SLOVENSKA
IZVOZNA
DRUŽBA

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

# BUSINESS REPORT 2005

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|---|---|
| **Company name:** | **Slovenska izvozna družba,<br>družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana<br>(Slovene Export Corporation, Export Insurance and Finance Corporation of Slovenia, Inc., Ljubljana)** |
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**Companies of SEC Group**

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# Foreword by President of the Management Board

For Slovenska izvozna družba, d.d., Ljubljana (Slovene Export Corporation, Inc., Ljubljana, SEC) 2005 was a year of change, mainly resulting from harmonisation of the Corporation's activities with the Law on Insurance and Financing of International Business Transactions, which regulates the basic principles of the system for insurance and financing of international business transactions. On 1 January 2005 SEC transferred onto the newly established insurance company SID – Prva kreditna zavarovalnica d.d., Ljubljana its portfolio of insurance against marketable risks which it had performed for its own account prior to the end of 2004. In addition, the project of transforming SEC into a bank continued in 2005 and is expected to be completed by the end of 2006.

Slovene Export Corporation and its subsidiaries forming the SEC Group: SID – Prva kreditna zavarovalnica d.d., Ljubljana, PRO KOLEKT d.o.o. in PRVI FAKTOR, faktoring družba, d.o.o. succeeded in increasing their business volume and achieved good business results.

Like in previous years, sustained growth in business volumes concerning financing of international business transactions was maintained thanks to borrowings which SEC obtained in international financial markets and on own behalf and for own account with the guarantee of the Republic of Slovenia. By securing financing to banks, exporters, foreign buyers and Slovene investors abroad, SEC continued to play an active part in the promotion of Slovene international trade. The volume of financing rose by 20% in 2005, closing the year at EUR 599 million.

The total volume of business insured on behalf and for the account of the Republic of Slovenia, which includes short-term credit insurance against non-marketable risks, medium-term credit insurance and investment insurance, was EUR 389 million, with a significant rise recorded in insurance of investments taken out by Slovene legal entities abroad.

Having concluded EUR 3 billion worth of insurance contracts, the SEC subsidiary SID – Prva kreditna zavarovalnica d.d., Ljubljana, closed its first year of independent operation with a profit.

The year 2005 was also successful for PRVI FAKTOR, faktoring družba, d.o.o., in which SEC holds a 50 percent equity share. Together with its subsidiaries in Zagreb and Belgrade PRVI FAKTOR almost doubled its 2004 volumes by EUR 211 million of factoring business done.

The results achieved in 2005 are a promise and a pledge for efficient performance in the year to come.

Marko Plahuta
President of the Management Board

## Report by the Supervisory Board

In 2005 the operations of Slovene Export Corporation (SEC) were supervised by the Supervisory Board in two compositions, as the term of office of most supervisory board members expired in June 2005. At the meeting held on 15 June 2005 new members of the Supervisory Board were appointed Dr. Andrej Bajuk, Mag. Gonzalo Caprirolo, Dr. Božo Cerar, Mag. Jožko Čuk, Dr. Andrej Kitanovski and Dr. Mojmir Mrak, while Mag. Helena Kamnar was appointed a supervisory board member in 2004.

In 2005 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 and in compliance with the Rules of procedure of the Supervisory Board, the Articles of Association of the Slovene Export Corporation and in line with the regulations stating the authorities of the Supervisory Board.

The Supervisory Board of Slovenska izvozna družba, d.d. Ljubljana met at six regular and three correspondence meetings where it studied periodical reports on the operations of SEC and the companies of the SEC Group, quarterly reports by the Internal Audit and Controlling department, data on risk management and other general and specific issues related to the business operations of the Corporation.

In 2005 the Supervisory Board discussed and decided on the following issues:

- business policy for the year 2006
- business plan for the year 2006
- working plan regarding internal audit and controlling for the year 2006
- borrowings in international markets
- the course of the project aimed at harmonising the operations of SEC with banking regulations (In accordance with ZZFMGP)
- proposals for changes to the Articles of Association, and
- future strategic orientations of the company.

In monitoring and supervising 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 its meeting held on 18 April 2006, the Supervisory Board examined in detail the Annual Report of the Corporation for 2005 together with the report of the certified auditors prepared by the auditing house Deloitte & Touche revizija d.o.o., which gave its positive opinion on the consolidated accounting statements of the SEC Group for the year 2005.

Upon examining all the submitted reports, the Supervisory Board has no reservations to the submitted reports and hereby confirms the Annual Report of Slovenska izvozna družba, d.d., Ljubljana for the year 2005.

Dr. Andrej Bajuk
Chairperson

# 1. Highlights from the Business Report of SEC and SEC Group in 2005

## *Slovenska izvozna družba, d.d., Ljubljana (Slovene Export Corporation; SEC)*

### Business volume and results from insurance for own account

- **Financing** of international business transactions (as of 31 December 2005) – SIT 143.5 billion (EUR 599.2 million) (up by 20%) – interest income SIT 4.0 billion (EUR 16.7 million) / non-interest income SIT 148.3 million (EUR 0.6 million)
- **Value of guarantees issued** (as of 31 December 2005) – SIT 11.2 billion (EUR 46.9 million) (up by 37%)
- **Total assets** (as of 31 December 2005) – SIT 148.7 billion (EUR 620.7 million) (up by 25%)
- **Total assets including contingency reserve** (as of 31 December 2005) – SIT 170.9 billion (EUR 713.6 million) (up by 22%)
- **Profit before tax** – SIT 2.2 billion (EUR 9.1 million)

### *Business volume and results from insurance on behalf and for the account of the Republic of Slovenia*

- **Export credit and investment insurance against non-marketable risks** on behalf of and for the account of the State – SIT 93.1 billion (EUR 388.7 million), broken down into short term export credit insurance SIT 1.7 billion (EUR 7.0 million) (down by 99%), medium term export credit insurance SIT 16.3 billion (EUR 68.1 million) (up by 52%) and outward investment insurance SIT 75.1 billion (EUR 313.5 million) (up by 137%).
- Premiums SIT 1.5 billion (EUR 6.4 million) / claims SIT 0.8 billion (EUR 3.2 million)
- Contingency reserve (as of 31 December 2005) – SIT 22.2 billion (EUR 92.8 million) (up by 3%)

### *Key figures*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| number of shareholders | 81 | 89 | 89 | 88 | **87** |
| nominal capital (in EUR million) | 42.1 | 40.5 | 39.4 | 38.9 | **38.9** |
| capital & reserves (in EUR million) | 81.3 | 79.2 | 78.2 | 79.4 | **88.3** |
| profit before tax (in EUR million) | 0.9 | 1.3 | 1.6 | 5.3 | **9.1** |
| return on equity before tax (ROE) | 1.22% | 1.65% | 2.01% | 6.71% | **10.84%** |
| number of employees (31 Dec.) | 56 | 69 | 74 | 83 | **62** |

## *Companies of SEC Group*

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

- Wholly-owned by SEC, capital (as of 31 December 2005) is SIT 1,534.4 million (EUR 6.4 million);
- Business volume including domestic and export credit insurance against marketable risks – EUR 3,036 million (up by 15%).
- Total assets (as of 31 December 2005) – SIT 6,714.4 million (EUR 28.0 million)
- Profit before tax – SIT 709.3 million (EUR 3.0 million)

### PRO KOLEKT, družba za izterjavo, d.o.o.

- Wholly-owned by SEC, capital (as of 31 December 2005) is SIT 2.3 million (EUR 82.5 thousand);
- Value of assumed collection cases – EUR 10.1 million (up by 621%)
- Total assets (as of 31 December 2005) – SIT 19.9 million (EUR 82.6 thousand)
- Profit before tax – SIT 279.4 thousand (EUR 1.2 thousand)

### PRVI FAKTOR, faktoring družba, d.o.o.

- Fifty percent owned by SEC, capital (as of 31 December 2005) is SIT 918.5 million (EUR 3.8 million);
- Value of acquired receivables – EUR 106.4 million (up by 20%); PRVI FAKTOR Group – EUR 211.4 million (up by 81%)
- Total assets (as of 31 December 2005) – SIT 11,440.6 million (EUR 47.7 million)
- Profit before tax – SIT 78.6 million (EUR 0.3 million)

*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: 31.12.2001: 1 EUR = 221.4095 SIT; 31.12.2002: 1 EUR = 230.2673 SIT; 31.12.2003: 1 EUR = 236.6903, 31.12.2004: 1 EUR = 239.7430; **31.13.2005: 1 EUR = 239.5756**). For other operational figures the values expressed in EUR were calculated from the average monthly exchange rates of the Bank of Slovenia in a given calendar year (2001: 217.1851 SIT; 2002: 226.2237 SIT; 2003: 233.7045 SIT; 2004: 238.8615, **2005: 239.6371**).*

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

## *Legal status*

- **Slovenska izvozna družba, d.d., Ljubljana** (Slovene Export Corporation, hereinafter SEC or the Corporation) was established on 22 October 1992 as a special private law financial institution for insurance and financing of exports.
- 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.
- In accordance with the **Law on Insurance and Financing of International Business Transactions** (hereinafter ZZFMGP) (Official Gazette of RS, No. 2/04), SEC continues to operate as an authorised Slovene export credit agency (ECA) although since February 2004, when the Law became effective, it 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 for state account) but continues to carry out financing and issue of guarantees **for 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.
- Pursuant to the Law on Insurance and Financing of International Business Transactions, SEC signed an agreement with the Ministry of Finance on the regulation of mutual relations concerning implementation of Chapter II of the ZZFMGP on 1 December 2004.
- In establishing an insurance company and transferring onto it the insurance portfolio which it had performed on its own behalf by the end of 2004, SEC acted in accordance with the Law, modifying its status and activities regarding this class of insurance with the regulations governing insurance company operations. SID – Prva kreditna zavarovalnica d.d., Ljubljana, wholly-owned by SEC, was entered into the Register of Companies on 31 December 2004.
- In 2006 the project of transforming SEC into a bank will be completed as SEC is obliged by Article 16, paragraph six, of ZZFMGP to harmonise its operations which are not insurance operations and therefore not the subject of ZZFMGP with the regulations governing operation of banks by 31 December 2006 at the latest. Harmonisation is carried out in compliance with the contents and deadlines set out in the Decision on Harmonisation of the Activities of Slovene Export Corporation, Inc., with the Regulations Governing Operation of Banks, which was issued by the Bank of Slovenia pursuant to ZZFMGP. In accordance with the Decision, SEC will in the first half of 2006 gradually implement the provisions on reporting to the Bank of Slovenia and other regulations. The organisation structure and levels of decision-making at SEC will also change.

## *Capital as of 31 December 2005*

- The nominal capital of Slovene Export Corporation is SIT 9,323,540 thousand (EUR 38.9 million);
- The capital is 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 21,148,812 thousand (EUR 88.3 million);
- Audited book value per share as of 31 December 2005 was SIT 22,683 (SIT 20,428 as of 31 December 2004).

## *Shareholders*

- The majority shareholder of the Corporation is the Republic of Slovenia, other shareholders being banks, insurance companies, the Chamber of Commerce and Industry, and many other Slovene companies (on 31 December 2005, SEC had 87 shareholders).

***Shareholders (31 December 2005)***

| **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. | 18,027 | 1.93 |
| other banks | 11,509 | 1.23 |
| 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 activities which support and promote sales of goods and services and investments of Slovene companies abroad.

**For its own account**, SEC:
- finances international trade and investment transactions;
- issues bonds and guarantees for transactions 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 behalf of the state**, SEC as an authorised ECA performs:
- short-term export credit insurance against non-commercial and other non-marketable risks;
- investment insurance against non-commercial risks;
- medium-term export credit insurance against commercial and/or non-commercial risks;
- Interest Rate Equalisation Programme (IREP) in financing international business transactions, and
- some other activities on special authorisation (i.e. as an agent of the state).

## *SEC operations for the account of the Republic of Slovenia*

The operations which SEC as the national export credit agency (ECA) performs **on behalf of and for the account of the Republic of Slovenia** are clearly separated from the operations performed for its own account in terms of management and accounting. The Corporation performs insurance against non-marketable risks on behalf of and for the account of the Republic of Slovenia and will, as an agent of the state, also conduct the Interest Rate Equalisation Programme (the beginning of operations is scheduled for 2006, after a corresponding agreement is signed with the Ministry of Finance). In these operations as well as in providing financing for international business transactions, from resources for which guarantees of the Republic of Slovenia have been issued, special role plays the government-appointed International Trade Promotion Commission, besides a number of other competent bodies.

Safety reserves which, together with state budget resources, constitute important capacity of the Corporation for insurance against non-marketable risks before such claims are paid out of the state budget, if necessary, are formed from insurance premiums paid, fees, recoveries and other revenues from insurance and reinsurance activities regarding non-marketable risks. Pursuant to the law and a long-term contract between the Corporation and the Ministry of Finance, safety reserves are primarily used to settle obligations to the insured, to pay the cost of loss prevention and minimization of claims, to cover losses incurred by this business, costs of managing these funds and risks, and to pay the costs associated with these operations. If the losses cannot be indemnified from the safety reserves, the funds for claims payments shall be ensured by the Republic of Slovenia.

# 3. SEC Group

In addition to Slovenska izvozna družba, d.d., Ljubljana, the SEC Group contains:

- SID – Prva kreditna zavarovalnica d.d., Ljubljana
- PRVI FAKTOR, faktoring družba, d.o.o.
- PRO KOLEKT, družba za izterjavo, d.o.o.

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

Harmonisation of Slovene legislation with *acquis communautaire* and adoption of new laws, in particular the Law on Insurance and Financing of International Business Transactions (ZZFMGP), have spurred changes in the organisation structure of the Corporation and led to the expansion of the SEC Group. As the sole owner, SEC established a specialised credit insurance company SID – Prva kreditna zavarovalnica d.d., Ljubljana (SEC – First Credit Insurance Company, Inc., Ljubljana, hereinafter FCIC). In doing that, SEC fully harmonised its legal status and operations applicable to insurance on its own account with the regulations governing insurance company operations.

After the newly established company had managed to obtain all the required licenses to carry out insurance operations, it was entered into the Register of Companies on 31 December 2004 with a nominal capital in the amount of SIT 1 billion. In conformity with the provisions of the agreement and the required consents from its supervisory body, SEC transferred onto its daughter company the portfolio of all insurance operations it had performed for its own account prior to the end of 2004, and which have since 1 January 2005 been conducted exclusively by the newly established insurance company. Through portfolio transfer, insurance policy holders were ensured continuous implementation of the rights and obligations arising from concluded insurance contracts, regardless of the change in its legal status. Transfer of employees from the SEC Short-term Credit Insurance Department into the new insurance company also guaranteed continuity in terms of human resources and implementation of operations.

