out on account of the state in previous years, in particular from insurance for medium-term export credits to buyers in Croatia and in Bosnia and Herzegovina.

Despite the high number of claims paid and measures taken to prevent and reduce claims, and in the light of increased volume of new claims for payment of insurance amounts, the balance of processed claims referring to insurance on account of the state was EUR 246 million at the end of 2003, an increase of 246% on the year before. The volume of potential claims (reported delays in payment of credits due) increased by 74% in comparison with the balance as of 31 December 2002, leaving potential claims for 2003 at EUR 8.2 million.

The results of SEC insurance on account of the state have led to an increase in safety reserves so that the balance of these reserves was EUR 88.8 million as of 31 December 2003.

Table 10: *Insurance: SEC operations on account of the state 1998 – 2003 (in EUR million)*

Insurance on account of the Republic of Slovenia (all types of insurance)	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***
business insured	*493.4*	*554.4*	*821.4*	*936.3*	*748.8*	***806.6***
exposure (31 Dec.)	*196.5*	*256.0*	*351.3*	*371.0*	*402.8*	***485.5***
premiums	*1.3*	*1.5*	*2.3*	*2.8*	*3.2*	***6.5***
claims paid	*0.2*	*2.0*	*0.5*	*0.2*	*0.5*	***0.4***
number of claims	*1*	*2*	*7*	*7*	*16*	***15***
recoveries	*/*	*/*	*0.3*	*/*	*0.5*	***0.04***

Short-term credits (non-marketable risks)	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***
business insured	*415.2*	*522.3*	*782.2*	*873.6*	*658.9*	***628.6***
exposure (31 Dec.)	*145.3*	*197.6*	*286.4*	*304.1*	*282.0*	***253.6***
premiums	*0.3*	*0.7*	*1.5*	*1.4*	*1.6*	***2.1***
claims paid	*/*	*/*	*0.1*	*0.1*	*0.4*	***0.4***
number of claims	*/*	*/*	*5*	*8*	*14*	***15***
recoveries	*/*	*/*	*/*	*/*	*/*	***0.08***

Medium-term credits	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***
business insured	*69.2*	*17.2*	*21.7*	*44.9*	*20.7*	***79.1***
exposure (31 Dec.)	*42.2*	*43.5*	*47.4*	*49.1*	*68.1*	***138.9***
premiums	*0.9*	*0.8*	*0.6*	*1.2*	*1.1*	***3.6***
claims paid	*0.2*	*2.0*	*0.4*	*0.0*	*0.1*	***0.05***
number of claims	*1*	*2*	*3*	*0*	*2*	*/*
recoveries	*/*	*/*	*0.2*	*/*	*0.5*	***-0.04***

Investments abroad	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***
business insured	*9.0*	*14.9*	*17.5*	*17.8*	*69.1*	***98.8***
exposure (31 Dec.)	*9.0*	*14.9*	*17.5*	*17.8*	*52.7*	***93.0***
premiums	*0.0*	*0.0*	*0.1*	*0.2*	*0.5*	***0.9***
claims paid	*/*	*/*	*/*	*/*	*/*	*/*
number of claims	*/*	*/*	*/*	*/*	*/*	*/*
recoveries	*/*	*/*	*/*	*/*	*/*	*/*

Notes:

- Exposure only includes concluded and valid insurance policies; issued and valid insurance offers are excluded. Account was only taken of the so-called gross exposure, which is the overall exposure, inclusive of self-retentions of the insured. Claims in process and potential claims are not included.
- The volume of business insured is followed on the basis of reported exports in case of revolving insurance contracts in terms of their date; the presentation of individual business transactions insured only takes account of the principal of the business insured, excluding advance payments and contractual interest (the decisive element is the date when the premium was paid – in case of premium instalments, only the part of the premium that has actually been paid is considered).
- The volume of insurance on account of the state, stated in EUR, was converted according to the middle exchange rate of the Bank of Slovenia on the day of invoicing the premium for each individual credit and export credit notification respectively.
- The volume of insurance on account of the state includes all credits which have in any way been insured on account of the state (against commercial and/or non-commercial risks), even though they were at the same time insured (against marketable risks) on account of SEC. Only transactions insured fully on account of SEC are excluded. As for reinsurance, only the share of Slovene partners was taken into account and not the whole credit insured.
- Investment insurance includes all insurance transactions for which premium was charged in a given accounting period. Since this facility entails annual renewal of the insurance, the data include new insurance transactions made in the given year and the investments for which insurance contracts had been taken out prior to this period, and for which the premium is also charged in the given year.
- As for recoveries, the date when the claim was received is relevant and not the loss year; similarly, the date of payment is decisive in the presentation of claims. Negative values in recoveries for medium-term export credits for the year 2003 are a result of the balance settlement of the recoveries received in the previous year.

Financing

In 2003 one of SEC main activities was financing of export transactions in domestic and foreign currency. In order to ensure substantial multiplicative effects and in line with intention to increase the involvement of Commercial banks financing export transaction and direct outward investments, SEC mostly provided financing of international business transactions through intermediary banks and other financial institutions, in particular as refinancing of export credits.

In order to successfully support Slovene economy in foreign markets, SEC provides favourable funding primarily to:

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

Through this activity the Corporation has significantly contributed to the increase in fund capacities of commercial banks for financing international trade. In financing export transactions, as in insurance, SEC covers all phases of an export transaction:

- *pre-shipment financing*, and
- *post-shipment financing*.

Table 11: *Financing: SEC performance in 1999–2003 (in SIT billion)*

	1999	2000	2001	2002	2003
volume of financing	43.6	51.1	60.8	88.1	**72.4**
outstanding (31 December)	31.0	39.5	50.6	73.6	**97.6**
number of exporters	343	420	398	351	**354**
number of banks	23	22	22	19	**19**
number of contracts	1,043	1,143	1,117	1,006	**765**

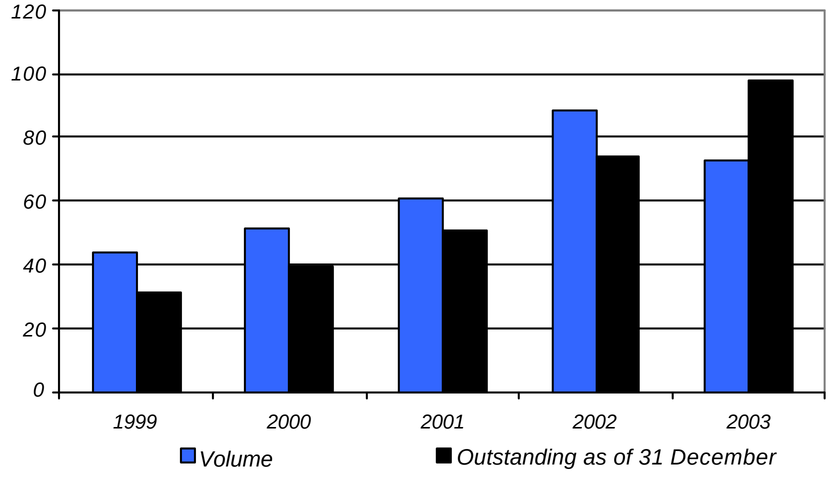
Continued Growth of Business Volume

Last year SEC actively co-operated with 19 banks and 354 exporters in financing their international business transactions. The increased demand for SEC funding was mainly due to the favourable offer of long-term foreign currency funding for international business transactions and continued competitiveness of the financing in domestic currency, in particular through the state Interest Rate Equalization Programme, which SEC provides as agent on behalf of the state.

Compared to 2002 when the outstanding amount of SEC financing was SIT 73.6 billion, financing operations in 2003

- increased by 32.6 %, and
- amounted to SIT 97.6 billion (EUR 412.3 million) at the end of 20003;
- the percentage of financing portfolio in total SEC assets was 84.5 %.

Chart 10: *Financing: SEC performance in the period 1999–2003 (in SIT billion)*



In 2003 the growth rate of SEC financing was six times higher than the estimated growth of Slovenia's exports.

- The growth of SEC financing was almost two times higher than the growth of all loans extended to the Slovene corporate sector (17.4 %), with the share of SEC financing in all loans extended to Slovene corporate sector in 2003 (direct and indirect) reaching 6%.
- Given the 65% average refinancing rate, advance payments and the average share of banks loan in an export transaction, and with SEC financing of international transactions, majority of which are also insured by SEC, SEC supports approximately 3.7 % of the estimated Slovenia's exports.

Portfolio Structure

- **By maturity:**

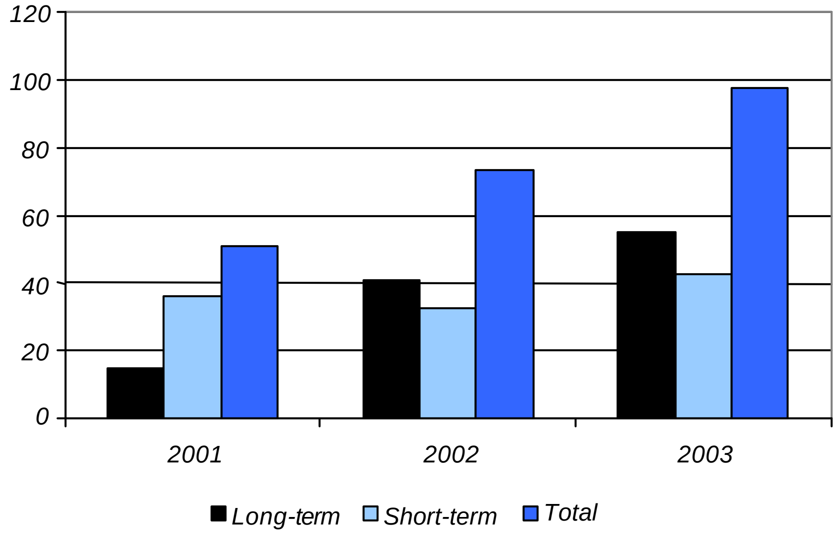
In the past years the maturity structure of SEC credit portfolio was characterised by a high share of short-term refinanced loans in domestic currency, but the year 2002 began to show signs of fast growth in the long-term credit portfolio and in 2003 the trend of investments turning towards long-term credits strengthened even further.

Table 12: *Long-term/Short-term financing – Outstanding as of 31 December 2003 (in SIT billion)*

	2001	2002	2003
Long-term	*14.6*	*34.2*	***55.2***
Short-term	*36.0*	*39.4*	***42.4***
Total	*50.6*	*73.6*	***97.6***

At the end of 2003 SEC lending performance showed a significant growth in long-term SEC financing both in domestic and foreign currencies. At the end of 2003 long term loan portfolio increased by 61.4 % compared to the year before and so representing 56.5 % share in overall SEC loan portfolio.

Chart 11: Long-term/Short-term financing - Outstanding as of 31 December 2003 (in SIT billion)



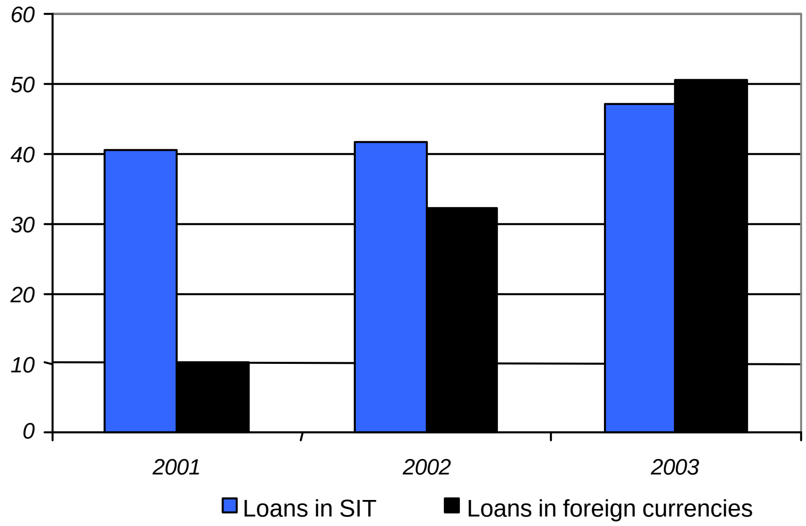
The growth of SEC long-term loan portfolio results from the company's orientation towards long-term financing as one of the goals on its investment policy. In accordance with these orientations, SEC managed to increase the share of long-term loan in domestic currency on account of short-term loan, thus increasing the Tolar long-term loan portfolio, totalling SIT 13.3 billion, by more than 100% on the year before. However, the Tolar short-term loan portfolio declined by 4.3% on the year before, which was less than expected, as the demand for short-term loans in domestic currency picked up at the end of 2003.

The financing balance at the end of 2003 indicates high growth also in the foreign currency credit portfolio, both in short- and long-term segments, as it showed a 104% increase on the year 2002 for short-term loans in foreign currency, and a 48.5% increase for long-term loans, which exceeded by more than 100% the average growth of foreign currency credits extended by banks to economic sector.

- **By currency:**

The growing interest of exporters and their banks for financing in foreign currency, along with the ever more extensive activities of Slovene exporters, particularly suppliers of equipment, investors and investment contractors whose activities require financing of foreign buyers and investments abroad, is evident in the currency structure of SEC transactions. In 2003 the share of (re)financing international business activities in foreign currency increased by 55.86% on the year before, amounting to SIT 50.5 billion.

Chart 12: *SEC financing: currency structure as of 31 December 2003 (in SIT billion)*

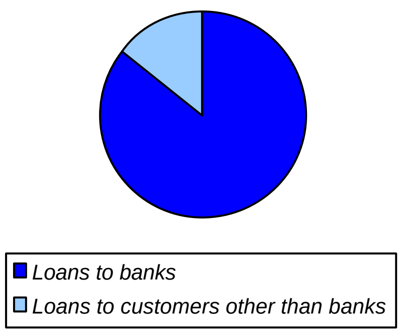


- **By borrowers:**

In 2003 commercial banks remained the most important SEC partner in export and outward investment financing, their share in SEC portfolio reaching 85.6 % at the end of the year. The demand for direct financing of projects of Slovene exporters abroad and of preparations for exports was rising steadily throughout the year 2003, showing a 34% increase on the year before for loans extended to non-bank clients.

Despite a significant growth in loans provided for non-bank clients, this segment did not show the same growth rate as the segment of bank financing, and at the end of 2003 represented 14.4% of the total loan portfolio (2% increase on the year 2002).

Figure 13: *SEC Financing: By borrower as of 31 December 2003 (in %)*



- **By risk:**

Despite the considerable increase in the volume of direct financing of Slovene exporters, their buyers and investors abroad, high quality of SEC financing portfolio remained unchanged since the assets classified in classes lower than B take up only 0.5% in the SEC credit portfolio.

Classification of borrowers	*Percentage of total portfolio*
A	*83.8*
B	*15.7*
C, D, E	*0.5*

In classification of on-balance sheet receivables and off-balance sheet receivables relative to SEC financing operations, SEC uses legislative and other regulations applicable to the banking sector, and internal acts regulating the management of credit, country and other risks.

Favourable Financing Conditions

With a view to provide favourable financing conditions in support of competitive operation of Slovene enterprises in foreign markets, the aim of SEC in terms of interest rate policy was to lower exporters' costs in raising loans with banks and other financial institutions.

- For banks and other financial institutions with remunerated assets, 2003 was a very active year. The Bank of Slovenia applied certain measures aimed at gradual compliance with the Maastricht criteria, which led to a substantial decrease in deposit interest rates of commercial banks and indirectly, though at a lower rate of reduction, caused a drop in lending interest rates in all maturity segments.
- SEC continuously adapted to the conditions in the domestic market so that, depending on the maturity of extended loans, its end-of-year lending interest rates for tolar short-term loans were 10% to 20% higher than the average deposit interest rates offered by commercial banks for the same maturity. In the segment of long-term loans, SEC lending interest rates were equal to the average bank deposit interest rates of the same maturity. As for long-term financing, SEC provided long-term funds at Basic Interest Rate (BIR) as well as, on a case-by-case basis, at the nominal interest rate; current interest rates for tolar refinanced credits extended by SEC are published on the web site.
- Consequently, the bank caps, i.e. the highest permitted banks' lending interest rates, for loans to exporters were conditioned by SEC, and at the end of the year they ranged up to 8% p.a. (for maturity of up to 6 months) and to 8.25 % p.a. (maturity of up to 12 months), whereas for long-term loans (more than 1 year) the interest rates remained at the level of average prime rates of commercial banks for the same maturity.

As an agent of the Republic of Slovenia SEC continued to perform the Interest Rate Equalization Programme for refinanced export loans 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 the state budget funds.

- With regard to foreign currency financing, SEC limited the interest rates for final borrowers of export credits. Thus, the maximum permitted net margin of commercial banks from SEC foreign currency credits, depending on credit maturity (one to ten years) normally reached up to 2.5% p.a. over the interest rate agreed with SEC.

Favourable Long Term Financing of SMEs

In 2003 SEC successfully completed a special programme of providing financing to SMEs (and sole entrepreneurs) with the support of the European Commission, which SEC carried out through seven selected Slovene commercial banks in co-operation with the German Kreditanstalt für Wiederaufbau (KfW) and the Council of Europe Bank (CEB). Under this programme, loans could be extended in euro or in tolars (with a foreign currency clause), with a 2-year grace period and maturity up to 10 years. Funds thus obtained could be used for financing long-term investments in fixed assets and for working capital financing.

By the end of 2003, 100 enterprises and sole entrepreneurs had been granted 105 loans under the programme and, consequently, 253 new jobs have been created.

Income from SEC Financing

Despite the conditions in the domestic market and the aggressive policy of interest rate reduction and lower growth of (re)financing of export loans in domestic currency, SEC maintained the 2002 level of interest income from financing activity (SIT 5,044 million or EUR 21.6 million). Non-interest income from financing operations was SIT 145.2 million (EUR 621,340), a 1.6% decrease in the realisation of non-interest income in 2002, mainly due to SEC investment policy, aimed at reducing considerably the volume of short-term 6-month refinanced credits in domestic currency which in previous years formed an important factor of non-interest income.

In addition to the mentioned interest and non-interest income, SEC for its intermediation role for SME credit line, raised with KfW/CEB from European commission funds intended for the development of SMEs, generated additional non-interest income in the amount of SIT 30.7 million.

Long Term Funds for Foreign Currency Financing

In order to provide Slovene exporters and their banks with the favourable long-term funding for financing international business transactions in foreign currencies, SEC continued raising funds in international financial markets, which started in 1999. In 2003 SEC raised another long-term syndicated loan on the international syndicated loan market in the amount of EUR 100 million arranged by SANPAOLO IMI S.p.A. and Bank Austria Creditanstalt AG.

With continuous presence in international financial markets SEC is building its status of a first-class partner with an excellent track record. In the future, this reputation will enable the Corporation to access the funds for financing of international business activities undertaken by Slovene companies under favourable conditions.

Guarantees

Quality Instruments of Protection against Risks

In good business practice, bank guarantees are frequently used private-law instruments for transferring business transaction related risks onto financial institutions which are able to provide beneficiaries with effective protection against the risk that their counter-parties in domestic and international business transactions will not fulfill their contractual obligations. Bank guarantees, taking the form of various legal instruments linked by a common element of economic purpose, are mainly issued by banks, but also by insurance companies and other financial institutions. If the guarantees are issued by a first-class financial institution, the partners of the relevant business transaction believe that they provide effective protection against various risks of domestic and international business transactions.

SEC guarantees have all the characteristics of high quality guarantees. They supplement the offer of other SEC services and are even considered by the Bank of Slovenia and various public- and private-law entities as first-class guarantees.

With regard to the importance which the issue or confirmation of commercial bank guarantees has for equipment producers and investment contractors in Slovenia and abroad, guarantees are a welcome supplement to the range of services SEC provides for Slovene companies in the field of insurance and financing, and enables them to obtain deals also through issuing guarantees which domestic and foreign beneficiaries consider a first-class protection instrument against counter-party risks related to contractual obligations and other contractual relations. 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

In issuing guarantees and counter-guarantees SEC pays special attention to specific needs of clients and to the shortening of response time, thus helping Slovene companies reduce their costs and enabling them to be more competitive in doing business, especially in foreign markets. SEC also strives for reduction of the costs inherent in issuing guarantees, and for better acceptance of directly issued guarantees abroad. Especially in the markets where, as a relatively young institution, SEC is not known or not sufficiently known, it also makes use of fronting, which is given to SEC guarantees by reputable foreign financial institutions, and in this way enables Slovene exporters to make use of this service and realise deals faster.

Considerable Demand and Growth of Volume

In 2003 there was a considerable increase in the demand for SEC guarantees. Compared with 2002, the value of issued guarantees in 2003

- rose by 51 %,
- amounted to EUR 41 million
- the balance of issued SEC guarantees stood at EUR 35.3 million, a 2% increase on the year before, with short-term guarantees taking up two thirds of the total volume

Most of the guarantees issued in 2003 were payment bonds, followed by advance payment bonds, bid bonds, customs bonds, performance bonds and warranty bonds.

At the end of 2003, most of the outstanding bonds were advance payment bonds, followed by payment bonds, customs bonds, performance bonds, warranty bonds, retention money bonds and bid bonds.

Chart 14: *Guarantees (1998 – 2003) (in SIT m illion)*

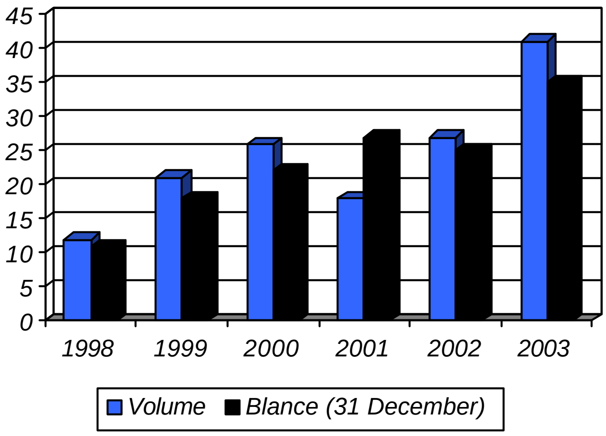


Table 13: *Guarantees (1998-2003) (in EUR thousand)*

	1998	1999	2000	2001	2002	2003
volume	11,812	21,172	25,836	18,080	26,984	**40,729**
outstanding (value as of 31 Dec.)	11,062	18,068	21,534	26,915	34,637	**35,311**
honoured	37	48	118	949	2,090	**2,735**
recourse (value)	106	465	118	692	405	**423**

Safety of Guarantee Operations

To a large extent, SEC 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 2003, one payment bond, issued in 2002, was honoured. The liabilities of debtors from this guarantee have partly been recovered.

Treasury and Management of (Non-Credit) Risks

Risk Management

In its operations, SEC primarily encounters liquidity risks, exchange and interest rate risks and securities portfolio risks.

Management of market (non-credit) risks is determined by management policies which cover various types of market risks (liquidity, exchange rate and interest rate) and by corresponding risk measurement methodologies. An important tool in market risk management is the thresholds which determine maximum SEC exposure to a particular market risk.

Liquidity Risk

In accordance with the approved liquidity management policies, SEC Treasury ensured that the company's financial obligations were regularly and continuously fulfilled and that sufficient liquidity reserves in domestic and foreign currencies were maintained.

In 2003 the Corporation's liquidity was good. The SEC Treasury Department monitored exposure to liquidity risks through liquidity index, ranging at 2.2 in the category from 0 to 30 days and about 5 in the category of up to 180 days. In line with the situation in the monetary markets the Treasury acquired necessary short-term funds in the interbanking market, and, to a smaller extent, from the non-banking sector.