With regard to ownership and business performance, the operations of SID – Prva kreditna zavarovalnica d.d., Ljubljana remain an inseparable part of the SEC Group, which ensures that despite legal changes the synergy effects of complementary facilities will be maintained.

The registered principal business activity of FCIC is conclusion and execution of property insurance in the insurance classes of credit insurance and suretyship insurance. The transferred portfolio contained insurance of short-term credits to private law entities (normally, suppliers' credits of up to 180 days, exceptionally up to 1 year) against commercial and other marketable risks for companies selling abroad and/or in their home country on 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.

The volume of short-term credit insurance contracts entered into by FCIC in 2005 was SIT 3,036 million, a 15% increase on the business volume generated by the SEC Short-term Credit Insurance Department in 2004. Gross premiums written reached SIT 2,239 million, rising by 29% on the year 2004, which is largely due to the growth of transferred portfolio, new persons insured and expansion of risk cover. Premiums paid rose to SIT 907 million, accounting for 40.5% of premiums written. At SIT 156 million, recoveries took up 17% of claims paid. In comparison with the data based on transferred portfolio, insurance technical provisions decreased by SIT 54 million in 2005 to SIT 3,979 million, mainly as a result of changed regulations governing the calculation of equalisation provisions for credit insurance.

Gross profit was SIT 709 million, capital as of 31 December 2005 stood at SIT 1,534 million, and total assets amounted to SIT 6,714 million.

The company is led by a two-member Management Board, represented by Mr Ladislav Artnik, President of the Board, and Mr Rasto Hartman, Member of the Board. The Supervisory Board has three members. Its composition is as follows: Marko Plahuta, President, and Alenka Ferjančič of SEC and Ivan Štraus, Employee Representative of SID - Prva kreditna zavarovalnica, d.d., Ljubljana.

At the end of 2005, the company had 33 employees.

In 2006 FCIC plans to achieve further growth in business insured and a 14% increase in gross premiums paid. The estimated gross profit for 2006 is SIT 380 million.

## PRO KOLEKT, družba za izterjavo, d.o.o.

PRO KOLEKT, družba za izterjavo d.o.o., Ulica Josipine Turnograjske 6, Ljubljana (hereinafter PRO KOLEKT) was established in 2004 by the Slovene Export Corporation as its sole owner. The nominal capital of the company was SIT 2.1 million. Marjan Sterle has been appointed General Manager of PRO KOLEKT. At the end of 2005, the company had one employee.

The company started operation in June 2004. It specializes in out-of-court debt collection. It handles recovery of claims held by SEC, recovery of insured and uninsured claim cases, and takes on recovery of claims on behalf of other entities which are not insured by SEC and claims held by foreigners being owed either by Slovene debtors or debtors coming from the area of former Yugoslavia. Serving foreign clients through specialized legal offices, it represents the clients' interests in court dispute settlements and debt collections, forced settlements and bankruptcy proceedings.

In the years 2004 and 2005 PRO KOLEKT managed to set up a network of debt collection agencies in 64 states and signed 60 contracts in 2004 and 107 contracts in 2005 (a total of 167 contracts). The company assumed 445 debt collection claims with a total value of EUR 10.1 million. It recovered EUR 1.7 million in bad debt, 53% of which were cases where the creditor was a Slovene entity and the debtor was a foreign entity.

In 2005 PRO KOLEKT generated revenues in the amount of SIT 54.9 million and created a net profit of SIT 133 thousand. At the end of 2005, the company capital was SIT 2.3 million. The company plans to increase its range of activities in 2006, generate revenues in the amount of SIT 63 million and make a net profit of SIT 333 thousand. It also plans to expand the network of own subsidiaries to cover the territory of former Yugoslavia. In February 2006 PRO KOLEKT set up a subsidiary in Zagreb in which it holds a 100% share.

## PRVI FAKTOR, faktoring družba, d.o.o.

PRVI FAKTOR, faktoring družba d.o.o., with its registered office at Slovenska cesta 17, Ljubljana (hereinafter PRVI FAKTOR) is the leading factoring company in Slovenia. The main business activity of the company is providing factoring services for clients with domicile in the Republic of Slovenia and abroad with regard to receivables arising from sales of goods and services. The company provides the following services: assignment purchase of receivables arising from sales of goods and services with or without protection against the risk of non-payment, financing of receivables, receivables management, encashment and collection of receivables, trading of receivables, intermediation and representation in factoring transactions in Slovenia and abroad.

In 2002 SEC acquired a fifty percent equity interest and a half of the voting rights in the company PRVI FAKTOR, the other shareholder being Nova Ljubljanska banka d.d.. The book value of the equity interest owned by SEC was SIT 459 million as of 31 December 2005.

The company is governed by the Shareholders' Assembly and General Manager, Mr. Ernest Ribič.

In 2005, PRVI FAKTOR acquired SIT 25.5 billion (EUR 106.5 million) worth of receivables, an increase of 6% on the year 2004. In the total business volume, factoring of domestic receivables accounted for 83%, export factoring for 10% and import factoring for 7%. Business volume growth led to an increase in consolidated total assets which stood at SIT 11.4 billion at the end of 2005. Nevertheless, the 2005 net revenues from fees remained at the level of 2004, whereas net interest income fell by 15%, largely on account of reduced interest rate margins. Gross profit was SIT 78.6 million in 2005, compared to SIT 104.9 million in 2004.

PRVI FAKTOR, Ljubljana expanded to Croatia, forming a subsidiary in Zagreb at the end of 2003. In February 2005, PRVI FAKTOR, Ljubljana formed a wholly-owned subsidiary in Belgrade (PRVI FAKTOR, Beograd).

In 2005, PRVI FAKTOR Group purchased SIT 50.7 billion (EUR 211.4 million) worth of receivables, an increase of 81% on the year 2004. PRVI FAKTOR d.o.o. Zagreb acquired EUR 81.1 million in claims, and in its eight months of operation PRVI FAKTOR, Beograd purchased EUR 23.8 million worth of receivables. Business volume growth led to an increase in consolidated total assets which stood at SIT 23.2 billion as of 31 December 2005, showing a year-on-year rise of almost 150%.

PRVI FAKTOR, Zagreb closed the financial year 2005 with a gross profit of SIT 72.6 million, and PRVI FAKTOR, Beograd made a gross profit of SIT 56.1 million. Gross profit as shown in the consolidated profit and loss account statement of the PRVI FAKTOR Group totalled SIT 202.7 million.

At the end of 2005, the PRVI FAKTOR Group had 47 employees, 27 of whom in Ljubljana, 16 in Zagreb and another 4 in Belgrade.

PRVI FAKTOR plans to further expand its operations to the markets of former Yugoslavia. The procedures for setting up a subsidiary in Bosnia and Macedonia are already underway. PRVI FAKTOR, Ljubljana plans a turnover of SIT 28 billion worth of account receivables and make a gross profit in the amount of SIT 95 million in 2006.

# 4. Development Strategy of SEC

As a financial institution and the national ECA, Slovene Export Corporation and other companies of the SEC Group through quality services and provision of financial products ensure companies economic security in business transactions and financing, promote international trade and strengthen their competitiveness in the Slovene and international markets.

In 2006, SEC shall continue its activities in the field of financing international economic cooperation and further development of export insurance and financing system in the Republic of Slovenia and gradual transformation of SEC into a bank. The basis and the framework for future activities of SEC are provided for by the Law on Insurance and Financing of International Business Transactions, which defines the legal frame and the roles of the state and the authorised ECA in insurance and financing of international business transactions, as well as reorganisation of SEC, and banking regulations governing future activities of SEC.

As in 2005 SEC transferred its portfolio of insurance against marketable risks onto its subsidiary, a specialized credit insurance company SID - Prva kreditna zavarovalnica, d.d., Ljubljana, SEC will continue, in accordance with ZZFMGP, to conduct insurance against non-marketable risks as an authorised ECA on behalf and for the account of the state.

The principal business activity which SEC carries out for its own account is financing of international business transactions, namely preparatory activities in support of international transactions and financing of these transactions, which SEC is bound by ZZFMGP to finance mainly through international borrowings on own behalf and for own account with the guarantee of the Republic of Slovenia. The possibility of borrowings taken out with the guarantee of the Republic of Slovenia gives Slovene economy access to international sources of financing, providing direct or indirect support to development and entry into foreign markets.

In accordance with its development strategy and the provisions of ZZFMGP, SEC will continue to implement its strategy of financing preparatory activities aimed at carrying out international business transactions, striving to achieve:

- further reduction in financing costs for Slovene borrowers and cooperation with commercial banks and other financial institutions in providing a variety of types and forms of financing,
- active development of long-term financing for Slovene exporters (in particular medium-term and long-term financing of preparatory activities for international business transactions, financing of foreign buyers/banks and their investments abroad),
- organisation and co-operation in bank syndicates in financing large projects,
- financing of operations and development of small- and medium-sized enterprises (SMEs) as a contribution to faster inclusion of SMEs into the international economic environment and thus a faster development of this economic segment in the Republic of Slovenia,
- support to the alertness and development of economic entities for faster inclusion into international economic circles and achieving a high rate of internationalization with financial support for research, development, environment protection, sustainable development, employment and education and training in Slovenia and foreign markets,
- creation of new forms of financing aimed at implementing more effective export activities.

Concerning preparations of new Slovene legislation on international development cooperation and mortgage and cummunal financing, SEC, having studied all the possibilities and following a decision by the Supervisory Board, intends to implement some preparatory measures which would justify performance of these activities as a supplementary form of financing. As regards the stated business activities of SEC, these services will ensure diversification of the company's service portfolio.

# 5. International Economic Environment and Slovene Economy

## *World economy in 2005*

According to first estimates, economic growth in Europe was 1.6% in 2005, lagging behind the 2.4% growth seen in 2004. Growth in the euro area, sluggish throughout the second half of the year, reached a modest 1.4% and was particularly critical in several traditional Slovenia's trading partners (Germany, Italy, France). High growth rates noted in the new EU member states in 2004 were attributable to a combination of factors, including recovery of domestic demand, improved economic climate in the international environment and positive effects of joining the EU. In 2005, however, economic growth declined significantly.

The 2005 growth rate estimates are favourable for Bosnia & Herzegovina and Macedonia, whereas economic trends in Croatia as well as in Serbia & Montenegro fell short of expectations, keeping year-on-year estimates well below the expected figures.

## *Slovene economy in 2005*

According to first estimates from the Statistical Office of the Republic of Slovenia, GDP was EUR 27,365 million (EUR 13,677) per capita, recording a rise of 3.9% in real terms, and pushing the economic growth rate in the last quarter of the year to 3.7%.

The main factors which pushed the economic growth up were high export rate and stable growth of imports with foreign trade balance taking up 2.3% of the total 3.9% growth. The 2005 figures for domestic consumption were lower than in 2004, mainly due to a reduction in gross investments. Private spending and state consumption increased in real terms by the same amount as in 2004. As for production, economic growth went up thanks to a rise in value added generated in the processing sector, financial mediation services and business services.

Exports of goods and services rose by 12.6% in 2005 and exceeded the 2004 growth rate of 12.5%. Exports of goods climbed 11.9% while exports of services edged up 15.6%. High export growth rates were maintained with regard to the EU member states, both to most Slovenia's traditional trading partners and to some new EU members. 2005 exports figures reflect the new foreign trade regime concerning the countries of former Yugoslavia, which was changed as a result of Slovenia joining the EU. Exports to Macedonia and Bosnia & Herzegovina were lower than in 2004. With free trade practically implemented in tradings between the EU and Croatia, Slovenia's exports to Croatia were high in 2005, but fell short of exports to Serbia & Montenegro, which were not affected by the change in the foreign trade regime.

The year 2005 saw a marked, 10.9%, increase in imports with imports of goods rising 11% and imports of services climbing up 10.8%. The rise in imports was highest from EU non-member states at 20.4%, while the imports of goods from EU member states went up 8.5 %.

As a result of favourable trends in goods and services trade, deficit in the current account of the balance of payments narrowed by nearly a half on the year 2004 to EUR 253.6 million. Trade/goods deficit was a good percent up from 2004, and growth in the surplus of services reached 30%.

Within the framework of the capital and financial account which recorded a surplus of EUR 663.8 million (in 2004, EUR 637.6 million), financial transactions abroad showed a net capital inflow of EUR 990 million (in 2004, EUR 486.9 million), with the rise being highest in international borrowings. Contrary to 2004, investments of Slovene companies abroad exceeded (4% growth) foreign investments in Slovenia in 2005.

The Bank of Slovenia continued implementation of its monetary policy in line with Slovenia's obligations following the ERM 2 entry and planned introduction of the euro in 2007. The stable tolar exchange rate, fluctuating at the level of mean central exchange rate since the ERM 2 entry, has contributed to inflation cutting.

In 2005, there was a substantial increase in the credit activities of banks based on international borrowings. As for interest rates, the year was marked by further convergence with the interest rates of the euro area, but saw an increase in the rates towards the end of the year.

Reduced and controlled inflation is a result of balanced measures taken by the Bank of Slovenia and the Government of the Republic of Slovenia in the previous years. Inflation dropped from 3.2% in 2004 to 2.3% in 2005.

## *Influence on SEC operations*

In 2005, SEC operations were profoundly affected by developments in the international environment and in Slovenia. Trends and developments in the world and in particular in Slovenia's traditional trading partners have had a marked effect on the insurance conducted on behalf and for the account of the state.

- **Financing**

Slovenia's accession to the EU and the ERM 2 entry continued to affect Slovenia's economy, banking sector and, consequently, SEC financing in 2005.

Throughout the year, the banking sector experienced a considerable rise in foreign currency loans to companies, also evident in increased foreign currency financing extended by SEC to banks and companies.

As a result of reduction in net indebtedness of the non-banking sector, banks also reduced their indebtedness in SEC tolar financing in the second and third quarters of 2005. Short-term tolar loans to banks dropped by approximately 50% on the year 2004. The decrease was substantially lower in the long-term tolar loans segment, which traditionally holds a much lower share in the overall SEC credit portfolio. The decline in tolar short-term credit portfolio, in the past normally taking the form of revolving short-term credits, led to a reduction in interest and non-interest income from credits. SEC managed to mitigate the negative effects of a fast reduction of domestic currency indebtedness of banks by strengthening the offer of foreign currency credits, which at the end of 2004 took up more than 80% of the company's overall credit portfolio, with long-term financing accounting for 75% of the portfolio.