Currency and Interest Rate Risk

In 2003 SEC increased its business volumes in foreign currency. SEC Treasury regularly monitored its foreign exchange position, employing such financial instruments and risk management techniques as stipulated by the relevant rules and regulations and used by the banks.

Table 14: *Balance sheet by currency structure as of 31 December 2003*

	Assets		Liabilities		Gap	
	SIT million	as % of total assets	SIT million	as % of total assets	SIT million	as % of capital
in SIT	57,467	49.78	37,050	32.09	20,417	112.63
in SIT with EUR exchange rate clause	6,422	5.56	21,020	18.21	-14,598	-80.53
in SIT with USD exchange rate clause	0	0.00	0	0.00	0	0.00
in USD	3,756	3.25	3,702	3.21	54	0.30
in EUR	47,798	41.40	53,671	46.49	-5,873	-32.40
Total	**115,443**	**100.00**	**115,443**	**100.00**		

** Note: Index calculation considers the capital less long-term investments into group members' capital.*

The figures for assets in SIT with an exchange rate clause show an excess of liabilities over receivables at 80.53% of the Corporation's capital, and the figures for assets and liabilities in EUR show an excess of 32.4% of capital.

A detailed presentation of the balance sheet by currency structure as of 31 December 2003 is available under 5.7 Explanations of Financial Statements.

Table 15: *Balance sheet by currency structure as of 31 December 2002*

	Assets		Liabilities		Gap	
	SIT million	as % of balance-sheet total	SIT million	as % of balance-sheet total	SIT million	% of capital
in SIT	52,036	58.88	53,379	60.40	-1,344	-7.46
in SIT with EUR exchange rate clause	3,428	3.88	0	0.00	3,428	19.04
in USD	805	0.91	805	0.91	0	0
in EUR	32,100	36.33	34,185	38.69	-2,084	-11.57
Total	**88,369**	**100.00**	**88,369**	**100.00**		

** Note: Index calculation considers the capital less long-term investments into group members' capital.*

Table 16: *Balance sheet by maturity as of 31 December 2003*

	Assets		Liabilities		Gap
Maturity class	***SIT million***	***in %***	***SIT million***	***in %***	***SIT million***
up to 1 month	*5,070*	*4.39*	*9,275*	*8.03*	*-4,205*
1 to 3 months	*10,853*	*9.40*	*1,546*	*1.34*	*9,307*
3 months to 1 year	*37,791*	*32.74*	*2,234*	*1.94*	*35,557*
1 to 5 years	*53,654*	*46.48*	*52,699*	*45.65*	*955*
over 5 years	*8,075*	*6.99*	*49,689*	*43.04*	*-41,614*
Total	***115,443***	***100.00***	***115,443***	***100.00***	

Detailed presentation of assets and liabilities as of 31 December 2003 by maturity is available in 5.8. Explanations of Financial Statements.

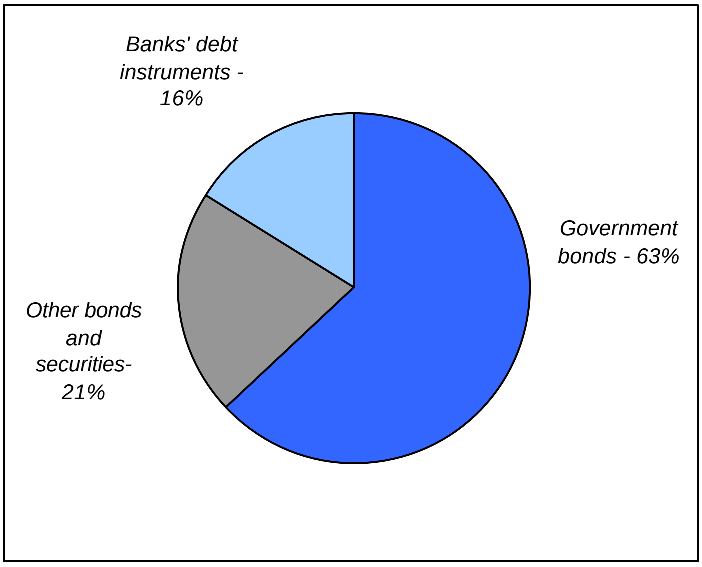
Table 17: *Balance sheet by maturity as of 31 December 2002*

	Assets		Liabilities		Gap
Maturity class	***SIT million***	***in %***	***SIT million***	***in %***	***SIT million***
up to 1 month	*638*	*0.72*	*27,787*	*31.44*	*-27,148.96*
1 to 3 months	*10,094*	*11.42*	*360*	*0.41*	*9,733.88*
3 months to 1 year	*36,212*	*40.98*	*2,862*	*3.24*	*33,350.46*
1 to 5 years	*32,149*	*36.38*	*25,286*	*28.61*	*6,862.91*
over 5 years	*9,276*	*10.50*	*32,074*	*36.30*	*-22,798.30*
Total	***88,369***	***100.00***	***88,369***	***100.00***	

Securities Portfolio Risk

SEC Treasury also manages the portfolio of securities, the nominal value of which at the end of 2003 was SIT 7,652 million. The policy of investment in securities remains rather conservative as the Corporation mainly buys first-class government and corporate securities.

Figure 15: Structure of investments in securities as of 31 December 2003



SEC Bills

On 11 December 2003 the last (eighth) issue of SEC bills reached its maturity date. SEC decided that due to a significant fall in interest rates in the last quarter of 2003 and high related costs the issue of SEC bills was no longer profitable. Upon maturity of the bills, SEC made up for decreased liquidity with issue of short-term certificates of deposit, denominated in SIT, in the amount of SIT 1.8 million.

Marketing

Marketing of SEC products and services has already been mentioned several times when describing operations undertaken in various fields of SEC activities. The growth of business, development and promotion of facilities which were 10 years ago still new to Slovene market prove the success of marketing activities performed. SEC has also introduced an integral marketing strategy, which represents the core of its operations. In line with this strategy, SEC performed promotion and educational activities for the target public, in particular exporters and banks, with which it also held regular meetings. SEC also made frequent appearances in mass media and in various publications in Slovenia and abroad, promoted its name through advertising and press releases on important events, and convened press conferences, informing the public about its current operations and services.

In 2003, SEC made frequent appearances in domestic media and focused its efforts on raising the awareness and knowledge on export insurance and financing in Slovenia, whereby it co-operated closely with the educational and scientific research institutions.

Enterprise Survey for 2003

In 2003, SEC conducted its sixth traditional biannual survey of its existing and potential clients. The purpose of the survey was to obtain up-to-date information on the needs and expectations of Slovene enterprises, their experience in dealing with SEC and their knowledge of SEC facilities. The results of the survey are of great importance as they help SEC to decide on its marketing activities, customer offer, service development and preparation of development strategy.

Of 557 questionnaires sent, 116 were returned (21%), 60% of which came from small and medium-sized enterprises. The total exports of enterprises included in the survey, corresponding to the destination structure of Slovene exports, was EUR 2,163 billion, their turnover totalling at EUR 5.237 billion. Most of the surveyed enterprises are manufacturers of consumer goods (37%) and durable consumer goods (28%), service providers (17%) and providers of capital goods (13%).

The results of the survey in 2003 clearly show that SEC has won a good reputation among Slovene enterprises, largely due to direct contacts, internet presentations, media and commercial banks. Eighty-five of 116 enterprises (76%) which returned completed questionnaires state that they learnt about SEC from direct contacts with the Corporation, whereas media coverage was decisive in 49% of companies, and a considerable proportion of companies state that their knowledge of SEC was acquired on the internet, from business partners and commercial banks.

As for SEC facilities, most companies are familiar with SEC provided insurance of short-term export credits (80 companies), insurance of short-term domestic credits (55 companies) and credit rating information (55 companies). Somewhat lower is the knowledge of insurance of export credits against non-commercial risks (47 companies), refinancing of export credits in domestic currency (39 companies) and issue of guarantees at home and abroad. The majority of the companies involved in the poll wish to obtain more information on assistance with debt collection (33 companies) and on co-financing and direct financing of exports (32 companies). The knowledge of medium-term export credit insurance and investment insurance as well as refinancing of exports in foreign currencies is rather limited.

Opinion poll participants were asked to express the attitude of SEC towards its clients on a scale 1-5, and gave the Corporation a fairly high average mark of 3.93.The attitude of SEC towards clients and professional attitude were given the grade 4.3, followed by advice and assistance (4) and understanding of clients' needs (4), appropriate service offer (3.9), efficiency (3.8), and flexibility (3.7). On the other hand, the time for processing claims was prolonged last year and therefore received the lowest mark of 3.4, which will have to improve in the future through the development of e-business (SID-NET). Nearly all companies stated that they were prepared for online co-operation with SEC.

In 2003 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. Three students were awarded for their diploma or master's degree works.

Co-operation with Government Authorities and Other Domestic Institutions

In 2003 SEC continued to work closely with many government authorities and other institutions at home and abroad.

Insurance and Finance System for International Business Transactions

Co-operation with government authorities was of particular importance for SEC in its implementation of development strategy for the export insurance and finance system of Slovenia, which was adopted in 1997.

- Within this framework and as an active member of the Slovenian Insurance Association, SEC actively participated in drafting the amended Insurance Act (Official Gazette of RS, Nos. 13/00, 91/00 and 21/02), which is scheduled for adoption in spring 2004 and is expected to regulate certain issues relevant for SEC and its newly established credit insurance company. As a member of the Slovenian Banking Association, SEC also proposed amendments to the Banking Act (Official Gazette of RS, No. 110/03) and participated in the preparation of several tax regulations.
- In 2003 SEC harmonised its operations with the regulations stated in the Insurance Act. In accordance with its adopted development strategy, the Corporation entered preparations for the establishment of a specialised credit insurance company, which is to be set up after appropriate documents have been obtained from the Insurance Supervision Agency, and will fully operate in accordance with the provisions of the Insurance Act and other insurance regulations.
- **In co-operation with the competent government authorities, SEC participated in drafting the new Law on Insurance and Financing of International Business Transactions (Official Gazette of RS, No 2/04) which, on the basis of EU laws, regulates operation of an authorised export credit agency, performing activities on account of the Republic of Slovenia.**

State Budget

SEC operations and plans were discussed several times by the Government of the Republic of Slovenia and competent committees of the National Assembly. In 2003 the Corporation worked intensively on the preparations for the adoption of the state budget for 2004 and 2005 and the Budget Implementation Act of the Republic of Slovenia (Official Gazette of RS, Nos. 110/03, 130/03, 20/04). The following resolutions adopted for the years 2004 and 2005 are relevant for SEC operations:

- maximum insurance exposure on account of the state for 2004 and 2005 was set at SIT 400 billion and SIT 500 billion respectively (according to the middle exchange rate of the Bank of Slovenia as per 31 December 2003, the figure was EUR 1,690 million and EUR 2,112 million respectively);
- for state guarantees issued to cover SEC liabilities arising from borrowings, principal amounts of SIT 45 billion for 2004 and SIT 55 billion for 2005 (EUR 190 million and EUR 232 million respectively) were adopted.

In issuing guarantees for loans hired for export financing, SEC also co-operated with many government authorities, in particular with the Ministry of Finance, as the legal provisions of this Law enable SEC to acquire favourable funds for the financing of exports and outward investments. Within this framework SEC actively participated in drafting appropriate implementing regulations covering the procedures for borrowing and issue of state guarantees; as for borrowings abroad SEC also co-operated with the Bank of Slovenia.