Compliance with convergence criteria led to another drop in interest margins, and intensified the pressure on the interest rates of SEC. In 2005 commercial banks managed to obtain more favourable conditions for borrowings in international markets than in the previous years. In the segment of services for the banking sector, SEC was quick to respond to the requirements of the market, lowering the interest margin threshold allowed to commercial banks for end users of SEC-provided funding or refinancing. The pressure for lower interest rates did not only affect Slovenia's markets but is increasingly affecting foreign markets, in particular in the states applying for EU membership (Bulgaria, Romania, Croatia, Serbia & Montenegro) and in the Russian Federation (higher oil prices, state indebtedness, investment growth). Interest rates pressure had a significant effect on the interest income of the Corporation.

The presence of Slovene companies in the markets of Central and Eastern Europe increased in the year 2005, as is evident from the growing demand of Slovene exporters and investors for direct funding of projects in foreign countries, provided mainly through direct funding of a Slovene investor or through funding extended to foreign buyers of Slovene goods and services. SEC supports such projects and international business transactions in co-operation with other commercial banks (syndicated loans, club-deals) or independently and strengthens its partnerships with Slovene and international commercial banks. At the end of 2005, foreign currency deals took up almost a quarter of the overall credit portfolio of SEC.

- **Insurance on behalf and for the account of the state**

The end of 2004 and the beginning of 2005 was marked by a brief political crisis in Ukraine, caused by electoral conflicts and replacement of government, which led to a short break in the issue of new insurance covers, although new deals were being underwritten also in the time of the conflict. After the crisis, which did not have any significant effects on the volume of business insured or claims, provision of insurance continued under the same insurance conditions.

In April 2005 the Russian Federation as the most important market for medium-term export credits experienced a banking crisis which was, luckily, over soon and did not lead to any serious problems or claims to SEC although it directly affected one bank to which SEC was directly exposed. Throughout the rest of the year, favourable macroeconomic conditions and political stability, coupled with very good bilateral relations between Slovenia and the Russian Federation, created a positive business climate leading to an increase in the number of transactions and, more importantly, a rise in demand for insurance and financing in this highly promising market. Transactions insured chiefly cover construction projects, telecommunications sector and exports of other equipment.

With regard to the other countries formed in the area of the former Soviet Union, SEC supported Slovene exporters in Belarus and Kazakhstan, neither of which was faced with any significant conflict or change in 2005, and is also processing several projects involving other CIS markets.

Record-breaking volumes of investment insurance were recorded in 2005 in South Eastern Europe , especially in the countries of former Yugoslavia, while the market lagged behind the 2002 figures in terms of insurance against medium-term non-marketable risks. The increase in investment insurance is largely due to strengthened investment activities of Slovene companies in the area, in particular in the financial, trade and production sectors, whereas the reasons for a reduction in classical medium-term export credits lie in the development of the local banking system along with its more and more favourable conditions and, for the time being, unfavourable insurance conditions except for Croatia, due to ranking of all these countries in the highest risk category (SEC as an official ECA must comply with the agreed minimum premium rates set in the EU/OECD agreements). With these countries entering pre-accession talks with the EU and given their expected progress in the macroeconomic and political field, we can expect that gradually these countries will be moved to lower risk categories and the conditions offered to them will improve. Macedonia is the first country in the territory of former Yugoslavia that recently progressed to a lower risk category (at the beginning of 2006) as a result of several successful macroeconomic improvements, the Ohrid Treaty and the related stabilisation of relations with the Albanian population, a recently signed stabilization-association agreement with the EU and acquisition of the status of a candidate EU member state.

SEC also closely monitored the development of events in Montenegro and in Kosovo where it was the first ECA to insure several export transactions and where further status and political changes are expected in the year 2006.

The Intervention Group of SEC held a few sessions on Iran, especially at the end of the year, and has so far decided to extend the coverage of export transactions and issue of insurance coverage to this country. The strategy of insurance covers to Iran, which has in recent years greatly improved its macroeconomic position due to higher prices of energy products, will depend on further developments in the nuclear program dispute. Further intensification of the conflict and inability to find a solution to the problem within IAEA would mean that the issue would be passed to the UN Security Council for decision, and this could lead to an embargo that would put an end to all business transactions with Iran.

In response to the growing number of enquiries from Slovene exporters on insurance covers for transactions with Iraq the International Trade Promotion Commission granted SEC a mandate to prepare a adequate insurance policy which could be implemented in the first half of 2006, provided certain agreements concerning Iraq have been signed.

The year 2005 saw realization of the first transactions in Pakistan, which is considered a highly promising market from the point of view of ECAs.

Owing to serious economic problems in Argentina and the claims paid out by the insurers, private (re)insurers were no longer willing to undertake non-commercial and commercial credit risks in this country, forcing the state to take action and provide selective insurance of certain transactions which would otherwise be realized in a limited scope or not at all. Given recent improvements of the situation and positive experience in the intermediary period we can expect that private (re)insurers will re-enter the market and release state capacity.

In 2005 SEC regularly followed the changes in the classification of countries and territories prepared by OECD for the needs of setting minimum premiums rates. Throughout the year, SEC adapted its internal classification of countries by risk category accordingly. Owing to improved country risk status all the countries which were reclassified in 2005 were moved to a lower risk category: Brazil and Indonesia went from Category 6 to Category 5, Kazakhstan and Peru went from Category 5 to Category 4, Algeria went from Category 4 to Category 3, whereas Lithuania, Latvia, Estonia, Malta, Slovak Republic and Saudi Arabia went from Category 3 to Category 2.

# 6. Review of Business Operations in 2005

In 2005 SEC achieved its planned business objectives and generated positive results in both principal business segments: financing and issue of guarantees for international business transactions.

In evaluating SEC business results for the year 2005 as compared with the previous years we need to consider the changes which resulted from the transfer of the export credit portfolio onto the Corporation's subsidiary, SID - Prva kreditna zavarovalnica d.d. Ljubljana, and are mainly reflected in the profit and loss account of SEC. In accordance with the Law on Insurance and Financing of International Business Transactions (ZZFMGP), SEC applied a different method of presenting business operations conducted on behalf of and for the account of the state; these business transactions are now presented in a separate financial statement.

***Income statement summary (in SIT billion)***

| | **2003** | **2004** | **2005** |
|---|---|---|---|
| net interest | 3.38 | 3.11 | **1.78** |
| net non-interest income | 0.88 | 1.31 | **0.82** |
| cost of labour, materials and services | 1.09 | 1.29 | **0.95** |
| depreciation | 0.08 | 0.09 | **0.10** |
| net provisions | 2.73 | 1.78 | **-0.62** |
| profit before tax | 0.37 | 1.26 | **2.18** |
| corporate income tax | 0.09 | 0.64 | **0.54** |

In 2005 profit before tax amounted to SIT 2.18 billion, a significant increase on the year 2004.

Interest income totalled SIT 4.45 billion (a decrease of 14.4% on the year 2004), whereas interest expenses rose by 27.8%, fixing net interest income at SIT 1.78 billion.

The most important item in net non-interest income is taken up by income from net fees and commissions related to financing, guarantees and other services, which climbed 17.4% on the year 2004 to SIT 201.15 million. In 2004 income from net fees and commissions also included net income from insurance against short-term commercial risks (now held by SID – Prva kreditna zavarovalnica) and net insurance premiums from insurance for the account of the state in the total value of SIT 1.24 billion. The result for financial transactions was SIT 99.63 million, and other net income amounted to SIT 523.0 million. Income from reimbursement SEC receives from the state subject to the Agreement on the regulation of mutual relationships concerning implementation of Chapter II of the Law on Insurance and Financing of International Business Transactions amounted to SIT 497.34 million.

In 2005 operating expenses totalled SIT 1.05 billion and were 23.3% lower than in the previous year. In the structure of operating expenses, labour costs accounted for 58.3%, cost of services 29.0%, depreciation 9.5% and cost of materials 3.2%. The percentage of operating expenses as of assets lowered from 1.10% in 2004 to 0.75% in 2005.

Net bank provisions amounted to SIT 50.75 million, whereas income from elimination of provisions for general bank risks reached SIT 670.50 million.

***Balance sheet summary (in SIT billion)***

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| total assets | 115.44 | 140.39 | **170.95** |
| total assets less contingency reserve | 94.14 | 118.89 | **148.71** |
| capital | 18.52 | 19.05 | **21.15** |
| provisions | 2.39 | 3.48 | **3.19** |
| insurance technical provisions | 5.38 | 4.03 | **-** |
| off balance sheet items | 26.31 | 57.89 | **72.13** |

As of 31 December 2005, total assets of SEC, including contingency reserve and investments from contingency reserve, stood at SIT 170.95 billion, showing a year-on-year increase of 21.8%. Contingency reserve for insurance carried out for the account of the state rose by 3.1% in 2005 to SIT 22.24 billion. Total assets less contingency reserve reached SIT 148.71 billion, a rise of 25.1%.

In the liabilities structure, the biggest share of 82.9% is taken up by liabilities to banks in the amount of SIT 123.21 billion, which went up by 41.7% in 2005. The highest percentage of total liabilities (81.6%) is debt in foreign currency.

At the end of 2005, the Corporation's capital and reserves stood at SIT 21.15 billion, which accounts for 14.2% of total liabilities, and had increased by 11.0% through generated net profit.

Long-term provisions, totalling SIT 3.19 billion, accounted for 42.4% of total provisions as of 31 December 2005 and had reduced mainly due to the transfer of insurance technical provisions onto the newly established SID – Prva kreditna zavarovalnica. As of 31 December 2005, bank provisions amounted to SIT 2.93 billion whereas general provisions reached SIT 0.25 billion.

In 2005 growth of total assets again resulted from intensive financing of international transactions. Loans to banks increased by 27.6% to SIT 106.92 billion, making up 71.9% of total SEC assets. There was a 34.6% increase in loans to non-bank customers, making up SIT 31.43 billion or 21.2% of total assets. At the end of 2005 the Corporation held debt securities in the amount SIT 6.22 billion, which is 4.2% of total assets. Equity investment in the SEC Group was SIT 1.97 billion, 1.3% of total assets.

***Selected figures***

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| number of employees (31 Dec.) | 74 | 83 | **62** |
| number of shareholders | 89 | 88 | **87** |
| number of shares | 932,354 | 932,354 | **932,354** |
| par value of a share (in SIT) | 10,000 | 10,000 | **10,000** |
| book value of a share (in SIT) | 19,859 | 20,428 | **22,683** |
| | | | |
| capital adequacy (in %) | 19.33 | 26.23 | **22.59** |
| doubtful and unrecoverable balance sheet receivables/assets (in %) | 14.98 | 19.57 | **19.30** |
| provisions for balance sheet receivables/assets (in %) | 4.38 | 5.39 | **3.92** |
| interest margin (in %) | 3.37 | 2.44 | **1.23** |
| return on assets ROA (in %) | 0.36 | 0.98 | **1.51** |
| return on equity before tax – ROE (in %) | 2.01 | 6.71 | **10.84** |
| return on equity after tax – ROE (in %) | 1.52 | 3.29 | **8.16** |
| Operating expenses / total assets (in %) | 1.17 | 1.10 | **0.75** |

# 7. Financing

In 2005 one of SEC's main activities was financing of international business transactions in foreign currencies, based on borrowings in international financial markets supported by the state guarantees. In order to ensure substantial multiplicative effects and in line with the intention to increase the involvement of commercial banks financing international business transactions and direct outward investments, SEC provided financing of international business transactions mainly through intermediary banks and other financial institutions, in the form of indirect financial support to exporters, in particular refinancing of credits for international business transactions. In order to successfully support Slovene economy in foreign markets, SEC provided favourable funding primarily to:

- domestic companies, i.e. exporters, and
- foreign buyers of Slovene goods and services, or to their banks.

Through this activity SEC has significantly contributed to the increase in capacities of commercial banks and companies for financing international business transactions. In financing international business transactions, as in insurance, SEC covers all phases of international business transactions:

- *preparation for international business transactions (pre-shipment financing)* and
- *realization of international business transactions (post-shipment financing)*.

## *Volume of financing*

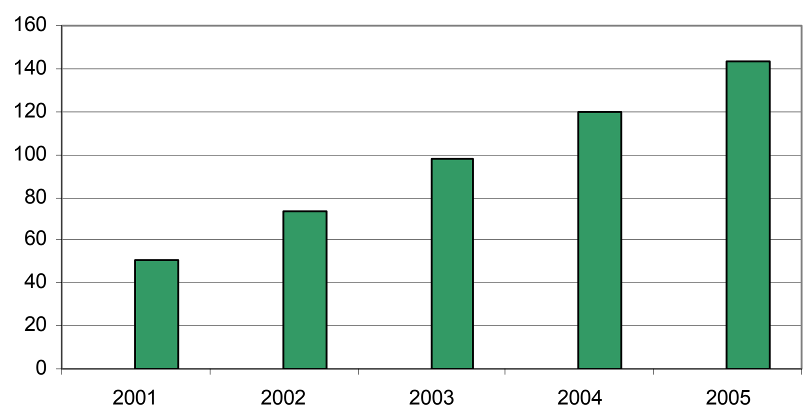
***• SEC financing 2001 - 2005 (in SIT billion)***

| | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|
| outstanding (31 Dec.) | 50.6 | 73.6 | 97.6 | 119.8 | **143.5** |
| number of banks | 22 | 19 | 19 | 18 | **18** |

Last year SEC actively co-operated with 18 Slovene banks and 300 exporters in financing their international business transactions. Increased demand for SEC funding was mainly due to the favourable offer of long-term foreign currency funds and increased demand of Slovene companies for borrowings in foreign currency.

Compared to 2004 when the outstanding amount of SEC financing was SIT 119.8 billion, financing operations in 2005 rose by 19.8% and totalled SIT 143.5 billion (EUR 599.2 million) at the end of 2005. The share of financing portfolio in total SEC assets was 83.9 %.

***SEC financing: outstanding 2000 - 2004 (in SIT billion)***




According to first estimates from the Statistical Office of the Republic of Slovenia, Slovene exports saw a 12.7% growth in the year 2005, which means that the growth rate of SEC financing in 2005 was substantially higher than the growth rate of Slovene exports.

The growth of SEC financing (19.8%) was at the level of the annual growth of all loans extended to the Slovene corporate sector, with the share of SEC financing in all loans extended to Slovene corporate sector in 2005 (direct and indirect) reaching 6.1%.

## *Portfolio structure*

- **By maturity**

In 2005 the maturity structure of SEC credit portfolio confirmed the orientation of SEC towards long-term financing of export transactions with the share of long-term financing amounting to 74.3 percent of SEC credit portfolio at the end of the year.

***SEC Financing: Oustanding amounts by maturity 2000 – 2005 (in SIT billion)***

| | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|
| long-term | 14.6 | 34.2 | 55.2 | 75.9 | **106.7** |
| short-term | 36.0 | 39.4 | 42.4 | 43.9 | **36.8** |
| total | 50.6 | 73.6 | 97.6 | 119.8 | **143.5** |

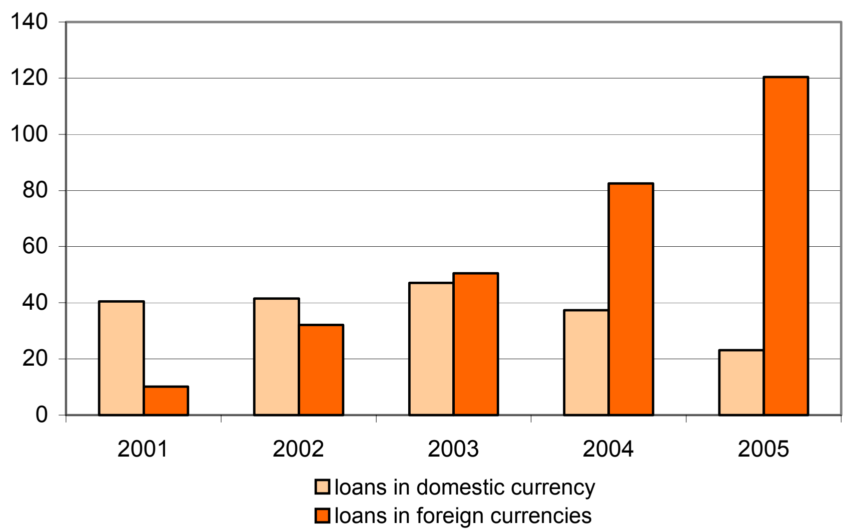
The growth of 40.6% in long-term credit portfolio was largely due to a steep rise in foreign currency lending, making up 48.6% of the long-term segment, and a substantial decrease in demand from commercial banks for short-term domestic currency funding.

- **By currency**

Following Slovenia's accession to the EU in May 2004 and the ERM II (European Exchange Rate Mechanism) entry in June 2004, the interest of companies and their commercial banks for foreign currency financing has strengthened, bringing SEC credit portfolio up by 46% to SIT 120.4 billion in foreign currency financing at the end of 2005. Foreign currency loan portfolio accounted for 83.9% of the total SEC credit portfolio, high rise motivated by the positive influence of Slovenia preparing to join the euro area.

As for tolar financing, a gradual decline in the share of tolar credits throughout 2005 calmed down in the last quarter of the year, keeping the balance of outstanding tolar loans at the end of 2005 at SIT 23.1 billion. Compared with 2004, tolar financing decreased in both short-term (down by 49.6%) and long-term (down by 8.9%) segments. Foreign currency financing, conversely, saw a dramatic rise with short-term segment up 36.1% and long-term segment up 48.6% on the year 2004.

***SEC Financing: currency structure as of 31 December 2005 (in SIT billion)***

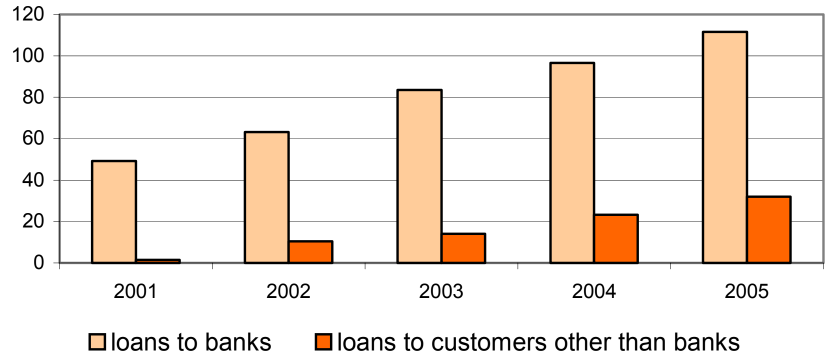



- **By borrower**

In 2005 commercial banks remained the most important SEC partner in financing international business transactions (including outward investment), their share in SEC portfolio reaching 77.7% at the end of the year. The demand for direct financing of projects of Slovene exporters abroad and for preparation for international business transactions *(*pre-shipment financing) increased steadily throughout 2005, showing a 38.2% increase on the year before for loans extended to customers other than banks.

Despite a significant growth in loans to customers other than banks, this segment represented only 22.3% of the total loan portfolio in 2005.

**SEC Financing: By borrower as of 31 December 2005 (in SIT billion)**




- **By risk**

Despite a 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 A and B only take up 1.1% of the SEC loan portfolio. For more information on portfolio risk see Point 15.

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

## *Income from SEC financing*

In 2005, SEC generated SIT 4,003.4 million (EUR 16.7 million) in interest income from financing.

The non-interest income from these transactions amounted to SIT 148.3 million (EUR 618,948).

In addition to the mentioned interest and non-interest income, SEC generated income (financial transactions income) in the amount of SIT 32.1 million from its intermediation role in SME credit line, raised with KfW/CEB from funds intended for the development of SMEs.

## *Favourable long-term financing of SMEs*

In 2005 SEC offered a special programme aimed at providing favourable long-term financing to SMEs (and sole proprietors), which was carried out through selected Slovene commercial banks in co-operation with the German Kreditanstalt für Wiederaufbau (KfW) and the Council of Europe Development Bank (CEB).

Under this programme, loans can be extended in euros, including a 2-year moratorium on payment of the principal and a maturity of 10 years, and the funds thus obtained can be used for financing long-term investments in fixed assets and for working capital financing.

## *Long-term funds for foreign currency financing*

In order to provide Slovene companies and their banks with favourable long-term funding for financing international business transactions in foreign currencies, SEC continued raising funds in international financial markets, which started in 1999. With HSH Nord Bank SEC signed a long-term framework agreement for the Schuldschein issues in the amount of EUR 280 million.

Through its continuous presence in international financial markets, SEC is building on its position 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 international business activities of Slovene companies under more favourable conditions.

# 8. Guarantees

## *Quality instruments of protection against risks*

Guarantees are a welcome supplement to the range of services SEC provides for Slovene companies in the field of insurance and financing as it enables them to obtain deals through SEC guarantees which domestic and foreign beneficiaries consider a first-class protection instrument against counter-party risks related to contractual obligations and other contractual relations. Guarantees issued at request may also be insured with SEC against non-commercial risks and the risk of unfair calling, which is important for banks (guarantors) and companies (obligors) alike.

By issuing guarantees and counter-guarantees, SEC pays special attention to specific needs of customers and to shortening its response time to client demands, thus helping Slovene companies reduce their costs and enabling them to be more competitive in doing business, especially in foreign markets. 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.

## *Volume of guarantees*

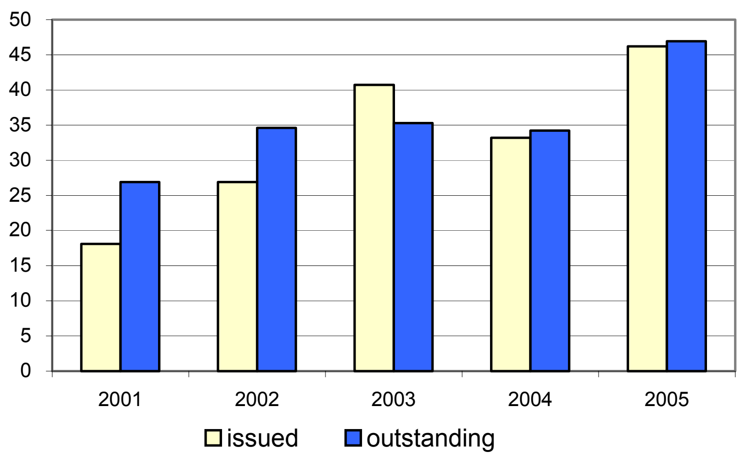
***Guarantees: business volume 2001 – 2005 (in EUR million)***

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| volume | 18.1 | 27.0 | 40.7 | 33.2 | **46.21** |
| outstanding (value as of 31 Dec.) | 26.9 | 34.6 | 35.3 | 34.3 | **46.92** |
| honoured | 0.9 | 2.1 | 2.7 | 0.7 | **-** |
| recourse (value) | 0.7 | 0.4 | 0.4 | 0.8 | **0.3** |

The value of issued guarantees in 2005 was EUR 46.21 million, a 39% increase on the previous year. Most of the guarantees issued were payment bonds, followed by bid bonds, bonds addressing ecological issues, advance payment bonds, customs bonds, performance bonds, and warranty bonds.

At the end of 2005, SEC had EUR 46.92 million in issued bonds, recording a year-on-year increase of 37%. The amount of outstanding bonds at the end of 2005 was taken up mainly by payment bonds, followed by bonds addressing ecological issues, advance payment bonds, bid bonds, performance bonds, customs bonds, warranty bonds and retention money bonds.

***SEC guarantees: issued and outstanding, 2001 – 2005 (in EUR million)***




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 2005 no issued guarantees were called.

# 9. Treasury

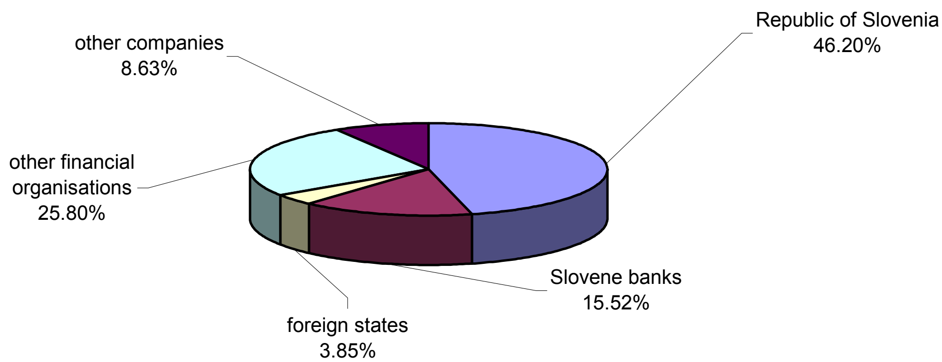
SEC Treasury Department manages the liquidity of company's accounts and closes deals with instruments of the monetary, capital and foreign currency markets.

## *Securities trading*

Starting on 1 December 2004 SEC holds two securities portfolios: SEC Portfolio and SEC – Contingency Reserve Portfolio.

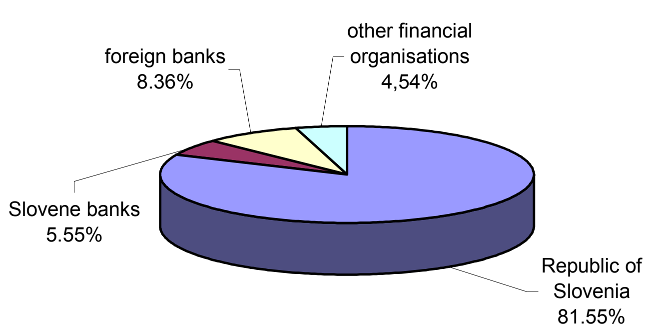
The market value of SEC securities portfolio as of 31 December 2005 totalled SIT 6,497 million. Securities of Slovene issuers make up 70.53% of the total portfolio, and securities of foreign issuers take up the remaining 29.47%. As for the structure of investments, the securities issued by the Republic of Slovenia make up 46.20% of the total portfolio, the securities issued by Slovene banks take up 15.52%, while foreign government securities 3.85% and securities issued by other financial institutions account for 25.80% of all investments into securities.

***SEC securities investment structure as of 31 December 2005***




The market value of SEC Contingency Reserve securities portfolio as of 31 December 2005 totalled SIT 9,001 million. Securities of Slovene issuers make up 91.64% of the total portfolio, and securities of foreign issuers take up the remaining 8.36%. Securities issued by the Republic of Slovenia hold a majority, 81.55% share, in the total portfolio, securities issued by Slovene banks account for 5.55%, and securities issued by foreign banks account for 8.36%, whereas the securities issued by other financial institutions make up 4.54% of all investments in securities.

***SEC Contingency Reserve securities investment structure as of 31 December 2005***



# 10. Insurance against Non-marketable Risks

Certain commercial and non-commercial or political risks (non-marketable risks) of the nature and level of which private reinsurance market lacks either willingness or capacity to cover are insured by SEC as an authorised institution **on behalf of and for the account of the Republic of Slovenia**. The operations which SEC as the national export credit agency (ECA) performs on behalf of and for the account of the Republic of Slovenia are in terms of management and accounting clearly separated from the operations performed on SEC's own account.

According to the EU legislation, **non-marketable risks** are defined as commercial and political risks of a time horizont exceeding two years in EU and some OECD countries risks in all other countries. At the end of 2005 the EU Commission has changed the definition of non-marketable risks and therefore enabled that a state may also intervene with its credit-insurance instruments in the segment of marketable risks when certain conditions are met in terms of the market failure to provide small and medium sized companies (SME) with access to credit insurance conducted by private (re)insurers. In practice, however, the border between marketable and non-marketable risks is determined by private reinsurers and their willingness to reinsure certain types of risks. What causes additional problems in this field of insurance is the changeability of private reinsurers' appetite (e.g. their interest in a certain state or a group of states where risk level increases on a temporary or permanent basis) and difficult access of small-scale economies and their credit insurance companies to the international private reinsurance market, both with regard to the general readiness to cover certain risks (total portfolio or a part of it) and the conditions offered for such reinsurance. It is therefore essential that in defining its insurance capacity and cover policy the state is constantly adapting to the private reinsurance market, complementing it and in this way providing exporters with a possibility to obtain cover for all countries, except for the ones which fail to meet the minimum standards of safety and general insurance principles of sound business practice governing credit and investment insurance.

**The role of the state is of key importance** as without an insurance cover most such business transactions, especially medium-term, would not be carried out. Furthermore, it is in insurance of such transactions that export promotion as the main SEC mission is clearly expressed. Due to the size of transactions and higher risks , states remain by far the most important reinsurer of export credits and investments ("last resort"), in particular with regard to medium- and long-term risks. Assessment of non-commercial risks is in general very difficult, their unpredictability on the long-run is very high and the possibility of taking preventive measures remains minimal as the influence of the insured on these risks is rather negligible or none. Furthermore, legal protection is poor, actuarial statistics cannot be used, and past conjuncture trends cannot be considered here a reliable basis for predicting the future. The situation is further enhanced by sectoral or geographic risk concentration, limited premium income and accumulation of risks, which as systematic risks can have an effect on all outstanding receivables from a certain country.

Internationalization of economy and successful performance of national companies in international trade, including the private financial sector, is vital, particular with regard to small-size economies for which openness is key to successful performance. Therefore, states are taking economic policy measures and using various instruments to ensure competitiveness of their companies in foreign markets. Through appropriate insurance, exporters, investors and other parties involved in international business transactions are provided with the much needed economic security through risks mitigation, which are normally higher in international trade.