Chart 16: *Exposure ceilings for exposure on state account (in SIT billion)*

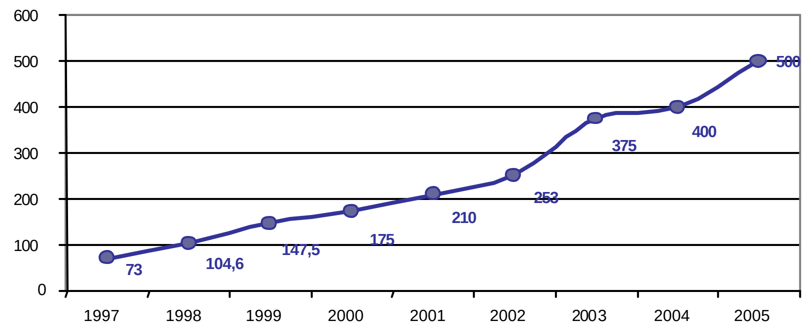
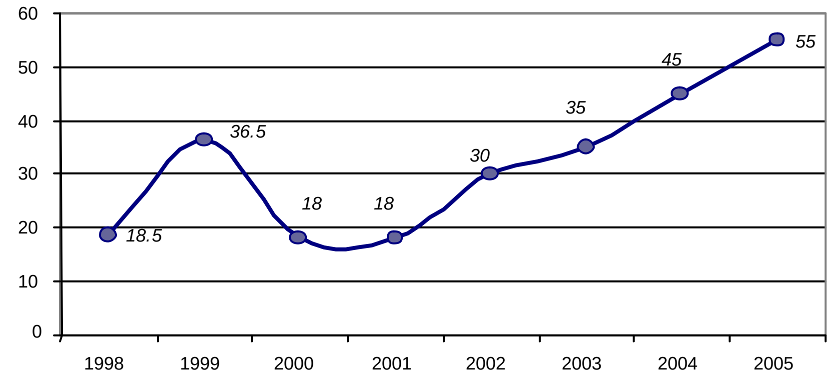


Chart 17: *State guarantee quota for borrowings (in SIT billion)*



Supervisory Authorities

- SEC regularly reports its operations to the Bank of Slovenia and maintains close co-operation with it in other areas. The Bank of Slovenia adopted the guidelines which gave guarantees and other insurance instruments of SEC the status of first-class instruments of insurance in classification of on-balance sheet and off-balance sheet items of banks, thus increasing the attractiveness of these insurance instruments, which Slovene banks normally require when granting loans or financing outward investments.
- Additionally, SEC maintains a good working relationship with the Insurance Supervision Agency, to which it reports on insurance operations performed on the Corporation's own account. SEC also co-operates with the Agency in preparation of the regulations concerning the establishment of a specialised credit insurance company, and implementing regulations, particularly as regards credit insurance.

Ministries and Other Government Authorities and Organisations

- SEC as the Slovene export credit agency performs certain insurance operations on account of the Republic of Slovenia. The key factor in these operations is a mechanism for providing adequate insurance capacity, necessary liquidity to cover paym ent of claims arising non-marketable risks assumed by SEC as an agent of the state. Therefore, special emphasis should be placed on the Contract on General and Special Safety Reserves, concluded between SEC and the Ministry of the Economy, which provides for the formation and status of safety reserves for the coverage of claims arising from the insurance on state account. In accordance with the new Law on Insurance and Financing of International Business Transactions, SEC shall work out its contractual relations regarding execution of insurance and financing of international trade, with the Ministry of Finance.
- Apart from co-operating with economic ministries and government offices, the Slovenian Trade and Investment Promotion Agency (TIPO) and the Small Business Development Centre (PCMG), SEC worked closely with the Ministry of Foreign Affairs and diplomatic-consular representative offices, in particular those located in higher-risk countries and in the countries where SEC exposure is relatively high. Competent government authorities and several other institutions were involved in regular exchange of information on individual markets, whereas SEC provided the Ministry of the Economy and other ministries with regular information on its operations and business policy, and presented them with proposals for the development of international trade co-operation (e.g. Stability Pact for SE Europe, co-operation with OECD, participation of Slovenia in OECD Consensus and in the Working Group for Export Credits and Credit Guarantees of the OECD Trade Commission, Working Group for Export Credits of the Council of EU, visits of state delegations, etc.).

In 2003, SEC worked closely together with the Chamber of Commerce and Industry of Slovenia, in particular in its activities for exporters, and regularly presented the possibilities of SEC support to Slovene companies doing business in foreign markets. The Vice President of the Chamber is also a member of the International Trade Promotion Commission, which ensures that through SEC and the mentioned Commission economic interests are considered in the implementation of state policy on insurance and financing of international business transactions.

- As a member of the Chamber of Commerce and Industry of Slovenia, Slovenian Insurance Association and Slovenian Banking Association, SEC takes an active role in many of their activities.

International Co-operation

The Berne Union

Having had observer status for two years, Slovene Export Corporation became a full member of the Union of Credit and Investment Insurers (the Berne Union) at its 57th Regular Annual Meeting in Amsterdam (Netherlands) on 18 October 2000.

The Berne Union, which today has 52 members from 43 countries, most of them export credit agencies, international financial institutions and other insurance companies, works for international acceptance of sound principles of export credit insurance and foreign investment insurance. In pursuit of this goal the ECAs of the Berne Union regularly exchange information on their operations and insurance policies, individual markets, experience, treatment of debtors or guarantors and insurance technical issues, and closely co-operate in several other areas.

The Prague Club

Apart from its membership in the Berne Union, SEC is also active within the Prague Club, participating in Regular Meetings of Secretary General of the Berne Union with newly established export credit agencies. The Prague Club has 26 members and three observer members with which SEC has established bilateral relations.

With some of these agencies SEC has also concluded co-operation agreements (see the table below) and continued the co-operation in particular with the Bosnian IGA. In the framework of bilateral technical assistance programme, co-financed by the Ministry of the Economy from the Stability Pact for SE Europe funds, SEC helped IGA in performing export credit against short-term commercial risks. Last year the Corporation closely co-operated with MBDP Macedonia, especially as regards reinsurance of short-term export credits against commercial risks. SEC prepared a number of presentations of its information system IS SID, the Corporation's own development product, to the Croatian company HBOR and to Slovak bank EXIM.

Co-operation 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 are reinsured in the private market with major and first-class reinsurers, SEC has concluded many agreements with other ECAs and IFIs. The selection of framework co-operation agreements, mutual and parallel insurance agreements, agreements on facultative reinsurance, fronting of guarantees and co-financing of projects offers to Slovene companies ample possibilities of successful operation with foreign companies in third markets. With its instruments SEC can effectively work together with other financial institutions, which also provide sources for financing of various projects and insurance cover against commercial and political risks.

In 2003 SEC had bilateral contacts, exchange of information, and business co-operation with other export credit agencies, especially with members of the Berne Union. It maintained a good working relationship with the German Euler&Hermes and the Austrian ÖKB, whose experts attended, together with SEC experts, the third Portorož workshop on insurance of medium-term export credits, investments and structured transactions. In 2003 SEC concluded a Facultative Reinsurance Agreement with the Russian insurance company Ingosstrakh, Co-operation Agreements with ECGA from Oman and ECGC from India, and a Reinsurance Agreement with the German Euler&Hermes. A Framework Reinsurance Agreement with MIGA is about to be signed. The said agreements enable co-operation between insurers and/or export credit agencies *(one-stop shop agreements),* accelerate exchange of information and open possibilities for efficient mutual operation of Slovene and foreign companies and banks in third markets, at the same time enabling them to obtain funds from many sources and enjoy the support of ECAs and other institutions from various countries. Some of these agreements already resulted in mutually supported projects.

Co-operation of ECAs in Outward Investment Insurance

Recently, Slovene companies have intensively internationalised their operations, taking on the role of investors and venturing into foreign markets, especially the markets of South Eastern, Eastern and Central Europe. Now that the armed conflicts in these markets had ended and national economies are recovering and undergoing transition into market economies, the importance of these markets for Slovene economy has risen again, and with fresh capital, equipment and know-how Slovene exporters can now help these countries on their way to modern society and balanced payment positions.

Although Slovene companies know well the conditions in these markets, some continue to underestimate the underlying political risks in these young democracies, with some risks emerging from the privatization processes. SEC insurance policies are becoming an increasingly functional instrument in protecting FDI against political risks that are beyond investors' control in the host country, as SEC policies ensure quality cover for a considerable portion of companies' assets. Furthermore, banks – creditors stipulate such insurance policies as a condition for granting credits.

In striving to ensure legal safety and foster FDI, bilateral agreements on protection of investments play just an important role as the ECAs. They provide investment insurance and, in the host country, represent a stronger negotiating partner than a single investor – a private-law company. Co-operation 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 the markets of some higher risk countries represents for SEC as an insurer 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 exporters and investors for coverage, it is often useful to conclude co-insurance and reinsurance arrangements which can also be employed in cases of joint investments in the third countries.

Co-operation among ECAs, international financial institutions and private insurers provides investors with quality coverage and gives national ECAs an opportunity to use their insurance capacities wisely, and provide support for a higher number of transactions. The risks associated with investments in which several insurers are involved are generally lower (upon involvement of insurers from several countries certain political risks are not merely bilateral but become multilateral), distribution of risks among several insurers reduces exposure of individual insurers and risk concentration, and the risk assessment of an investment project can be more thorough. Furthermore, such co-operation widens the possibilities for prevention and 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 co-operates with such institutions, members of the Berne Union, in insuring investments of Slovene companies abroad. SEC has concluded co-operation agreements for co-insurance, parallel insurance and reinsurance, including agreements regarding loss recoveries with these institutions. Within this framework SEC has, together with the Austrian ÖKB and German PwC, provided insurance of joint investments of companies from two countries into project enterprises in Croatia, Slovak Republic and Macedonia. In co-operation with ÖKB SEC insured two investments of the company TERMO, Škofja Loka in the amount of EUR 1.2 million and EUR 10.2 million, and together with PwC an investment of Nova Ljubljanska banka into the Macedonian Tutonska banka.

For a number of years SEC has been co-operating with the Multilateral Investment Guarantee Agency (MIGA), member of the World Bank Group. This co-operation is of particular importance to SEC and Slovene companies because of MIGA's specialist knowledge and its international financial institution status. On the basis of the framework agreement (Memorandum of Understanding) between the two institutions MIGA reinsured four SEC-insured investments in Bosnia & Herzegovina and Croatia. 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 the development of the financial system in B&H. The second project related to reinsurance of an investment into equity capital and a shareholders' loan of the Business System Mercator into a shopping mall in Sarajevo. The importance of this investment lies in the fact that it contributed to the 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, and that approximately 40% of the goods sold were to be of local origin. The investment of Mercator in Croatia is also reinsured.