The risk of non-payment, however, is not only inherent in medium-term credits but also in short-term credits. Due to the fact that commercial and other risks connected with insurance of short-term credits to buyers in developed countries are considered to be marketable risks, the whole portfolio of this type of insurance, which was in 2004 still performed by SEC's short term credit department, has been transferred on 1 Januray 2005 onto the newly established Corporation's subsidiary, a specialized credit insurance company SID – Prva kreditna zavarovalnica d.d., Ljubljana.

## *10.1. Review of Operations in 2005*

***Insurance against non-marketable risks on behalf of and for the account of the State 2001 – 2005 (in EUR million)***

| | | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|---|
| business insured | | 936.3 | 748.8 | 806.6 | 810.0 | **388.7** |
| exposure (31 Dec.) | - gross | 371.0 | 402.8 | 485.5 | | |
| | - net | | | 434.3 | 415.4 | **424.9** |
| premiums | | 2.8 | 3.2 | 6.5 | 5.2 | **6.4** |
| claims | | 0.2 | 0.5 | 0.4 | 2.1 | **3.2** |
| number of claims | | 7 | 16 | 15 | 23 | **19** |
| recoveries | | / | 0.5 | 0.04 | 0.2 | **0.1** |

## *Business insured*

Volume of business insured against non-marketable risks, which SEC provided to Slovene exporters on behalf of and for the account of the Republic of Slovenia, amounted to EUR 389 million in the year 2005. A decrease on the previous year (EUR 810 million) is mainly a result of changes in the private reinsurance market, which reflect in better possibilities of providing reinsurance cover against commercial and non-commercial risks in higher-risk countries, which private market had not been willing to assume prior to the beginning of 2005. 2005 namely saw a substantial year-on-year increase in the number of countries for which private reinsurers were willing to reinsure commercial and non-commercial risks and which were previously covered by the newly established SEC subsidiary SID – Prva kreditna zavarovalnica (marketable risks). A rise in the number of countries which have become acceptable for reinsurance and the related transfer of portfolio of short-term revolving insurance thus essentially influenced the reduction in business insured on account of the state.

On the other hand, the year 2005 showed a considerable increase of 120% in the volume of insurance of medium-term export credits and Slovene investments abroad (state account). An upward trend of business volume was recorded in both fields (export credits and investments). In 2005, for the second consecutive year since 2001, when after the official mutual recognition and establishment of diplomatic relations insurance business with Serbia & Montenegro started, Serbia & Montenegro came to the top of SEC client list with the volume of business insured climbing to EUR 136 million (mostly because of investment insurance). Serbia & Montenegro was followed closely by Bosnia & Herzegovina, Macedonia, the Russian Federation and Croatia.

The number of Slovene exporters, which were included in the national export credit insurance scheme, has in the year 2005 decreased The main reason for this decline are recent trends in the field of insurance against short-term (marketable) risks, where the number of beneficiary companies is as a rule far more larger, and the related transfer of short-term revolving insurance onto the SEC subsidiary.

## *Exposure*

After experiencing fast growth in previous years and a drop to EUR 415.4 million in 2004, exposure from business insured on behalf of and for the account of the Republic of Slovenia (insurance covers issued) stood at EUR 424 million at the end of 2005. Subject to the same trends affecting the volume of business insured, insurance structure has undergone certain changes: exposure arising from short-term insurance dropped by nearly 99%, (year-on-year) whilst exposure from medium-term insurance saw an upturn of almost 88%. Exposure (excluding valid offers of cover) was largest with regard to Serbia & Montenegro, Bosnia & Herzegovina, the Russian Federation, Ukraine, Macedonia and Croatia.

## *Insurance technical result*

Compared with 2004, **insurance premium** rose 23% (from EUR 5.2 million to EUR 6.4 million) despite the 82% decrease in premium resulting of short-term insurance. The increase was mainly due to a rise in investment insurance and medium-term export credit insurance, for which premiums are due to longer time and risk horizonts in principle higher. In 2005, the insurance premium for the account of the state nearly reached its highest value so far (in 2003 it was EUR 6.5 million). Income from handling fees was negligible because SEC, in conformity with its business policy, returns the amount charged to exporters and other persons insured if the project is implemented.

Mainly on account of a large claim paid in the amount of EUR 2.5 million arising from insurance of medium-term export credits, the value of **claims paid** from insurance against non-marketable risks rose to EUR 3.2 million. Other claims in the amount of EUR 0.7 million were paid from short-term insurance. The number of all claims paid was 19, that is 17% drop compared with the year 2004. The Corporation successfully **recovered** EUR 0.1 million from paid claims, the relatively low amount being linked to a low number of claims paid out from insurance on account of the state in previous years. The **volume of claims** for compensation grew by 34% on the year 2004, and the **volume of potential claims** dropped by 59%.

The **current business result** from insurance made for the account of the state was **positive** for the sixth year running, reaching EUR 2.7 million, and was used up to further increase safety reserve, closing the year 2005 at EUR 92.5 million. The **cumulative business result** rose to EUR 12.2 million for the first time in the 10-years history of SEC operation.

The trends and certain other explanations are presented in detail in subsections on insurance of traditional export credits (short-term and medium-term) and investment insurance. Business results by type of insurance against non-marketable risks are presented in the table below.

***Insurance against non-marketable risks on behalf and for the account of the state, 2001 - 2005; by type of insurance***

(in EUR million)

| **Short-term export credits** | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|
| business insured | 873.6 | 658.9 | 628.6 | 632.9 | **7.0** |
| exposure (31 Dec.) | | | | | |
| - gross | 304.1 | 282.0 | 253.6 | | |
| - net | | | 221.7 | 179.2 | **2.5** |
| premiums | 1.4 | 1.6 | 2.1 | 1.7 | **0.3** |
| claims | 0.1 | 0.4 | 0.4 | 2.1 | **07** |
| number of claims | 8 | 14 | 15 | 22 | **18** |
| recoveries | / | / | 0.08 | 0.1 | **0.1** |

| **Medium-term export credits** | | | | | |
|---|---|---|---|---|---|
| business insured | 44.9 | 20.7 | 79.1 | 44.9 | **68.1** |
| exposure (31 Dec.) | | | | | |
| - gross | 49.1 | 68.1 | 138.9 | | |
| - net | | | 129.5 | 122.9 | **165.7** |
| premiums | 1.2 | 1.1 | 3.6 | 2.4 | **4.0** |
| claims | 0.0 | 0.1 | 0.05 | 0.008 | **2.5** |
| number of claims | 0 | 2 | / | / | 1 |
| recoveries | / | 0.5 | -0.04 | 0.06 | **/** |

| **Investments abroad** | | | | | |
|---|---|---|---|---|---|
| business insured | 17.8 | 69.1 | 98.8 | 132.3 | **313.5** |
| exposure (31 Dec.) | | | | | |
| - gross | 17.8 | 52.7 | 93.0 | | |
| - net | | | 83.0 | 113.4 | **256.7** |
| premiums | 0.2 | 0.5 | 0.9 | 1.1 | **2.1** |
| claims | / | / | / | / | / |
| number of claims | / | / | / | / | / |
| recoveries | / | / | / | / | / |

### *10.1.1. Short-term Export Credit Insurance*

The major part of the total volume of short-term export credit insurance carried out on behalf of and for the account of the Republic of Slovenia is still linked to insurance of individual short-term export credits, mainly for exports of telecommunications and other equipment. Owing to the fact that the private reinsurance market is becoming increasingly willing to undertake the risks which had until recently been covered by officially supported export credit agencies and due to the transfer of the portfolio of marketable insurance from SEC onto SID – Prva kreditna zavarovalnica, d.d., Ljubljana, the volume of short term export credit revolving insurance against non-marketable (commercial and political) risks took a plunge of 99% over the year 2004. As private reinsurers are currently not undertaking short-term export credits against commercial and/or non-commercial risks only to Iran and Argentina, SEC insures these credits on behalf of and for the state account. Insured export credits concerning Iran and Argentina are related to the export of intermediate goods, semi-products, consumer goods and consumer durables.

In 2005, **total business insured** amounted to EUR 7 million, mostly for exports to Croatia, Iran, Bosnia & Herzegovina, the Russian Federation and Pakistan. Exposure from this type of insurance also fell by 99% in 2005, from EUR 179 million at the end of 2004 to EUR 2.5 million at the end of 2005.

Lower volume of business insured led to lower **total insurance premium**, which was down 82% (from EUR 1,7 million in 2004 to EUR 0.3 million in 2005), and a lower amount of claims paid (EUR 0.7 million). Nevertheless, claims paid exceeded insurance premium in 2005. Thus, business result for short-term credit insurance on account of the state was negative.

### *10.1.2. Medium-term Export Credit Insurance*

The major part of medium-term export credits insured in 2005 was linked to the exports of telecommunications, broadcasting, hydromechanical equipment and machinery for the needs of automobile industry to the Russian Federation, Belarus, Serbia & Montenegro, Ukraine and Kazakhstan, the rest bearing on reconstruction of tourist facilities in the Russian Federation, construction of infrastructure, export of machinery for the iron industry, export of agricultural mechanization, etc.

The **volume of medium-term export credit insurance** is fluctuating from year to year due to a low number of executed projects on year basis. In 2005 it totalled EUR 68 million, recording an increase of 51% on the year before. More than a half of the credits covered exports to the Russian Federation, followed by exports to Belarus, Croatia, Serbia & Montenegro, Ukraine and Kazakhstan.

In 2005 the Corporation secured 24 medium-term export credits (compared with 22 in 2004) with a total of 16 main contractors or exporters and a significant number of Slovene subcontractors and subsuppliers. Main reason for relatively low number of secured individual transactions requiring medium-term insurance and also financing lies in the low number of Slovene companies which are able to acquire such transactions on a regular rather than sporadic basis. We also need to mention the development of banking systems in several traditional Slovene markets which are becoming increasingly capable of providing financing to their best companies at competitive financing conditions, less favourable insurance conditions for the markets of SE Europe resulting from the high-risk nature of these markets and compared with foreign banks still less competitive financing conditions provided by Slovene banks.

**Exposure** from the 71 currently outstanding transactions as of 31 December 2005 was EUR 166 million, with the Russian Federation as the predominating country of exposure. In 2005, **total insurance premium** amounted to EUR 4 million and one claim in the amount of EUR 2.5 was paid from insurance of medium-term export credit to Croatia.

### *10.1.3. Investment Insurance*

The increase in direct outward investment led to **growth in insurance** against political risks, which amounted to EUR 313.5 million in 2005. In addition to investments insured SEC finished the year with four valid offers of cover totalling EUR 37 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 investments to be insured. Besides, on the basis of experience gained from incidents in the neighbouring countries and around the world Slovene exporters have realized that political risks were present everywhere and at all times. In the light of everything that has been stated, 2005 saw the highest annual growth of investment insurance in SEC history. Although the general perception of insurance has changed and certain awareness of the consequences of political risks exists, several features that had determined insurance investment in the past were also observed in 2005: firstly, investors still viewed insurance premiums as a cost; secondly, some investments were undersigned, thirdly, additional investments in the growth of project companies and reinvested profit in the form of reserved insurance amounts were rarely insured.

In 2005 SEC secured 15 new transactions covering direct investments of Slovene companies abroad, that is 13 new transactions and two extensions of existing insurance coverage (five transactions in Bosnia & Herzegovina – financial sector, trade and energy sector; six transactions in Serbia & Montenegro – financial sector; three transactions in Macedonia – financial sector; one transaction in Croatia – financial sector) with a total insurance sum of EUR 169.3 million, which accounts for 65.9% of all investments insured at the end of 2005. In addition, SEC concluded an agreement to insure all current and future investments with two leading Slovene investment companies. On the basis of this agreement, SEC will have insured another EUR 37 million of investments by the end of 2006.

At the end of 2005, the company portfolio included 33 investment insurance transactions of Slovene companies and banks worth EUR 257 million, and together with its offers of cover SEC gross **exposure** in investment insurance rose to EUR 321.9 million (net exposure EUR 289.7 million) as of 31 December 2005. Investment insurance mainly covers transactions in Serbia & Montenegro, Bosnia & Herzegovina and Macedonia. In 2005 **total premium** was EUR 2.1 million, which is 90% higher than in the year before; no claims were paid in that year.

## *10.2. New Developments Concerning Insurance on Behalf and for the Account of the State*

**Environmental policy**

Within the framework of export credit insurance against non-marketable risks and investment insurance carried out on behalf of and for the account of the Republic of Slovenia, SEC adopted an environmental policy in 2005 to formalise already used criteria and procedures Formally established criteria and procedures enables SEC to operate in line with the international environmental trends. The policy is based on OECD Recommendation which SEC as a national ECA for official support of export credits of a EU member state is obliged to consider. SEC in compliance with environmental policy assesses environmental impacts of export transactions in the underwriting process either proceeds with processing the application unconditionally, makes further processing dependent on implementation of certain measures to reduce negative environmental impacts or even rejects the submitted application for insurance due to harmful effects the transaction could have on the environment. Considering the transactions which have so far been processed in consideration of negative environmental impacts, the introduction of this policy will not affect the volume of business insured substantially nor the efficiency of this part of export promotion, namely because SEC intends to use the presented policy mainly in cases when a controversial export transaction could lead to substantial harmful effects on the environment.

**Anti-bribery policy**

With a view to continuing its efforts for the reduction and elimination of corruption within the framework of an export credit and investment insurance policy, SEC in 2005 formally adopted the conditions linked to the implementation of procedures for prevention of corruption in international transactions. As an ECA, SEC is involved and participates in business transactions where corruption in preparation or implementation phases of a project might occur. In accordance with the existing Law Ratifying the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, recommendations by the International Union of Credit and Investment Insurers, the Anti-bribery Law and Penal Code of the Republic of Slovenia, the main objective of adopting the anti-bribery policy is to disable support to exports which entail corruptive actions and to harmonise the conditions and policy of export credit and investment insurance with the policies of other ECAs with regard to prevention of corruption in international business transactions.

**New rates for insurance of pre-shipment risks**

Prior to the end of 2005 SEC calculated premium rates for cover of pre-shipment risks, which are not internationally regulated and are defined by an individual ECA, on the basis of general price list for export credit insurance against non-marketable risks which is normally used to determine the premium rates for coverage of post-shipment risks. In order to ensure more appropriate calculation of premium rates for covering pre-shipment risks and to adapt the rates valid for this type of insurance which SEC performs on behalf and for the account of the state, to the rates set by other ECAs (most of them established in OECD countries or in Berne Union members). SEC introduced a new price list for covering pre-shipment risks on 1 January 2006. The purpose of this particular price list is to take into consideration insurance cover conditions and premium rates set for coverage of pre-shipment risks by other ECAs, whose exporters are direct competitors of Slovene companies in the foreign markets. .