***Table 18:* List of agreements concluded between SEC and other ECAs and IFIs**

Country	*ECA / IFI*	*Type of agreement*	*Signed*
	EBRD	*Framework Co-operation Agreement*	*8 May, 1996*
Belgium	*OND*	*Mutual Insurance Agreement*	*Ljubljana, 20 Dec., 1996*
		Parallel Insurance Agreement	*Ljubljana, 20 Dec., 1996*
United Kingdom	*ECGD*	*Co-operation Agreement*	*London, 26 Feb., 1998*
Austria	*OeKB*	*Co-operation Agreement*	*Vienna, 10 June, 1998*
		Mutual Insurance Agreement	*Vienna, 10 June, 1998*
		Framework Reinsurance Agreement	*1997*
Russia	*Ros-EXIM*	*Co-operation Agreement*	*Ljubljana, 8 July, 1998*
	EXIMGARANT	*Memorandum of Understanding*	*Ljubljana, 23 July, 1998*
	Ingosstrakh	*Co-operation Agreement*	*Ljubljana, 11 Dec., 2001*
		Faculative Reinsurance Agreement	*9 July, 2003*
	Vneshtorgbank	*Co-operation Agreement*	*12 September, 2002*
Germany	*Euler Hermes*	*Mutual Insurance Agreement*	*Hamburg, 10 Sept., 1998*
		Reinsurance Agreement	*Ljubljana, 9 Dec., 2003*
		Fronting of Guarantees Agreement	*Hamburg, 16 Sept., 2002*
	PwC	*Memorandum of Understanding*	*Ljubljana, 20 Sept., 2002*
Bosnia & Herzegovina	*IBF*	*Mutual Co-operation Agreement*	*Ljubljana, 26 Jan., 1999*
	IGA	*Memorandum of Co-operation*	*Ljubljana/Sarajevo, 16 June, 2000*
Sweden	*EKN*	*Mutual Insurance Agreement*	*Ljubljana/Stockholm, 23 April, 1999*
USA	*US-EXIM*	*Memorandum of Understanding*	*Ljubljana, 21 June, 1999*
Netherlands	*Atradius*	*Reinsurance Agreement*	*Ljubljana, 22 June, 1999*
Macedonia	*MBDP*	*Co-operation Agreement*	*Skopje, 20 July, 1999*
		Short-term Commercial Risks Agreement	*Skopje, 1 Feb., 2001*
Republic of Korea	*KEIC*	*Co-operation Agreement*	*Istanbul, 13 Oct., 1999*
Bulgaria	*BAEZ*	*Co-operation Agreement*	*Ljubljana, 28 Oct., 1999*
Israel	*IFTRIC*	*Co-operation Agreement*	*Tel Aviv, 7 March, 2000*
Uzbekistan	*UZBEKINVEST*	*Co-operation Agreement*	*22 September, 2000*
Turkey	*Turk-EXIM*	*Co-operation Agreement*	*Amsterdam, 20 Oct., 2000*
Italy	*SACE*	*Reinsurance Agreement*	*Madrid, 28 March, 2001*
Romania	*R-EXIM*	*Co-operation Agreement*	*Ljubljana, 6 Sept., 1999*
Egypt	*ECGE*	*Co-operation Agreement*	*Ljubljana, 2 Oct., 2001*
Slovakia	*EXIM SK*	*Co-operation Agreement*	*Ljubljana, 11 Oct., 2001*
Croatia	*HBOR*	*Co-operation Agreement*	*Cavtat, 30 Oct., 2001*
		Reinsurance Agreement	*22 July, 2002*
	MIGA	*Memorandum of Understanding*	*31 December, 2001*
		*Facultative Reinsurance Agreement**	*(in preparation)*
Oman	*ECGA*	*Co-operation Agreement*	*Ljubljana, 11 July, 2003*
			Oman, 5 Aug., 2003
India	*ECGC*	*Co-operation Agreement*	*Merida, 30 Sept., 2003*
Canada	*EDC*	*Co-operation Agreement*	*24 November, 2003*

PASA

At the 15th Annual Meeting, held from 24 to 27 May 1998 in Vancouver, Canada, SEC acquired the status of an observer in the Pan American Surety Association (PASA). Since then, it has established contacts with some of the financial institutions, members of this NGO, and frequently exchanging information on the issue of guarantees and making arrangements for the fronting of guarantees.

SEC also co-operated with other international governmental organisations such as the EU (European Commission), OECD and UNCTAD, and several international financial institutions.

MIGA

In the area of investment insurance SEC continued its co-operation with MIGA. SEC and MIGA signed a Framework Memorandum of Understanding, while the preparation of a Facultative Reinsurance Agreement is underway. Apart from regular exchange of experience in investment insurance SEC also works with MIGA in arranging reinsurance for investments made by Slovene companies. In 2003 SEC and MIGA reinsured four investments of Slovene companies in South Eastern Europe in the total amount of EUR 58.8 million.

SEC representatives actively participated in several international conferences, seminars and workshops, in particular those on international trade and financing as well as insurance of export credits and investments.

Information System

Integral Information System

A well-developed information system, quality databases (currently, there are 150 databases) and existing links with other institutions are an essential tool for effective operation of a financial institution, its management, supervision and its entire operation and planning. The entire development of an information system is based on its gradual introduction into the working process and on improvement of internal and external communication.
In order to ensure effective support to its operations of insurance and financing, and considering that the insurance on account of the state is separated from insurance on own account, in 1996 SEC introduced software called LOTUS NOTES and thus started to build systematically its own integral information system. Today this information system is a quality basis for the management of all business operations and services of the Corporation. All processes are IT supported and automated to a large extent. All documents, from the request of a client, its processing and approval, to the corresponding contracts and invoices are made automatically, and at the same time all the data are used as the basis for analytical data processing and Management Information System (MIS). Therefore, all the Corporation's operations, including the factoring services which SEC performs through its subsidiary Prvi faktor, d.o.o., have adequate information system support, integrated in an overall information system. SEC IS enables the Corporation to master the management of documentation flow and business processes, and create knowledge databases. Uniformed and standardised are also cumulative analytical tables on SEC operations and business partners. Computer network is connected with the CTI telephony which enables the employees to recognize the partner calling immediately, and at the same time view all cumulative information about a particular partner on the computer screen.
The main orientation of IS development in 2003 was continued implementation of uniform standards in application development, electronic connections with business partners and continued efforts to improve system independence and integration of safety (standard BS7799) and control mechanisms into the overall operations of the Corporation and building of a system which enables IS maintenance to be performed by an outsourced IT company.
Striving for better quality of operations, SEC started with implementation of two projects in 2003. The first project was aimed at producing software solutions for monitoring of all SEC investment operations, including the functions of bank information system and analytical accounting, and the aim of the second project was examination and revision of the entire system in compliance with the safety policy according to the standard BS7799, which includes implementation of this standard in SEC operation. With the completion of these projects in 2004, all the necessary IT foundations will have been set for SEC operations performed under the status of a bank and SEC subsidiary, Prva kreditna zavarovalnica d.d., which will assume from the parent company the operations and portfolio of marketable insurance performed on its own account.
Production technical equipment has been fully separated from the development and testing environments, additional levels of protection for operating systems were implemented and the project of migration of local operating systems to an upgraded version was completed.

IT Transfer and Technical Assistance

According to the new standards, all the LOTUS NOTES databases are integrated in individual modules, which enable easier supervision over the development and changes of individual applications, and gradual handling over of chosen modules to outsourced computer company for maintenance. The modular approach to the reorganisation of databases makes possible also their installation on other locations. This possibility was acted on in the technical assistance project for the Macedonian Bank for Development Promotion (MBDP), co-financed by the Ministry of the Economy from the funds of Stability Pact in SE Europe within the framework of a bilateral programme of technical assistance, thereby supporting the business co-operation between the two agencies.
The SEC technical assistance programme continued in Bosnia and Herzegovina, and in Serbia and Montenegro where the local agencies IGA and SMECA were the beneficiaries of this technical assistance.
In 2003 SRC.SI, our IT technology partner, transferred the modules for commercial and non-commercial insurance to the Croatian agency HBOR.

E-business (SID-NET)

Electronic business has been expanding and gaining in importance in international trade, and also in SEC operations and contacts with clients. Clients have been using electronic communication more and more extensively. At the end of 2003 there were 66 companies reporting their exports electronically. Aware that electronic business is a must for modern financial institutions, SEC developed SID-NET as an answer to these challenges. A real time and space electronic business was tested with 20 business partners, who sent in approximately 400 requests for the approval of credit limits, 30% of which were (totally or in part) automatically granted. SID-NET is intended for existing and future insurance policy holders who are given equal opportunity to fill out an electronic application form which is automatically processed by the system. In 2003, 10 such applications were processed. The internal IS was reorganised 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, as clients will have access to all information on SEC facilities, conditions of insurance and financing, including credit rating information (SID-BON), via the Corporation's internet portal (http://www.sid.si).

Personnel

Recruitment (Structure and Trends)

Personnel recruitment was conducted in accordance with the approved business policy and recruitment plan. In order to attract the most suitable candidates, SEC has used a variety of recruitment methods, including advertisements in mass media, informal recruitment, unsolicited job applications and regular contacts with schools and universities.

In 2003 the number of employees increased from 69 to 74 (52 men and 22 women) with the average number of employees being 72.

A new employee was granted permanent employment in the Accounts Department, and another employee was engaged temporarily in the ST Credit Insurance Department. In addition, four graduates were taken on for a probationary period. Temporary employment ended for one employee.

Chart 18: *Personnel structure by education level as at 31 December 2003*

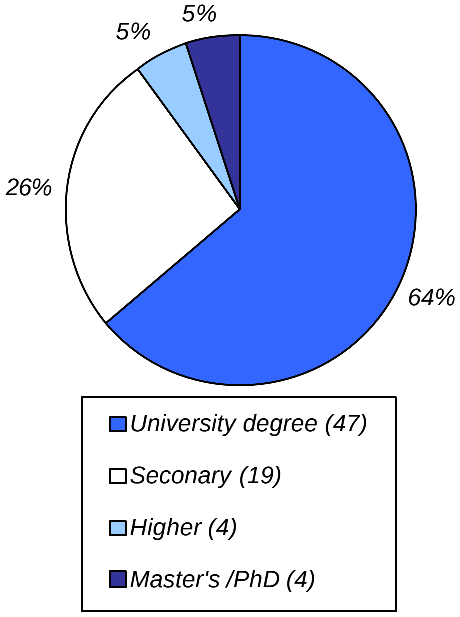
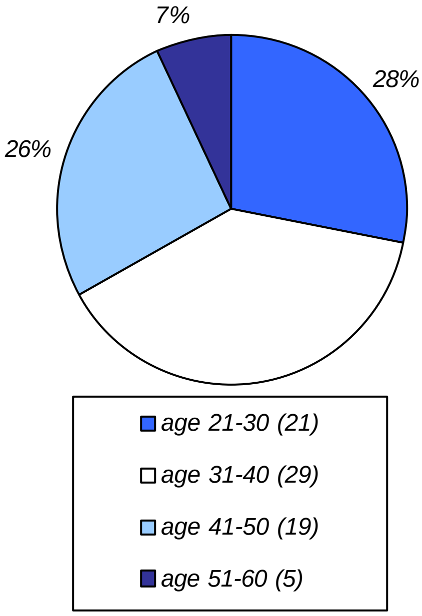


Chart 19: *Personnel structure by age as at 31 December 2003*



Recruitment Policy

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

- engaging new employees with specific expert knowledge and experience,
- a system of monitoring and assessment of job performance, as well as goals defined through annual development interviews and semi-annual appraisal interviews,
- development of remuneration policy, both for monetary and other forms, and
- encouraging active participation of all staff in the process of improving company operations and procedures.

Special attention was paid to project-based work which was conducted by specialized project teams whose main areas of work were e-business (SID-NET), credit rating information system (SID-BON), sureties and bonds insurance, risk management, reinsurance arrangements and technical assistance to other export credit agencies, establishment of a subsidiary SID – Prva kreditna zavarovalnica d.d., and IT safety policy.

Employees were invited to participate in the process of making constructive proposals and ideas for the improvement of processes and services, higher work efficiency and cost reduction.

Training

Considering the need for expert knowledge in the area of insurance and financing of business transactions, SEC gave special attention to learning and transferring knowledge, in particular in insurance, financing, treasury, legal matters, information technology, accounting and internal audit. Training took the form of in-house training and participation in conferences, workshops, seminars, postgraduate studies and the like, both in Slovenia and abroad.

The employees also acquired certain general skills, especially with regard to foreign languages, communication skills, goal setting, time management, computing, etc., and specific knowledge, e.g. e-marketing, CRM, team management, new international standards of accounting reports, preparation of Slovene banks for Basel II, accession of Slovenia to the European Union, payment systems, etc.

In 2003 fifty-five employees attended various forms of training. The number of days spent on training averaged at 4.4 per employee.

Labour Costs

Although SEC activities comprise banking and insurance operations, payment of salaries and allowances complies with the provisions of the General Collective Agreement for the Commercial Sector and the Collective Agreement of Banks and Savings Banks of Slovenia.

In 2003 SEC covered part of the premium for the voluntary supplementary pension insurance and the premiums for the voluntary supplementary health insurance for all employees.

Absenteeism

In accordance with the Internal Orders, SEC applies flexible working time which allows effective time management fully adapted to the needs and requirements of work processes.

In 2003 the number of working hours totalled 120,826, of which 14,656 hours were used as annual paid leave, 432 hours as special leave and 416 hours as study leave.

Total sick leave accounted for 6,144 hours, which is an average of 4.27%. The relatively high level of absenteeism can be credited to the disease of two employees requiring longer recovery periods. Maternity leave was also quite high, totalling 3,880 hours and 2.98% respectively, which is a result of the high percentage of women employees in SEC (almost 70%).

Internal Communication

Internal exchange of information and communication are ensured through numerous well-established tools and applications, such as: e-mail, internal e-newsletter and access to many databases (e.g. memos on business meetings, minutes and decisions of corporate bodies, internal rules and regulations, expert library, descriptions of work procedures, proposals and 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 the employees, SEC fully complies with the provisions of the Collective Agreement for Banks and Savings Banks of Slovenia, and by means of an annual contribution of funds SEC also makes possible the activities of the company trade union (sports and recreation activities, cultural and other events).

Working Environment

SEC shows special concern to ensuring adequate working conditions. In accordance with the Occupational Health and Safety Act and the implemented Statement of safety with risk assessment, SEC organised training of employees for safe and healthy work and protection against fire risk, provided medical examinations and took all the necessary measures to ensure the optimum working conditions.

Internal Audit and Controlling

Internal audit in SEC is organised as an independent expert department, reporting directly to the Management Board and also to the Supervisory Board. Its organisation and activities are defined by the Banking Act (Official Gazette of RS, No. 110/03) and the Insurance Act (Official Gazette of RS, Nos. 13/00, 91/00 and 21/02) which provide for:

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

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

Among other things, the SEC Internal Audit examines whether the Corporation:

- conducts financial services correctly and in accordance with the laws and regulations as well as internal orders applicable to SEC operations, and
- keeps account books, drafts book-keeping documents, values individual financial statements items and prepares accountancy and other reports in compliance with the Banking Act and Insurance Act, and all the internal rules.

Internal Audit is performed on the basis of the adopted annual plan and in line with the professional principles and internal audit standards, code of professional ethics and rules of conduct, which are adopted by the Management Board and approved by the Supervisory Board. Special attention is given to the supervision of risk management (credit-, non-credit and operational risks) and to the examination and evaluation of the internal control system performance. Within the scope of its activities, the SEC Internal Audit works with the Bank of Slovenia, Insurance Supervision Agency, and also with the internal audit committees of the Banking and Insurance Association.

Financial Statements of Slovene Export Corporation

Contents

Auditor's Report for the Purpose of Reporting to the Public

We have audited the financial statements of Slovenska izvozna družba, d.d., Ljubljana for the year ended 31 December 2003 in accordance with International Standards on Auditing and International Auditing Practice Statements issued by International Federation of Accountants. The summary of financial statements is based on the financial statements, consisting of the balance sheet as of 31 December 2003, the income statement for the year 2003, the cash flow statement for the year 2003 and the statement of changes in equity for the year 2003. An unqualified audit opinion was expressed in our report dated 26 March 2004 on the financial statements, on which the summary of financial statements is based. An explanatory sentence was added, referring to the tax treatment of technical provisions.

In our opinion, the attached summary of the financial statements complies, in all material aspects, with the financial statements from which it originates.

For a better understanding of the financial situation of the Company as of 31 December 2003, the results of its operations, its cash flows for the year then ended and the scope of our audit, it is necessary to read the summary of the financial statements together with the financial statements from which it originates and our audit report on these financial statements.

Until the date of the preparation of this report, the annual report had not yet been submitted to the competent authority for the processing and publishing of data.

KPMG SLOVENIJA,
podjetje za revidiranje in poslovno svetovanje,
d.o.o.

Marjan Mahnic, BSc.Ec.

Certified Auditor

Managing Partner

Ljubljana, 5 May 2004

1. Balance Sheet as at 31 December 2003

in '000 SIT

Item No.	Designation of balance sheet item		Contents	AMOUNT	
				Current year	Previous year
	1		2	3	4
1	A.	1.	Cash and balances at the central bank	22	31
2	A.	2.	Treasury bills and other securities eligible for rediscounting with the central bank	0	0
3	A.	3.	Loans to banks	89,914,435	71,218,888
4	A.	4.	Loans to non-banks	14,839,368	10,482,693
5	A.	5.	Debt securities not held for trading	7,515,967	3,909,752
6	A.	6.	Debt securities held for trading	0	0
7	A.	7.	Long-term equity investments in group enterprises	388,167	496,465
8	A.	8.	Long-term equity investments in other clients	0	0
9	A.	9.	Intangible fixed assets	55,099	7,711
10	A.	10.	Tangible fixed assets	666,585	705,243
11	A.	11.	Own shares	0	0
12	A.	12.	Subscribed unpaid capital	0	0
13	A.	13.	Other assets	1,032,852	799,300
14	A.	14.	Deferred costs (expenses) and accrued income	1,030,587	749,399
			TOTAL ASSETS	**115,443,082**	**88,369,482**
15	P.	1.	Deposits and borrowings from banks	61,012,805	38,661,304
16	P.	2.	Deposits and borrowings from non-banks	23,626,068	20,293,469
17	P.	3.	Debt securities	3,500,000	3,768,806
18	P.	4.	Other liabilities	494,606	697,616
19	P.	5.	Accrued costs (expenses) and deferred income	522,673	124,890
20	P.	6.	Long-term provisions for commitments and charges	7,771,445	6,586,460
21	P.	7.	Provisions for general banking risks	0	0
22	P.	8.	Subordinated debt	0	0
23	P.	9.	Subscribed capital	9,323,540	9,323,540
24	P.	10.	Capital reserves	1,337,489	1,337,489
25	P.	11.	Revenue reserves	2,431,244	2,173,322
26	P.	12.	Capital revaluation adjustment	5,283,938	5,283,938
27			- General capital revaluation adjustment	5,283,938	5,283,938
28			- Specific capital revaluation adjustment	0	0
29	P.	13.	Net profit or loss carried forward from previous years	0	0
30	P.	14.	Net profit or loss for the year	139,274	118,648
			TOTAL LIABILITIES	**115,443,082**	**88,369,482**
	B.		OFF-BALANCE SHEET ITEMS	26,309,417	21,292,199
31		1.	Contingencies and commitments arising from letters of credit and endorsements	0	0
32		2.	Guarantees and assets pledged as security	8,353,366	7,975,866
33		3.	Financial commitments	17,956,051	13,316,333
34		4.	Derivatives	0	0

2. Income Statement for the Year Ended 31 December 2003

in '000 SIT

Item No.	Contents	AMOUNT	
		Current year	Previous year
1	2	3	4
1	Interest and similar income	6,064,977	5,776,545
2	Interest and similar expenses	2,682,529	2,753,965
3	**Net interest and similar income (1-2)**	**3,382,448**	**3,022,580**
4	Equity investment income	0	38,361
5	Fee and commission income	2,066,748	2,233,940
6	Fee and commission expenses	138,499	65,500
7	**Net fees and commissions (5-6)**	**1,928,249**	**2,168,440**
8	Financial transactions income	1,287,964	880,814
9	Financial transactions expenses	1,490,651	849,352
10	**Net profit or loss on financial transactions (8-9)**	**-202,687**	**31,462**
11	Other operating income	25,960	62,234
12	Labour costs	656,713	521,474
13	Costs of materials and services	428,740	498,222
14	Depreciation and operating expenses from revaluation of fixed assets	78,844	73,040
15	Other operating expenses	874,119	1,045,736
16	Losses on loans/receivables less recoveries	2,726,811	2,886,374
17	Net provisions for general banking risks	0	0
18	**Profit or loss on ordinary activities (3+4+7+10+11-12-13-14-15-16-17)**	**368,743**	**298,231**
19	Extraordinary income	0	931
20	Extraordinary expenses	0	25
	- excl. of capital revaluation adjustment	0	25
	- arising from capital revaluation adjustment	0	0
21	Profit or loss on extraordinary activities (19-20)	0	906
22	Profit or loss before tax (18+21)	368,743	299,137
23	Corporate income tax	90,195	61,841
24	Other taxes	0	0
25	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR (22-23-24)**	**278,548**	**237,296**

3. Cash Flow Statement for the Year Ended 31 December 2003

in '000 SIT

Item No.	Contents	Amount	
		Current year	Previous year
1	2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	**Inflows**	**7,389,289**	**7,115,960**
	Interest and similar income	5,767,644	4,929,848
	Fee and commission income	1,797,702	1,938,246
	Income from recoveries	0	115,809
	Income from equity investments	0	38,361
	Net profit or loss on financial transactions	-202,017	31,462
	Other operating income	25,960	62,234
b)	**Outflows**	**4,998,260**	**4,492,092**
	Interest and similar expenses	2,759,947	2,338,610
	Fee and commission expenses	104,302	31,941
	Payments to employees	597,646	521,474
	Other operating expenses	1,462,247	1,543,958
	Corporate income tax	74,118	56,109
	Total operating income/expenses before change in operating assets and liabilities	2,391,029	2,623,868
c)	**(Increase)/decrease in operating assets**	**-23,285,774**	**-28,103,292**
	Net (increase)/decrease of treasury bills and other securities eligible for rediscounting with the central bank (excl. of revaluation)	0	0
	Net (increase)/decrease in loans to banks (excl. of revaluation)	-18,695,547	-18,761,237
	Net (increase)/decrease in loans to non-banks (excl. of revaluation)	-4,356,675	-9,881,446
	Net (increase)/decrease in securities held for trading (excl. of revaluation)	0	766,766
	Net (increase)/decrease in other operating assets (excl. of revaluation)	-233,552	-227,375
d)	**Increase/(decrease) in operating liabilities**	**1,148,850**	**508,129**
	Net increase/(decrease) in deposits from banks (excl. of revaluation)	686,402	0
	Net increase/(decrease) in deposits from non-banks (excl. of revaluation)	462,448	508,129
	Net increase/(decrease) of other money deposits	0	0
e)	**Net inflows (a+c-b+d) or net outflows (b+d-a+c) from operating activities**	**-19,745,895**	**-24,971,295**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Inflows**	**13,257,683**	**3,105,512**
	Interest received from investing activities	0	0
	Inflows from equity investments and other investment inflows	0	0
	Inflows from debt securities disposal	13,257,683	3,104,538
	Inflows from equity investments sold	0	0
	Inflows from fixed assets disposal	0	974
b)	**Outflows**	**16,951,115**	**4,556,106**
	Outflows from investment activities	0	0
	Outflows from debt securities purchased	16,869,680	3,909,752
	Outflows from equity investments	0	500,220
	Outflows from fixed assets purchased	81,435	146,134
c)	**Net inflows (a+b) or net outflows (b-a) from investing activities**	**-3,693,432**	**-1,450,594**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Inflows**	**124,615,525**	**59,095,124**
	Other revenues from financing activities	0	0
	Borrowings	124,615,525	56,030,936
	Increase of debt securities and subordinated liabilities (excl. of revaluation)	0	2,788,646
	Inflows from new share issues	0	0
	Inflows from own shares disposal	0	275,542
b)	**Outflows**	**101,201,255**	**32,230,409**
	Interests paid and other expenses from financing activities	0	0
	Dividends paid out by the bank	0	0

	Loan repayment	100,932,449	31,954,867
	Decrease in debt securities and subordinated liabilities (excl. of revaluation)	268,806	0
	Outflows from own shares purchased	0	275,542
c)	**Net inflows (a+b) or net outflows (b-a) from financing activities**	**23,414,270**	**26,864,715**
	Effect of change in exchange rates on cash and cash equivalents		
C.	**CASH AND CASH EQUIVALENTS AT END OF PERIOD**	**421,405**	**446,462**
	x) Net increase (decrease) in cash and cash equivalents (Ad + Bc + Cc)	-25,057	442,826
	+		
	y) Cash and cash equivalents at beginning of period	446,462	3,636