In this way, exporters are provided with access to much cheaper (up to 50%) cover of pre-shipment risks. It is assessed that such a reduction in premium rates will have a positive effect on the demand for cover of these risks and therefore also on international competitiveness of Slovene exporters. The insurance policy covering pre-shipment risks will also provide exporters (insured parties) with easier access to the credit funding provided by banks (supplier credits) which are willing to receive this type of insurance policies as security for repayment of issued credits (assignment of insurance policy to a bank). By introducing a new price list, SEC enabled insurance and determination of insurance premiums (case to case basis) for covering the risk of unilateral termination of the contract from the foreign buyer and/or the risk of permanent insolvency of the customer, which will not only result in more favourable premium rates but also contribute to increased demand of exporters for this insurance and to better security of exporters in international transactions.

**Revision of procedures concerning insurance of individual export transactions**

In order to comply with the continuously increasing demands for quality insurance underwriting and as a result of Slovenia becoming a member of international connections (EU) associated with numerous commitments in the field of officially supported export credits, SEC revised its procedures and documents concerning insurance of individual export credits concluded on behalf of and for the account of the state. The main focus of the revision process was placed on the relations between exporters and banks. In this respect, SEC has formalized the role of both parties in various phases of export transactions by issuing indicative insurance conditions, offers of cover and/or insurance policies.

**Elimination of special country cover policies and country limits**

Striving to simplify its operations and improve its flexibility SEC, having obtained a consent by the government-appointed International Trade Promotion Commission, cancelled all the existing special insurance policies towards certain states (the only exception being the insurance policy towards Iraq) and consequently all limits of total exposure by individual state. After eliminating these specific country cover policies, SEC will process each export transaction separately and take its decision on a case to case basis regardless of the state of export, thus improving its flexibility and increasing the volume of export transactions insured on behalf and for the account of the state. Despite elimination of special policies, the following will continue to be important factors in making decisions on export insurance: country risk, international standards, rules and practices related to officially supported export credits and general insurance principles of sound business practice of credit and investment insurers. Appropriate flexibility in conducting insurance business, of particular importance for small ECAs, can have a positive effect on processing good long-term projects which would otherwise not have been realized.

As a consequence the International Trade Promotion Commission and SEC influenced with this on the risk management activities. Exposure to certain countries and its potential influence on safety reserve or state budget appropriations is measured and considered in decision making process on each individual export transaction separately. In addition, stricter rules on reporting have been introduced enabling SEC and relevant government bodies to monitor, control and take measures provided exposure to a certain country or total exposure poses a threat to public finance sustainability.

### *10.3. Trends and Future of Non-marketable Risks Insurance*

The research of the EU credit insurance market with regards to the definition of the **border between marketable and non-marketable risks**, and consequently related border to where officially supported ECAs can intervene with their instruments, has indicated that SMEs have **difficulty in accessing private (re)insurance services** although the risks offered for insurance can be considered marketable. Private reinsurers are less interested in SMEs because of their small size, relatively low volume of business and high average administration costs, which are not reflected in higher premiums (usually it is just the opposite).

On the other hand, support to SMEs to perform in foreign markets and to participate successfully in international trade is a national imperative, especially for economies where SMEs play an important role. Fully aware of the issue, the EU Commission issued a communication at the end of 2005 and allowed intervention of officially supported ECAs in this segment under certain conditions which are mainly linked to the characteristics of the credit insurance market in each member state. The communication indirectly, acknowledged the importance of consultancy and educational roles of ECAs in encouraging SMEs to internationalize and use appropriate instruments to improve the security of their operations worldwide.

Like so many other European countries, SEC, in co-operation with the International Trade Promotion Commission and the competent government bodies, intends to study the usefulness and possibility of reintroducing officially supported insurance instruments (in the form of reinsurance or direct insurance) into this economic segment. Given the large numbers of SMEs in Slovenia (98%), adoption of a special insurance policy for these companies could lead to a reasonable increase in the volume and exposure from short-term export credit insurance against non-marketable risks.

In the future SEC support will be still interesting for Slovene and also foreign financial institutions, as most national regulators have already declared or announced that they will with respect to the new Basel Capital Accord (Basel II) continue to consider the instruments of ECAs, in particular those used directly on behalf of and for the account of the State, as first-class instruments and treat them as such in determining capital requirements and formation of provisions.

Officially supported ECAs which provide insurance and/or financing or any other type of support concerning non-marketable risks to economic entities operating in foreign markets are increasingly obliged to comply with the principles of social responsibility and to check the social and environmental aspects of insured transactions and prevent or limit harmful effects of these transactions. In 2005, following the example set by other ECAs, Slovene Export Corporation adopted a special environmental policy and an anti-bribery policy and, within the International Union of Credit and Investment Insurers (Berne Union), signed the so called Berne Union Values Statement, which binds the signatories to commit to professional and financially-responsible business conduct, respectable attitude to the environment and high ethical values, all in the light of ensuring long-term success of the export credit financing and insurance industry.

OECD and the EU as the leading players in the field of officially supported export credits are striving to implement continuous audits of these policies and their efficiency and to prepare new special policies which will promote positive effects of export transactions (e.g. recently accepted special sectoral agreement setting more favorable conditions for transactions related to renewable sources of energy).

Another important development of the export credit insurance industry is the **process of transition from support to national exports to support to national interest.** The mandate for support to export transactions held by officially supported ECAs which conduct services directly or indirectly for the account of taxpayers was dependent on the condition that an export transaction had to be carried out by a national exporter or had to contain a certain share of national content. Certain countries were not very enthusiastic about promoting international trade if it meant providing support to transactions which only contained a minimum share of the national content or were merely re-exports, in particular when these transactions involved above-average risks.

The reasons for mentioned transition lie in the globalization processes, rising numbers of subcontractors and subsuppliers from different countries included in a export transaction, relocation of production facilities into countries characterized by low labour costs or increasing openness of economies, which led to a significant drop in the national content in export transactions. On the other hand, companies from developed countries are increasingly taking over the role of main contractor while they are able to use knowledge and experience to integrate high value into the project through engineering, management and control, and have therefore become an essential, if not a key element of national economies.

An international analysis has shown that approximately a half of all ECAs, the Berne Union members, have already started implementing the system based on national interest or are planning to do so. The attitude of ECAs to this issue largely depends on their missions or the expectations of the state – the more the state guides an ECA towards commercial operations or financial independence, the less relevant is the request for support to a national content, and vice versa.

In connection with certain other requirements (e.g. requirements for break-even point), commercialization of ECAs in several states has put forward the issue of **risk management** and the related demand for development of specialized models for portfolio management, accounting principles and solutions, risk classification, calculation of premium rates which need to consider market conditions on the one hand and effects on portfolio on the other, etc. On account of the specific nature of ECAs and the risks these agencies undertake, solutions applied by other financial institutions (banks, insurance companies) are not entirely suitable for ECAs, which is why ECAs have lately worked on adapting these solutions to their needs and characteristics. SEC is addressing these issues in co-operation with the Ministry of Finance and the International Trade Promotion Commission within the framework of a special study Public-finance sustainability of insurance on behalf of and for the account of the Republic of Slovenia. Preliminary findings have indicated that even if worst-case scenarios came true, state budget would not be under any immediate effects and would not even be significantly affected later in time.

In the field of medium-term export credit insurance, export credit agencies have undergone a **dramatic change in the structure of insured risks**. A decade ago, before the Berlin Wall came down, the majority of this insurance was based on state guarantees and risks undertaken by (state) banks. Today, however, most insurance transactions are granted on the basis of risks of companies (corporate risks), without additional third-party guarantees, and project risks. Besides, export credit agencies are increasingly willing to secure risks of (sub-sovereign) public buyers, e.g. risks of towns, municipalities, regions, other authorities and companies who perform activities of a public nature and are (mostly) budget-financed. **Structured financing** (and insurance) is on the increase, often combined with a pledge on hard currency inflows in special escrow accounts abroad. By setting up branches in importing countries, foreign banks have started to use **local financing**, more and more frequently in local currency, which strengthens the competitive advantage of their exporters and, on the other hand, decreases risks (prohibition or incapability of conversion and transfer). In Slovenia these trends have not yet been observed. Conversely, more and more foreign and Slovene banks in foreign ownership are willing to finance Slovene exports, provided they have an insurance cover with SEC.

The focus of export credit agencies is shifting from pure insurance towards provision of credit information, debt collection and risk management (i.e. **service credit insurance**), largely on account of exporters' growing interest in integral risk management.

WTO discussions and rapid changes in the business environment have led the signatory states of the **OECD Agreement on officially supported export credits** (also including the EU which makes the Agreement binding for Slovenia) as the most important document of the industry, to undertake intensive revision of the Agreement to bring it closer to the market conditions. Over the recent years, the industry has undergone **extensive changes,** mostly with regard to project funding/financing, introduction of more flexible nonstandard conditions for loan repayment, a sectoral agreement on the rules governing renewable sources of energy, and harmonisation of premium rates for commercial risks. Further important changes, expected in the years to come, will make officially supported export credits adaptable to the rapid changes in the environment and its needs.

# 11. Credit Information

Given the high-risk nature of SEC operations, 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 2005. In its work, the department uses state-of-the-art professional methodology of risk assessment, in particular with regard to solvency, an own internal information system (SEC IS), 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 the relevant 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. For the purpose of issuing guarantees, financing and certain classes of insurance and for external users of credit information, the department prepares corporate credit rating reports and recommended 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 with regard to information on certain markets, companies and banks in Slovenia and in those countries of South Eastern Europe where Slovene enterprises have gained rich trading experience and for which SEC has obtained 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 rating information on Slovene companies,
- credit rating information on Slovene banks,
- credit rating information on banks, in particular those from South Eastern Europe, and
- credit rating information on companies, in particular those from the countries of South 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 (SID-NET). 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 relative to business operations, assumption of insurance-related risks, definition of underwriting conditions and risk monitoring.

## 12. Information System

A well-developed information system, quality databases and existing links with other institutions are an essential tool for effective operation of a financial institution, its management, supervision of its entire operation, and planning. In order to ensure effective support to its operations, in 1996 SEC introduced a software called LOTUS NOTES and thus started a systematic construction of its own integral information system. The main orientation of information system development in 2005 was processing cash flows and supervision of asset management, provision of all the documentation and information required for acquisition of a bank license issued by the Bank of Slovenia, replacement of accountancy software with software operating on strategic tools, intensive implementation of security policy and regular updating of overall IT documentation in compliance with ISO 17799, continued integration of e-business into the overall operations of SEC, introduction of electronic connections with business partners and continued efforts to improve system independence and integration of safety and control mechanisms into the overall operations of the Corporation, in particular into Lotus Notes applications.

The basic software application environment is Lotus Notes, which supports the entire documentation and communications field, whereas data are derived from the DB2 relation database. All systems use uniform standards and codes.

The main projects in the technical equipment field included establishment of a new firewall, expansion of the network and reconstruction of system space.

For the needs of operating as a bank and in accordance with the BS 7799 standard (ISO 17799) in 2005 SEC implemented an information security application and introduced an information protection committee, thereby improving the system of internal control and contributed to better transparency and supervision of the operation and development of the integral SEC information system.

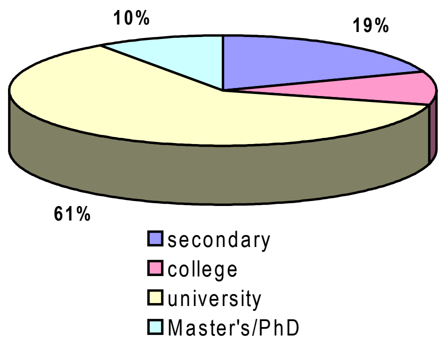
# 13. Personnel

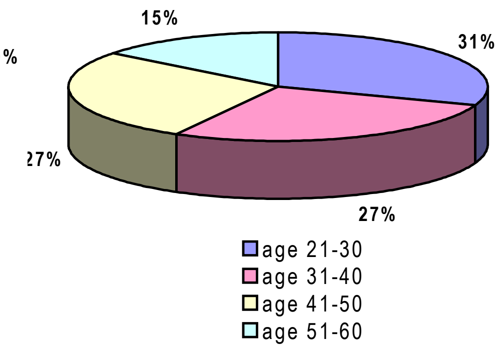
### *Recruitment (structure and trends)*

Personnel recruitment in 2005 was conducted in accordance with the approved business policy and recruitment plan. The number of employees went down from 83 to 62 (41 women and 21 men), with the average number of employees in the year ending dropping to 60. Following the setting-up of the SEC subsidiary SID - Prva kreditna zavarovalnica d.d., Ljubljana, 28 employees were legally transferred to the newly established insurance company on 1 January 2005.

In 2005, five employees were engaged temporarily, and another four employees, all with university degrees, were engaged as trainees.

***Personnel structure by education as of 31 December 2005 Personnel structure by age as of 31 December 2005***




### *Recruitment policy*

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

- engaging new employees with specific expert knowledge and experience,
- a system of monitoring and assessing job performance, as well as goals defined through annual progress 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. In 2005 the main focus of project work lay in the extensive and highly-demanding project of setting-up the SEC bank, which involved over two thirds of all SEC employees.

### *Training*

Considering the need for expert knowledge in the area of insurance and financing of business transactions, in 2005, as in all the previous years, special attention was paid to acquiring 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.

Employees also acquired certain general skills, especially with regard to foreign languages, computing, goal setting, time management, business etiquette, etc., and specific knowledge, e.g. Key Account Management, corporate financial analyses, insurance of bank investments, business negotiations, project funding, integration of Slovenia into the European Union, international accounting standards, payment systems, public procurement, etc.

In 2005 fifty-two employees attended various forms of training. The number of days spent on training averaged at 4.82 per employee.

### *Labour costs*

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 2005 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 2005 the number of working hours totalled 120,448, of which 11,424 hours were used as annual paid leave, 184 hours as special leave and 96 hours as study leave.

Total sick leave accounted for 6,152 hours, which is an average of 5.25%. The relatively high level of absenteeism can be credited to the illness of one employee requiring longer recovery period, and risk pregnancies. Maternity leave was quite high, totalling 4,784 hours, or 3.95%, which is a result of the high percentage of women employees in SEC (66%).

### *Internal communication*

Internal exchange of information and communication is ensured through numerous well-established tools and applications, such as: e-mail, internal e-newsletter and access to a number of 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).

### *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 also makes possible the activities of the company trade union (sports and recreation activities, cultural and other events).

### *Working environment*

SEC shows a genuine concern for ensuring optimum working conditions and performs all the necessary measures to this purpose. 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 and provided preventive and periodical medical examinations.

# 14. Internal Audit and Controlling

Internal audit at SEC is organised as an independent expert department, reporting directly to the Management Board and also to the Supervisory Board. In performing continuous and comprehensive supervision of company operations, Internal Audit and Controlling Department:

- reviews and assesses the suitability and efficiency of internal control systems
- assesses performance and efficiency of risk management procedures
- evaluates capital with regard to own risk assessments
- assesses efficiency of the information system
- assesses accuracy and effectiveness of book accounts and financial reports
- checks reporting
- checks compliance of company actions with regulations and internal orders
- participates in project tasks.

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, market and operational risks) and to the examination and evaluation of the internal control system performance and control of harmonisation of SEC operations with banking standards. 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.

# 15. Risk Management

Risk management is a permanent process concerned with identifying, measuring, controlling and minimising risks in accordance with the long-term strategy of the company and is aimed at ensuring safe and stable operation of SEC. Despite the fact that in 2005 SEC did not operate as a bank and although it is only required to harmonise a part of its operations with banking regulations in 2006, the Corporation mainly considered banking regulations and good banking practice in its approach to risk management. In the process of adapting to the banking standards and good banking practice SEC took up the activities to establish an independent SEC Risk Management Department.

In its operations, SEC mainly encounters credit risk, foreign currency risk, interest rate risk and operational risk.

## *Capital and capital adequacy*

Adequate capital is key to ensuring the solvency of financial institutions. Capital adequacy, expressed in relative terms with regard to the volume of business and the undertaken risks, guarantees trust in the company's operations and enables a stable development of the company in line with its set goals.

SEC equity, calculated according to the methodology stated in the Decision on Capital Adequacy of Banks and Savings Banks passed by the Bank of Slovenia, amounted to SIT 18.0 billion as of 31 December 2005, a drop of 0.3 billion on the year 2004. The change in the company's capital was the result of additional deduction positions, linked to investments into subsidiaries, which had to be considered in the calculations and have thus more than neutralized the increase in capital arising from generated net profit.

Capital adequacy ratio is the ratio between the company's regulatory capital and risk weighted assets of credit and foreign currency risks. The minimum ratio of 8% was significantly exceeded in 2005. In consideration of the operations governed by the Banking Act, the capital adequacy ratio was 25.2%, and 22.6% considering all the operations which SEC conducted in 2005 for its own account (all operations except insurance of international business transactions and management of contingency reserve).

## *Credit risk*

Credit risk is the risk that the debtor may be unable to settle his obligations. Credit risk management begins prior to conclusion of a contractual relation by determining the credit rating of a client and by putting in place appropriate insurance instruments. Throughout the transaction, credit risk is managed by close monitoring and management of the credit portfolio, by limiting the concentration of credit risk for each client, group of clients, branch and country and by classifying and forming appropriate provisions.

SEC credit portfolio includes all monetary investments and claims as well as assumed liabilities, except for investments into securities, capital investments and insurance transactions which SEC performs for the account of the state. Exposure from concluded and outstanding transactions with derivative financial instruments is calculated from the replacement value. With regard to the credit rating of a client and other elements of performance capability and quality of insurance, exposure can be classified into five credit rating classes with highest quality investments ranked A and lowest quality investments ranked E. Value adjustments and credit risk provisions, and also provisions for country risks in foreign clients, are formed on the basis of this classification.

SEC credit portfolio by credit rating category as of 31 December 2005:

| Category | in SIT million | Share |
|---|---|---|
| A | 133.6 | 77.2% |
| B | 36.1 | 20.8% |
| C | 1.5 | 0.9% |
| D | 0.9 | 0.5% |
| E | 1.0 | 0.6% |
| Total | 173.1 | 100.0% |

The balance of SEC credit portfolio as of 31 December 2005 indicates that 77.7% of all credits, other receivables and off-balance sheet liabilities are classified into the highest credit rating category. A further 21% of the portfolio fall into the B credit rating category, whereas the categories C, D and E account for a total of 2%.

## *Liquidity risk*

In accordance with the adopted liquidity risk management policy SEC ensured that all its financial obligations were regularly and continuously met. Liquidity management is based on planning the inflows and outflows, which SEC performs separately for its own account and for the account of the state.

SEC monitors its exposure to liquidity risk by means of liquidity indicators (ratios between outflows and inflows measured over a month- and six-month-periods) for which the Bank of Slovenia set the minimum value of 1. Contrary to many banks, SEC met these indicators for both domestic and foreign currencies. The value of indicators was normally over 2, with the exception of the foreign currency ratio for a six-month-period, which dropped below this value at the end of 2005. High indicator values are a result of long maturity of liabilities and appropriate secondary liquidity.

## *Currency risk*

Currency risk management is aimed at determining the potential loss which would arise as a result of changes in exchange rates, through application of an open foreign currency position, that is the difference between the sum of all investments in foreign currency and all liabilities in foreign currency. Investments and liabilities in foreign currency include positions in real currencies and tolar positions with a foreign currency clause. In managing currency risks SEC employs such financial instruments and risk management techniques as stipulated by the relevant rules and regulations and used by the banks. In accordance with the Decision of the Bank of Slovenia on Capital Adequacy, SEC classifies open foreign currency positions among positions which need to be capital covered.

Although positive trends in the growth of euro operations were maintained in 2005, foreign currency position was on the decline. At the end of the year, liabilities in euros exceeded investments by SIT 580 million, and US dollar investments recorded an excess over liabilities in the amount of SIT 866 million. Positions in other foreign currencies were negligible. Capital requirements for foreign currency risks rose to SIT 1,026 million at the end of the year.

***Balance sheet by currency structure as of 31 December 2005***

| | **Assets** | | **Liabilities** | | **Gap** | |
|---|---|---|---|---|---|---|
| | **SIT million** | **as % of total assets** | **SIT million** | **as % of total assets** | **SIT million** | **as % of capital** |
| in SIT | 37,716 | 22.06 | 48,845 | 28.57 | -11,129.00 | -58.03 |
| in SIT with foreign currency clause | 10,843 | 6.34 | 0 | 0.00 | 10,843.00 | 56.54 |
| USD | 4,845 | 2.83 | 3,979 | 2.33 | 866.00 | 4.52 |
| EUR | 117,547 | 68.76 | 118,127 | 69.10 | -580.00 | -3.02 |
| other currencies | 0 | 0.00 | 0 | 0.00 | 0.00 | 0.00 |
| **Total** | **170,951** | **100.00** | **170,951** | **100.00** | | |

** Note: Long-term investments in capital assets of SEC Group members are deducted.*

A detailed presentation of balance sheet by currency structure as of 31 December 2005 is available under 5.8 Notes to Financial Statements.

***Balance sheet by currency structure as of 31 December 2004***

| | **Assets** | | **Liabilities** | | **Gap** | |
|---|---|---|---|---|---|---|
| | **SIT million** | **as % of total assets** | **SIT million** | **as % of total assets** | **SIT million** | **as % of capital** |
| in SIT | 46,892 | 33.40 | 55,031 | 39.20 | -8,139.46 | -46.22 |
| in SIT with foreign currency clause | 6,609 | 4.71 | 0 | 0.00 | 6,609.08 | 37.53 |
| USD | 3,894 | 2.77 | 3,452 | 2.46 | 442.47 | 2.51 |
| EUR | 82,839 | 59.00 | 81,911 | 58.34 | 928.22 | 5.27 |
| other currencies | 160 | 0.11 | 0 | 0.00 | 160.11 | 0.91 |
| **Total** | **140,394** | **100.00** | **140,394** | **100.00** | | |

** Note: Long-term investments in capital assets of SEC Group members are deducted.*

***Balance sheet by maturity as of 31 December 2005***

| Maturity class | Assets | | Liabilities | | Gap |
|---|---|---|---|---|---|
| | SIT million | in % | SIT million | in % | SIT million |
| on deposit | 168 | 0,10 | 96 | 0,06 | **72** |
| up to 1 month | 3.538 | 2,07 | 2.055 | 1,20 | **1.483** |
| 1 to 3 months | 1.163 | 0,68 | 218 | 0,13 | **945** |
| 3 months to 1 year | 47.260 | 27,65 | 13.330 | 7,80 | **33.930** |
| 1 to 5 years | 60.066 | 35,14 | 83.498 | 48,84 | **-23.432** |
| over 5 years | 58.757 | 34,37 | 71.755 | 41,97 | **-12.998** |
| **Total** | **170.952** | **100,00** | **170.952** | **100,00** | |

Detailed presentation of assets and liabilities by maturity as of 31 December 2005 is available in 5.10. Notes to Financial Statements.

***Balance sheet by maturity as of 31 December 2004***

| Maturity class | Assets | | Liabilities | | Gap |
|---|---|---|---|---|---|
| | SIT million | in % | SIT million | in % | SIT million |
| on deposit | 213 | 0.15 | 92 | 0.07 | 121 |
| up to 1 month | 1,048 | 0.75 | 3,943 | 2.81 | -2,895 |
| 1 to 3 months | 9,189 | 6.55 | 922 | 0.66 | 8,267 |
| 3 months to 1 year | 39,049 | 27.81 | 11,461 | 8.16 | 27,588 |
| 1 to 5 years | 72,120 | 51.37 | 73,051 | 52.03 | -931 |
| over 5 years | 18,775 | 13.37 | 50,925 | 36.27 | -32,150 |
| **Total** | **140,394** | **100.00** | **140,394** | **100.00** | |

## *Interest rate risk*

Management of interest rate risk helps SEC control the fluctuations in net interest income arising from potential changes in the market interest rates and changes in the value of long-term fixed-interest rate instruments. As a rule, interest rate risk is managed separately for each currency.

SEC manages its exposure to interest rate risk by harmonising the methods of interest rate calculation on assets and liabilities. The highest share of assets and liabilities is taken up by euro-denominated instruments with interest rate linked to Euribor, which alone minimizes the interest rate risk. In addition to coordinating its interest rate calculations, SEC also applied financial derivative instruments as an additional tool of interest rate risk mitigation.

## *Operational risk*

Operational risk refers to the operations of the company and depends on its internal organisation, operation of internal controls, effectiveness of internal and external audits and similar measures. The main factors of operational risk are human resources, business processes, information technology and other infrastructure, organisational structure and external events.

In view of the relatively high balance sheet total, the operational risk per employee is quite high, but the Corporation manages to control it through a system of decision-making and authorisations, by providing substitutions for times of absence, through suitable staff qualification and investments in information technology. System risks inherent in information technology are increasing in line with the level of informatisation. They were managed through additional measures such as implementation of continuous operation plans and other measures aimed at maximising information security.

# 16. Financial Statements of Slovenska izvozna družba, d.d., Ljubljana

## *Auditors' Report*

Deloitte.

Deloitte & Touche revizija d.o.o.
Dunajska cesta 9
1000 Ljubljana
Slovenia

Tel: +386 01 3072 800
Fax: +386 01 3072 900
www.deloitte.com\Slovenia

**AUDITORS' REPORT**

**to the owners of**
**SLOVENSKA IZVOZNA DRUŽBA, D.D., LJUBLJANA**

We have audited the accompanying balance sheet of Slovenska izvozna družba, d.d., Ljubljana (the „Company") as of 31 December 2005 and the related statements of income, cash flows and changes in equity, as well as notes to the financial statements for the year then ended. The financial statements also include, for the purpose of better presentation and comparison, the balance sheet as of 31 December 2004, restated for the partial elimination of insurance business, which was split off on 1 January 2005. We have also reviewed the Business Report prepared by the Management. The Management of the Company is responsible for the preparation of these financial statements in accordance with Slovenian Accounting Standards. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements and the notes referred to in the first paragraph give a true and fair view of the financial position of the Company as of 31 December 2005 and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with Slovenian Accounting Standards.

The Business Report is consistent with the audited financial statements.

Deloitte & Touche revizija d.o.o.

Deloitte & Touche revizija d.o.o.

Lidija Jezernik
Certified Auditor
Member of the Board

Ljubljana, 24 March 2006

***TRANLATION ONLY – SLOVENIAN ORIGINAL PREVAILS***

**Audit. Tax. Consulting. Financial Advisory.**

Družba je članica
Deloitte Touche Tohmatsu

## *1. Balance Sheet as at 31 December 2005*

In thousands SIT

| | Note | 31.12.2005 | 31.12.2004 | 31.12.2004 - Restated |
|---|---|---|---|---|
| Cash and balances with the central bank | 5.6.1. | 4 | 42 | 42 |
| Loans to banks | 5.6.2. | 106,922,796 | 102,420,062 | 83,822,326 |
| Loans to non-banks | 5.6.3. | 31,431,215 | 23,350,619 | 23,350,619 |
| Debt securities not held for trading | 5.6.4. | 6,220,814 | 10,744,720 | 4,186,691 |
| Long-term equity investments in group companies | 5.6.5. | 1,970,795 | 1,434,597 | 1,434,597 |
| Intangible long-term assets | 5.6.6. | 182,001 | 83,497 | 83,497 |
| Tangible fixed assets (property, plant and equipment) | 5.6.7. | 602,514 | 630,948 | 630,948 |
| Other assets | 5.6.8. | 129,161 | 739,544 | 146,009 |
| Deferred costs (expenses) and accrued revenues | 5.6.9. | 1,249,820 | 989,980 | 879,803 |
| **TOTAL ASSETS SEC** | | **148,709,120** | **-** | **114,534,532** |
| **CONTINGENCY RESERVES** | 5.6.10. | **22,242,712** | **-** | **21,499,189** |
| **TOTAL ASSETS** | | **170,951,832** | **140,394,009** | **136,033,721** |
| | | | | |
| Liabilities (debts) to banks | 5.6.11. | 123,212,641 | 86,968,379 | 86,968,379 |
| Liabilities (debts) to non-banks | 5.6.12. | 392,696 | 1,169,343 | 1,169,343 |
| Long-term liabilities for contingency reserves | | 0 | 21,499,182 | 0 |
| Debt securities | 5.6.13. | 0 | 2,599,358 | 2,599,358 |
| Other liabilities (debts) | 5.6.14. | 151,334 | 759,353 | 870,618 |
| Accrued costs (expenses) and deferred revenues | 5.6.15. | 615,494 | 840,662 | 402,504 |
| Provisions for liabilities and costs | 5.6.16. | 2,933,643 | 2,553,319 | 2,553,319 |
| Insurance technical provisions | | 0 | 4,033,402 | 0 |
| Provisions for general banking risks | 5.6.17. | 254,500 | 925,000 | 925,000 |
| Subscribed capital | 5.6.18. | 9,323,540 | 9,323,540 | 9,323,540 |
| Capital reserves | 5.6.19. | 1,337,489 | 1,337,489 | 1,337,489 |
| Reserves from profit | 5.6.20. | 4,188,537 | 2,739,819 | 2,739,819 |
| Capital revaluation adjustments | 5.6.21. | 5,889,103 | 5,336,587 | 5,336,587 |
| - General capital revaluation adjustment | | 5,283,938 | 5,283,938 | 5,283,938 |
| - Specific capital revaluation adjustment | | 605,165 | 52,649 | 52,649 |
| Net profit for the year | | 410,143 | 308,576 | 308,576 |
| **TOTAL LIABILITIES SEC** | | **148,709,120** | **-** | **114,534,532** |
| **LIABILITIES FOR CONTINGENCY RESERVES** | 5.6.22. | **22,242,712** | **-** | **21,499,189** |
| **TOTAL LIABILITIES** | | **170,951,832** | **140,394,009** | **136,033,721** |
| | | | | |
| OFF-BALANCE-SHEET ITEMS | 5.6.23. | 72,133,848 | | 57,890,103 |

Note: The comparative column of the balance sheet for 2004 includes adjustments arising from the transfer of credit insurance against marketable risks to the subsidiary SID-Prva kreditna zavarovalnica, d.d., Ljubljana and the changed method of disclosing the operations of SEC on behalf of and for the account of the Republic of Slovenia (Note 5.5.1).