4. Statement of Changes in Equity for the Year Ended 31 December 2003

in '000 SIT

Item No.	Contents	Subscribed capital	Capital reserves	Revenue reserves	Reserves for own shares	Net profit or loss from previous period	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit/loss for the year	Total capital
1	2	3	4	5	6	7	8	9	10	11
A.	**OPENING BALANCE (31 December 2002)**	**9,323,540**	**1,337,489**	**2,173,322**	**0**	**0**	**5,283,938**	**0**	**118,648**	**18,236,937**
B.	**Transfers to equity**	**0**	**0**	**0**	**0**	**0**	**0**	0	278,548	278,548
a)	Call-up (or subscription)of additional capital									
b)	General capital revaluation adjustment									
c)	Specific capital revaluation adjustment									
d)	Net profit or loss for the year	0	0	0	0	0	0	0	278,548	278,548
e)	Input of a portion of profit to settle losses from previous periods									
f)	Other increases									
C.	**Transfers within equity**	**0**	**0**	**257,922**	**0**	**0**	**0**	**0**	**-257,922**	**0**
a)	Allocation of net profit to revenue reserves	0	0	257,922	0	0	0	0	-257,922	0
b)	Allocation of part of the profit for the financial year to cover losses from previous periods									
c)	Allocation of revenue reserves or other items of capital to cover losses from previous periods and loss for the financial year									
d)	Allocation of the items of capital to the reserves for own shares									
e)	Dissolution of reserves for own shares to the original items of capital									
f)	Transfer of items of capital, excl. of legal reserves and general capital revaluation adjustment, to subscribed capital									
g)	Dividends paid in the form of shares									
h)	Other changes within the capital									
D.	**Transfers from equity**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
a)	Dividend payout									
b)	Equity capital redemption									
c)	Decrease of specific equity capital revaluation adjustments resulting from impairment of assets									
d)	Transfer of specific capital revaluation adjustments to operating revenue									
e)	Transfer of specific capital revaluation adjustments to financial revenue									
f)	Other decreases of capital									
E.	**CLOSING BALANCE (31 December 2003)**	**9,323,540**	**1,337,489**	**2,431,244**	**0**	**0**	**5,283,938**	**0**	**139,274**	**18,515,485**

Consolidated Financial Statements of Slovenska izvozna družba Group

Contents

Auditor's Report for the Purpose of Reporting to the Public

We have audited the consolidated financial statements of Slovenska izvozna družba Group for the year ended 31 December 2003 in accordance with International Standards on Auditing and International Auditing Practice Statements issued by International Federation of Accountants. The summary of consolidated financial statements is based on the consolidated financial statements, consisting of the consolidated balance sheet as of 31 December 2003, the consolidated income statement for the year 2003, the consolidated cash flow for the year 2003 and the consolidated statement of changes in equity for the year 2003. An unqualified audit opinion was expressed in our report dated 26 March 2004 on the consolidated financial statements, on which the summary of consolidated financial statements is based. An explanatory sentence was added, referring to the tax treatment of technical provisions.

In our opinion, the attached summary of the consolidated financial statements complies, in all material aspects, with the consolidated financial statements from which it originates.

For a better understanding of the financial situation of the Group as of 31 December 2003, the results of its operations, and its cash flows for the year then ended, and the scope of our audit, it is necessary to read the summary of consolidated financial statements together with the consolidated financial statements from which it originates and our audit report on these financial statements.

Until the date of the preparation of this report, the annual report had not yet been submitted to the competent authority for the processing and publishing of data.

KPMG SLOVENIJA,
podjetje za revidiranje in poslovno svetovanje,
d.o.o.

Marjan Mahnic, BSc.Ec.

Certified Auditor

Managing Partner

Ljubljana, 5 May 2004

1. Consolidated Balance Sheet as at 31 December 2003

in '000 SIT

Item No.	Contents	Amount	
		Current year	Previous year
	2	3	4
1	Cash and balances at the central bank	22	31
2	Treasury bills and other securities eligible for rediscounting with the central bank	0	0
3	Loans to banks	89,914,435	71,218,888
4	Loans to non-banks	14,839,368	10,482,693
5	Debt securities not held for trading	7,515,967	3,909,752
6	Debt securities held for trading	0	0
7	Long-term equity investments in group enterprises	388,167	496,465
8	Long-term equity investments in other clients	0	0
9	Intangible fixed assets	55,099	7,711
10	Tangible fixed assets	666,585	705,243
11	Own shares	0	0
12	Subscribed unpaid capital	0	0
13	Other assets	1,032,852	799,300
14	Deferred costs (expenses) and accrued income	1,030,587	749,399
	TOTAL ASSETS	**115,443,082**	**88,369,482**
15	Deposits and borrowings from banks	61,012,805	38,661,304
16	Deposits and borrowings from non-banks	23,626,068	20,293,469
17	Debt securities	3,500,000	3,768,806
18	Other liabilities	494,606	697,616
19	Accrued costs (expenses) and deferred income	522,673	124,890
20	Long-term provisions for commitments and charges	7,771,445	6,586,460
21	Provisions for general banking risks	0	0
22	Subordinated debt	0	0
23	Minority owners' capital	0	0
24	Subscribed capital	9,323,540	9,323,540
25	Capital reserves	1,337,489	1,337,489
26	Revenue reserves	2,431,244	2,173,322
27	Capital revaluation adjustment	5,283,938	5,283,938
28	- General capital revaluation adjustment	5,283,938	5,283,938
29	- Specific capital revaluation adjustment	0	0
30	Capital adjustment arising from consolidation	0	0
31	Net profit or loss carried forward from previous years	0	0
32	Net profit or loss for the year	139,274	118,648
	TOTAL LIABILITIES	**115,443,082**	**88,369,482**
	OFF-BALANCE SHEET ITEMS	26,309,417	21,292,199
33	Contingencies and commitments arising from letters of credit and endorsements	0	0
34	Guarantees and assets pledged as security	8,353,366	7,975,866
35	Financial commitments	17,956,051	13,316,333
36	Derivatives	0	0

2. *Consolidated Income Statement for the Year Ended 31 December 2003*

in '000 SIT

Item No.	Contents	Amount	
		Current year	Previous year
1	2	3	4
1	Interest and similar income	6,064,977	5,776,545
2	Interest and similar expenses	2,682,529	2,753,965
3	**Net interest and similar income (1-2)**	**3,382,448**	**3,022,580**
4	Equity investment income	0	38,361
5	Fee and commission income	2,066,748	2,233,940
6	Fee and commission expenses	138,499	65,500
7	**Net fees and commissions (5-6)**	**1,928,249**	**2,168,440**
8	Financial transactions income	1,287,964	880,814
9	Financial transactions expenses	1,490,651	849,352
10	**Net profit or loss on financial transactions (8-9)**	**-202,687**	**31,462**
11	Other operating income	25,960	62,234
12	Labour costs	656,713	521,474
13	Costs of materials and services	428,740	498,222
14	Depreciation and operating expenses from revaluation of fixed assets	78,844	73,040
15	Other operating expenses	874,119	1,045,736
16	Losses on loans/receivables less recoveries	2,726,811	2,886,374
17	Net provisions for general banking risks	0	0
18	**Profit or loss on ordinary activities**	**368,743**	**298,231**
19	Extraordinary income	0	931
20	Extraordinary expenses	0	25
	- excl. of capital revaluation adjustment	0	25
	- arising from capital revaluation adjustment	0	0
21	Profit or loss on extraordinary activities (19-20)	0	906
22	Profit or loss before tax (18+21)	368,743	299,137
23	Corporate income tax	90,195	61,841
24	Other taxes	0	0
25	Minority owners' share	0	0
26	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR (22-23-24-25)**	**278,548**	**237,296**

3. Consolidated Cash Flow Statement for the Year Ended 31 December 2003

Item No.	Contents	Amount (in '000 SIT) Current year	Previous year
1	2	3	4
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Inflows**	**7,389,289**	**7,115,960**
	Interest and similar income	5,767,644	4,929,848
	Fee and commission income	1,797,702	1,938,246
	Income from recoveries	0	115,809
	Income from equity investments	0	38,361
	Net profit or loss on financial transactions	-202,017	31,462
	Other operating income	25,960	62,234
b)	**Outflows**	**4,998,260**	**4,492,092**
	Interest and similar expenses	2,759,947	2,338,610
	Fee and commission expenses	104,302	31,941
	Payments to employees	597,646	521,474
	Other operating expenses	1,462,247	1,543,958
	Corporate income tax	74,118	56,109
	Total operating income/expenses before change in operating assets and liabilities	2,391,029	2,623,868
c)	**(Increase)/decrease in operating assets**	**-23,285,774**	**-28,103,292**
	Net (increase)/decrease of treasury bills and other securities eligible for rediscounting with the central bank (excl. of revaluation)	0	0
	Net (increase)/decrease in loans to banks (excl. of revaluation)	-18,695,547	-18,761,237
	Net (increase)/decrease in loans to non-banks (excl. of revaluation)	-4,356,675	-9,881,446
	Net (increase)/decrease in securities held for trading (excl. of revaluation)	0	766,766
	Net (increase)/decrease in other operating assets (excl. of revaluation)	-233,552	-227,375
d)	**Increase/(decrease) in operating liabilities**	**1,148,850**	**508,129**
	Net increase/(decrease) in deposits from banks (excl. of revaluation)	686,402	0
	Net increase/(decrease) in deposits from non-banks (excl. of revaluation)	462,448	508,129
	Net increase/(decrease) of other money deposits	0	0
e)	**Net inflows (a+c-b+d) or net outflows (b+d-a+c) from operating activities**	**-19,745,895**	**-24,971,295**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Inflows**	**13,257,683**	**3,105,512**
	Interest received from investing activities	0	0
	Inflows from equity investments and other investment inflows	0	0
	Inflows from debt securities disposal	13,257,683	3,104,538
	Inflows from equity investments sold	0	0
	Inflows from fixed assets disposal	0	974
b)	**Outflows**	**16,951,115**	**4,556,106**
	Outflows from investment activities	0	0
	Outflows from debt securities purchased	16,869,680	3,909,752
	Outflows from equity investments	0	500,220
	Outflows from fixed assets purchased	81,435	146,134
c)	**Net inflows (a+b) or net outflows (b-a) from investing activities**	**-3,693,432**	**-1,450,594**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Inflows**	**124,615,525**	**59,095,124**
	Other revenues from financing activities	0	0
	Borrowings	124,615,525	56,030,936
	Increase of debt securities and subordinated liabilities (excl. of revaluation)	0	2,788,646
	Inflows from new share issues	0	0
	Inflows from own shares disposal	0	275,542
b)	**Outflows**	**101,201,255**	**32,230,409**
	Interests paid and other expenses from financing activities	0	0

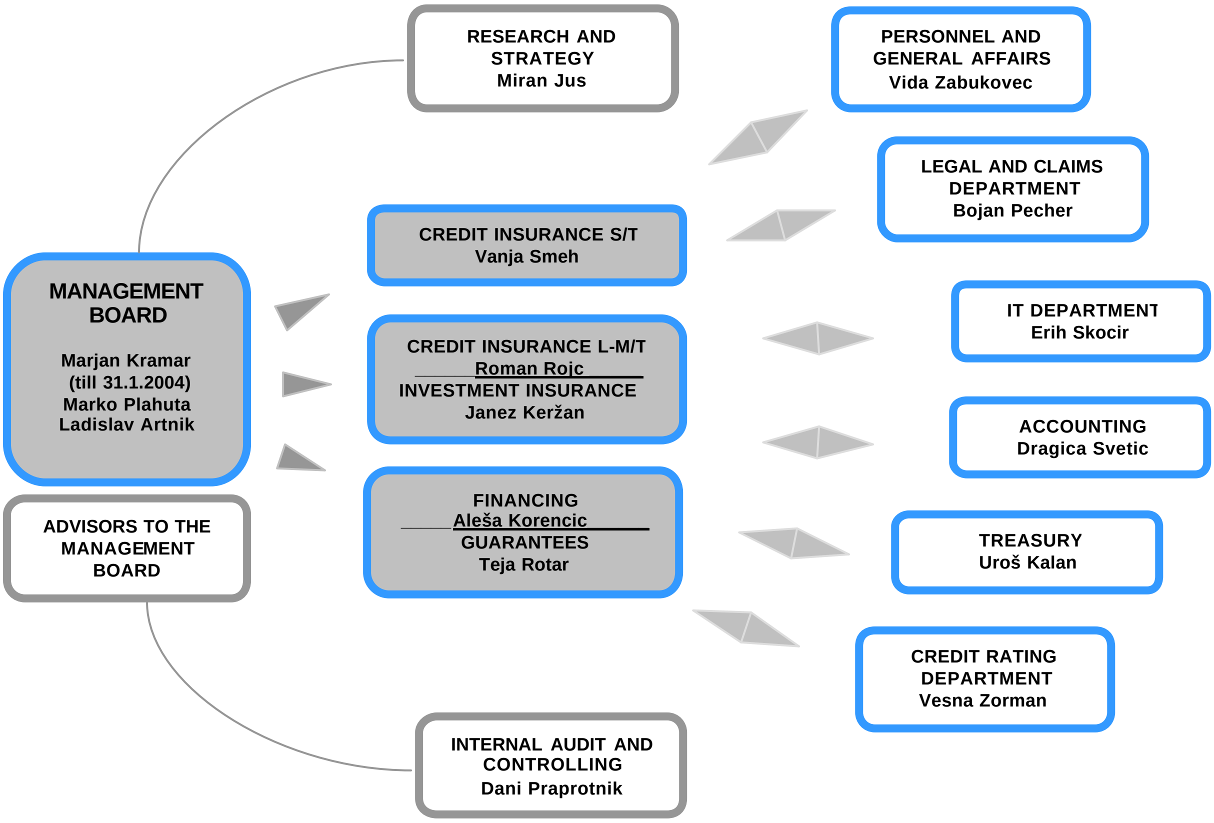
	Dividends paid out by the bank	*0*	*0*
	Loan repayment	*100,932,449*	*31,954,867*
	Decrease in debt securities and subordinated liabilities (excl. of revaluation)	*268,806*	*0*
	Outflows from own shares purchased	*0*	*275,542*
c)	***Net inflows (a+b) or net outflows (b-a) from financing activities***	***23,414,270***	***26,864,715***
	Effect of change in exchange rates on cash and cash equivalents		
C.	***CASH AND CASH EQUIVALENTS AT END OF PERIOD***	***421,405***	***446,462***
	x) Net increase (decrease) in cash and cash equivalents (Ad + Bc + Cc)	*-25,057*	*442,826*
	+		
	y) Cash and cash equivalents at beginning of period	*446,462*	*3,636*

4. Consolidated Statement of Changes in Equity for the Year Ended 31 December 2003

in '000 SIT

Item No.	Contents	Subscribed capital	Capital reserves	Revenue reserves	Reserves for own shares	Net profit or loss from previous period	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit / loss for the year	Total capital	Capital adjustment from translation in consolidation
1	2	3	4	5	6	7	8	9	10	11	12
A.	**OPENING BALANCE (31 December 2002)**	**9,323,540**	**1,337,489**	**2,173,322**	**0**	**0**	**5,283,938**	**0**	**118,648**	**18,236,937**	**0**
B.	**Transfers to equity**	**0**	**0**	**0**	**0**	**0**	**0**	0	278,548	278,548	0
a)	Call-up (or subscription)of additional capital										
b)	General capital revaluation adjustment										
c)	Specific capital revaluation adjustment										
d)	Net profit or loss for the year	0	0	0	0	0	0	0	278,548	278,548	0
e)	Input of a portion of profit to settle losses from previous periods										
f)	Other increases										
g)	Increase in translation differences arising from changes in exchange rates										
C.	**Transfers within equity**	**0**	**0**	**257,922**	**0**	**0**	**0**	**0**	**-257,922**	**0**	**0**
a)	Allocation of net profit to revenue reserves	0	0	257,922	0	0	0	0	-257,922	0	0
b)	Allocation of part of the profit for the financial year to cover losses from previous periods										
c)	Allocation of revenue reserves or other items of capital to cover losses from previous periods and loss for the financial year										
d)	Allocation of the items of capital to the reserves for own shares										
e)	Dissolution of reserves for own shares to the original items of capital										
f)	Transfer of items of capital, excl. of legal reserves and general capital revaluation adjustment, to subscribed capital										
g)	Dividends paid in the form of shares										
h)	Other changes within the capital										
D.	**Transfers from equity**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
a)	Dividend payout										
b)	Equity capital redemption										
c)	Decrease of specific equity capital revaluation adjustments resulting from impairment of assets										
d)	Transfer of specific capital revaluation adjustments to operating revenue										
E0)	Transfer of specific capital revaluation adjustments to financial revenue										
f)	Other decreases of capital										
g)	Decrease in translation differences arising from changes in exchange rates										
E.	**CLOSING BALANCE (31 December 2003)**	**9,323,540**	**1,337,489**	**2,431,244**	**0**	**0**	**5,283,938**	**0**	**139,274**	**18,515,485**	**0**

Organisation Chart and SEC Bodies



Shareholders’ Assembly of Slovenska izvozna družba, d.d.

mag. Simon Oblak – Chairman
Assistant General Director of LEK, d.d., Ljubljana
Ludvik Hribar – Deputy Chairman (till 24.6.2003)
Former General Director of RUDIS, d.d., Trbovlje
Metod Zaplotnik – Deputy Chairman (since 24.6.2003)
Finance Director, Iskratel Telekomunikacijski sistemi, d.o.o.

Supervisory Board

1. mag. Sibil Svilan – Chairman
   State Secretary, Ministry for Finance
2. Janez Lotric – Deputy Chairman
   President of the Management Board of PETROL d.d., Ljubljana
3. mag. Mateja Mešl
   State Secretary, Ministry for Economy
4. Janko Deželak
   State Secretary, Ministrsy for Defense
5. Jože Stanic
   Former President of the Management Board of GORENJE d.d., Velenje
6. Ivan Ferme
   Chairman of THE Board of ETOL d.d., Celje
7. Pavel Demšar
   Managing Director of DOMEL d.d., Železniki

Exports Promotion Commission (Commission for Promotion of International Trade)

1. Renata Vitez – Chairperson
   State Secretary, Ministry of Economy
2. dr. Mojmir Mrak – Deputy Chairman
   Full Professor – Faculty of Economic, Ljubljana
3. mag. Janez Košak
   Vice Governor – Bank of Slovenia
4. Stanka Zadravec Caprirolo
   State Undsersecretary – Ministry of Finance
5. Bojan Gucek (till 6.3.2003)
   Advisor to the Government of RS
   Mitja Štrukelj (from 6.3.2003 to 26.2.2004)
   General Secretary – Ministry of Foreign Affairs
   Jože Drofenik (since26.2.2004)
   State Undersecretary – Ministry of Foreign Affairs
6. mag. Marta Kos Marko (till 9.10.2003)
   Vice President – Chamber of Trade and Industry of Slovenia
   mag. Cveto Stantic (since 9.10.2003)
   Vice President – Chamber of Trade and Industry of Slovenia

History of SEC

1992

- June 17 – Adoption of the Law on Export Insurance and Finance Corporation of Slovenia (Official Gazette Nos. 37/95, 34/96, 31/97 and 99/99);
- July 8 – 87 founding shareholders formally sign the Memorandum of Association of Slovenska izvozna družba, d.d. Ljubljana (Slovene Export Corporation, Inc., Ljubljana); during the same year the first of the three installments of the initial capital is paid in;
- October 22 – the Founding Shareholders' Meeting of Slovenska izvozna družba, d.d. Ljubljana. On October 27, SEC is entered into the Companies' Register.

1993

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

1994

- Accelerated 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;
- Adoption of the Law on the Use of Funds, Acquired from the Proceeds on the Basis of the Ownership Transformation Act, which was used in the following year to build contingency reserves for insurance performed on account of the state and to fund equity increase in SEC;
- Second technical assistance programme (consultants ACE/IFC, Vienna) financed by EBRD;
- Short-term export credit insurance against commercial risks – covering permanent insolvency and protracted default;
- Refinancing also available for exports of consumer durables and financing of marketing activities.

1996

- Development of own integral information system (SEC IS);
- Establishment of own Credit Rating Department;
- Introduction of new services: refinancing of export credits is expanded to include outward investments, and insurance of guarantees;
- SEC starts attending meetings of the newly established ECAs with the Secretary General of the Berne Union;
- Technical assistance provided by COFACE (Phare programme).

1997

- Adoption of the development strategy for the system of export insurance and financing of the Republic of Slovenia;
- Amendments to the Law on SEC provide for the completion of the project designed to introduce exchange risk insurance; new facility: insurance of credit lines, modification of facilities and adoption of new General conditions on investment insurance (growth of this insurance scheme)
- Active networking with other ECAs by closing various types of agreements.

1998

- Adoption of the Law on Guarantees of the Republic of Slovenia for the Loans Hired for Export Financing (Official Gazette of RS, No 20/98), which enables SEC to enter international financial markets and borrow funds to finance exports in foreign cureency;
- October 21 – at the 55th Annual General Meeting of the Berne Union (Cape Town, South African Republic), SEC becomes an observer member of the International Union of Credit and Investment Insurers;
- May 24–27 – at the 15th Annual General Meeting in Vancouver (Canada), SEC becomes an observer member of the Pan American Surety Association (PASA);
- Introduction of the SME programme which facilitates access to insurance cover and refinancing also for small and medium-sized enterprises.

1999

- In eleven years of operation, 1999 was 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 obtained from a foreign financial institution (KfW);
- Successful start of domestic credit insurance;
- Amendments to the Law on SEC – privatisation of SEC is made possible, whilst the proceeds should be used for contingency reserves.

2000

- Volume of insurance first exceeds one billion Euros (EUR 1.192 million);
- October 18 – At the 57th Annual General Meeting of the International Union of Credit and Investment Insurers, held in Amsterdam, Netherlands, SEC becomes a full member of the Berne Union.

2001

- SEC for the first time active as a consultant in a bilateral government programme of technical assistance (MBDP, Macedonia);
- Adjustment of the premium system for the insurance on state account (OECD – Knaepen package).
- First issue of debt securities by SEC – the Corporation issues bills in the nominal value of SIT 1 billion as a new form of financing.

2002

- October 15 – equity investment and acquisition of a fifty percent share in SEC subsidiary LB Factors, d.o.o. (later renamed as Prvi faktor, d.o.o.);
- Launching of an financing scheme for SMEs, in co-operation with KfW and the Council of Europe Development Bank;
- SEC obtains the largest syndicated loan arranged by BACA, Citigroup, SMBC and WestLB in the amount of EUR 70 million;
- SEC issues bills in the nominal value of SIT 1.8 billion.

2003

- Insurance and financing of the renovation project of Hotel Budapest in Moscow;
- June 27 – SEC becomes an associate member of the Bank Club;
- Prvi faktor, d.o.o. sets up a company in Croatia;
- December 19 – The National Assembly of RS adopts the new Law on Insurance and Financing of International Business Transactions (Official Gazette of RS, No. 2/04) which becomes effective on 14 February 2004, replacing the laws of 1992 and 1998.
- Business volume substantially exceeds, for the first time in SEC existence, the level of EUR 2 billion (EUR 2,394 million), and this figure is excceded for the first time by insurance on own account (EUR 2,031 million).

2004

- Conclusion of a long-term agreement on insurance and financing of international business transactions between SEC and the Ministry of Finance of RS;
- Revised and upgraded facility of bank guarantees (BANG);
- SID-NET is fully operational;
- SID-Prva kreditna zavarovalnica, d.d., is established and marketable insurance is transferred to it.