Accounting policies and the pertaining notes form an integral part of these financial statements.

## *2. Income Statement for 2005*

| | Note | 2005 | 2004 |
|---|---|---|---|
| | | | In thousands SIT |
| Interest and similar income | | 4,455,722 | 5,208,257 |
| Interest and similar expenses | | (2,674,840) | (2,093,623) |
| Net interest and similar income | 5.7.1. | 1,780,882 | 3,114,634 |
| Income from equity investments | | 0 | 0 |
| Fees and commissions received | | 246,146 | 2,839,581 |
| Fees and commissions paid | | (44,996) | (141,229) |
| Net fees and commissions | 5.7.2. | 201,150 | 2,698,352 |
| Income from financial transactions | | 978,605 | 1,689,544 |
| Expenses for financial transactions | | (878,978) | (1,772,930) |
| Net profit or loss on financial transactions | 5.7.3. | 99,627 | (83,386) |
| Other operating income | 5.7.4. | 557,141 | 8,797 |
| Labour costs | 5.7.5. | (610,251) | (774,979) |
| Costs of material and services | 5.7.6. | (336,696) | (517,660) |
| Depreciation, amortization and revaluation operating expenses for intangible long-term and tangible fixed assets | 5.7.7. | (99,885) | (87,926) |
| Other operating expenses | 5.7.8. | (34,142) | (1,344,196) |
| Losses on loans and receivables less recoveries | 5.7.9. | (50,752) | (829,101) |
| Net provisions for general banking risks | 5.7.10. | 670,500 | (925,000) |
| **Profit on ordinary activities** | | **2,177,574** | **1,259,535** |
| Extraordinary income | | 0 | 0 |
| Extraordinary expenses | | 0 | 0 |
| - Excluding capital revaluation adjustments | | | |
| - Arising from capital revaluation adjustments | | | |
| Profit or loss on extraordinary activities | | 0 | 0 |
| **Pre-tax profit** | | **2,177,574** | **1,259,535** |
| Corporate income tax | 5.7.12. | (545,237) | (642,384) |
| Deferred taxes | | 8,235 | 0 |
| **NET PROFIT FOR THE FINANCIAL YEAR** | | **1,640,572** | **617,151** |

Accounting policies and the pertaining notes form an integral part of these financial statements.

### 2.1. Distribution of Net Profit for the 2005 Financial Year

In thousands SIT

| | 2005 | 2004 |
|---|---|---|
| Net profit for the year | 1,640,572 | 617,151 |
| Part of net profit for settlement of losses brought forward | 0 | 0 |
| Part of net profit for legal reserves | 0 | 0 |
| Part of net profit for reserves for treasury shares | 0 | 0 |
| Part of net profit for statutory reserves | (820,286) | (308,575) |
| Part of net profit for other reserves from profit | (410,143) | 0 |
| Total | 410,143 | 308,576 |

Part of net profit from 2005 in the amount of SIT 1,640,572 thousand served to set aside statutory reserves and other reserves from profit, resulting in distributable profit of SIT 410,143 thousand. The Corporation's General Meeting decides on its distribution.

Distributable profit for 2004 in the amount of SIT 308,576 thousand was according to the General Meeting's resolution allocated to other reserves from profit.

## *3. Cash Flow Statement for 2005*

In thousands SIT

| | | 2005 | 2004 |
|---|---|---|---|
| **A.** | **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **a)** | **Cash inflows from operating activities** | **5,177,946** | **7,867,317** |
| | Interest and similar income | 4,272,749 | 5,345,265 |
| | Fee and commission income | 248,256 | 2,595,765 |
| | Income from previously written off bad loans | 173 | 876 |
| | Income from equity investments | 0 | 0 |
| | Net profit or loss on financial transactions | 99,627 | (83,386) |
| | Other operating income | 557,141 | 8,797 |
| **b)** | **Cash outflows from operating activities** | **4,555,303** | **4,853,316** |
| | Interest and similar expenses | 2,491,054 | 2,036,117 |
| | Fee and commission expenses | 44,996 | 63,687 |
| | Payments to employees | 629,203 | 775,470 |
| | Other operating expenses | 351,990 | 1,861,856 |
| | Corporate income tax | 1,038,060 | 116,186 |
| | Total operating income/expenses before changes in operating assets and liabilities | (4,555,303) | (4,853,316) |
| **c)** | **(Increase)/decrease in operating assets** | **(30,389,919)** | **(25,904,097)** |
| | Net (increase)/decrease in loans to banks (excluding revaluation) | (22,687,691) | (12,293,695) |
| | Net (increase)/decrease in loans to non-banks (excluding revaluation) | (7,634,850) | (10,285,701) |
| | Net (increase)/decrease in securities held for trading (excluding revaluation) | 0 | 0 |
| | Net (increase)/decrease in other operating assets (excluding revaluation) | (67,378) | (3,324,701) |
| **d)** | **Increase/(decrease) in operating liabilities** | **35,079,858** | **8,183,532** |
| | Net increase/(decrease) in deposits from banks (excluding revaluation) | 36,244,261 | 7,225,990 |
| | Net increase/(decrease) in deposits from non-banks (excluding revaluation) | (776,646) | 957,542 |
| | Net increase/(decrease) in other operating liabilities (excluding revaluation) | (387,757) | 0 |
| **e)** | **Net outflows (a+c-b+d) or net outflows (b+d-a+c) from operating activities** | **5,312,582** | **(14,706,564)** |
| | | | |
| **B.** | **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| **a)** | **Cash inflows from investing activities** | **7,657,576** | **7,773,353** |
| | Inflows from disposal of debt securities | 7,655,360 | 7,771,856 |
| | Inflows from disposal of tangible fixed assets and intangible long-term assets | 2,216 | 1,497 |
| **b)** | **Cash outflows from investing activities** | **6,801,587** | **12,105,649** |
| | Outflows from purchase of debt securities | 6,649,912 | 11,000,609 |
| | Outflows from acquisition of equity investments | 0 | 1,010,100 |
| | Outflows from acquisition of tangible fixed assets and intangible long-term assets | 151,675 | 94,940 |
| **c)** | **Net inflows (a-b) or outflows (b-a) from investing activities** | **855,989** | **(4,332,296)** |
| | | | |
| **C.** | **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| **a)** | **Cash inflows from financing activities** | **93,808,077** | **130,617,242** |
| | Loans received | 93,808,077 | 130,617,242 |
| | Increase in debt securities and subordinated liabilities (excluding revaluation) | | 0 |
| | Inflows from disposal of treasury shares | | 0 |
| **b)** | **Cash outflows from financing activities** | **103,451,357** | **106,659,114** |
| | Dividends paid by bank | 0 | 139,261 |
| | Loan repayments | 100,851,999 | 105,619,210 |
| | Decrease in debt securities and subordinated liabilities (excluding revaluation) | 2,599,358 | 900,643 |
| | Outflows from acquisition of treasury shares | | 0 |
| **c)** | **Net inflows (a-b) or outflows (b-a) from financing activities** | **(9,643,280)** | **23,958,128** |
| | Effects of changes in exchange rates on cash and cash equivalents | | |
| | | | |
| **D.** | **CLOSING BALANCE OF CASH** | **1,865,964** | **5,340,673** |
| | x) Net cash flows for the period (Ae + Bc + Cc) | (3,474,709) | 4,919,268 |
| | + | | |
| | y) Opening balance of cash | 5,340,673 | 421,405 |

Accounting policies and the pertaining notes form an integral part of these financial statements.

## *4. Statement of Changes in Equity*

| In thousands SIT | Subscribed capital | Capital reserves | Reserves from profit | Net profit/loss brought forward from previous years | General capital revaluation adjustment | Specific capital revaluation adjustment | Net profit/loss for the year | Total capital |
|---|---|---|---|---|---|---|---|---|
| **OPENING BALANCE AS AT 31 DECEMBER 2004** | **9,323,540** | **1,337,489** | **2,739,819** | **0** | **5,283,938** | **52,649** | **308,576** | **19,046,011** |
| **Transfers to equity** | | | | | | | | |
| - Specific capital revaluation | 0 | 0 | 0 | 0 | 0 | 552,516 | 0 | 552,516 |
| - Net profit for the year | 0 | 0 | 0 | 0 | 0 | 0 | 1,640,572 | 1,640,572 |
| **Transfers within equity** | | | | | | | | |
| - Allocation of net profit to reserves from profit | 0 | 0 | 1,539,005 | 0 | 0 | 0 | (1,539,005) | 0 |
| - Corporate income tax 2003 | 0 | 0 | (90,287) | 0 | 0 | 0 | 0 | (90,287) |
| **Transfers from equity** | | | | | | | | |
| - Distribution of dividends | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **CLOSING BALANCE AS AT 31 DECEMBER 2005** | **9,323,540** | **1,337,489** | **4,188,537** | **0** | **5,283,938** | **605,165** | **410,143** | **21,148,812** |

| In thousands SIT | Subscribed capital | Capital reserves | Reserves from profit | Net profit/loss brought forward from previous years | General capital revaluation adjustment | Specific capital revaluation adjustment | Net profit/loss for the year | Total capital |
|---|---|---|---|---|---|---|---|---|
| **OPENING BALANCE AS AT 31 DECEMBER 2003** | **9,323,540** | **1,337,489** | **2,431,244** | **0** | **5,283,938** | **0** | **139,274** | **18,515,485** |
| **Transfers to equity** | | | | | | | | |
| - Specific capital revaluation | 0 | 0 | 0 | 0 | 0 | 52,649 | 0 | 52,649 |
| - Net profit for the year | 0 | 0 | 0 | 0 | 0 | 0 | 617,151 | 617,151 |
| **Transfers within equity** | | | | | | | | |
| - Allocation of net profit to reserves from profit | 0 | 0 | 308,575 | 0 | 0 | 0 | (308,575) | 0 |
| - Transfer of net profit | 0 | 0 | 0 | 139,274 | 0 | 0 | (139,274) | 0 |
| **Transfers from equity** | | | | | | | | |
| - Distribution of dividends | 0 | 0 | 0 | (139,274) | 0 | 0 | 0 | (139,274) |
| **CLOSING BALANCE AS AT 31 DECEMBER 2004** | **9,323,540** | **1,337,489** | **2,739,819** | **0** | **5,283,938** | **52,649** | **308,576** | **19,046,011** |

Accounting policies and the pertaining notes form an integral part of these financial statements.

# 17. Consolidated Financial Statements of the SEC Group

## *Auditors' Report*

Deloitte

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**AUDITORS' REPORT**

**to the owners of**
**SLOVENSKA IZVOZNA DRUŽBA, D.D., LJUBLJANA**

We have audited the accompanying consolidated balance sheet of the Slovenska izvozna družba, d.d., Ljubljana as of 31 December 2005 and the related statements of income, cash flows and changes in equity, as well as notes to the consolidated financial statements for the year then ended. We have also reviewed the Business Report prepared by the Management. The Management of the company Slovenska izvozna družba, d.d., Ljubljana is responsible for the preparation of these financial statements in accordance with Slovenian Accounting Standards. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements and the notes referred to in the first paragraph give a true and fair view of the financial position of the Group as of 31 December 2005 and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with Slovenian Accounting Standards.

The Business Report is consistent with the audited consolidated financial statements.

Deloitte & Touche revizija d.o.o.

Deloitte & Touche revizija d.o.o.

Lidija Jezernik
Certified Auditor
Member of the Board

Ljubljana, 24 March 2006

***TRANLATION ONLY – SLOVENIAN ORIGINAL PREVAILS***

Audit. Tax. Consulting. Financial Advisory.

Družba je članica
Deloitte Touche Tohmatsu

## *1. Consolidated Balance Sheet as at 31 December 2005*

In thousands SIT

| | Note | 31.12.2005 | 31.12.2004 - Restated |
|---|---|---|---|
| Cash and balances with the central bank | 5.5.1. | 27 | 42 |
| Loans to banks | 5.5.2. | 108,178,388 | 85,483,072 |
| Loans to non-banks | 5.5.3. | 31,431,215 | 23,350,619 |
| Debt securities not held for trading | 5.5.4. | 10,401,159 | 7,226,264 |
| Long-term equity investments in group companies | 5.5.5. | 434,057 | 424,280 |
| Intangible long-term assets | 5.5.6. | 182,001 | 83,497 |
| Tangible fixed assets (property, plant and equipment) | 5.5.7. | 618,474 | 630,948 |
| Other assets | 5.5.8. | 1,024,589 | 737,901 |
| Deferred costs (expenses) and accrued revenues | 5.5.9. | 1,333,874 | 960,098 |
| **TOTAL ASSETS SEC** | | **153,603,784** | **118,896,721** |
| **CONTINGENCY RESERVES** | 5.5.10. | **22,242,712** | **21,499,189** |
| **TOTAL ASSETS** | | **175,846,496** | **140,395,910** |
| | | | |
| Liabilities (debts) to banks | 5.5.11. | 123,212,641 | 86,968,379 |
| Liabilities (debts) to non-banks | 5.5.12. | 102,696 | 1,169,343 |
| Debt securities | 5.5.13. | 0 | 2,599,358 |
| Other liabilities (debts) | 5.5.14. | 1,029,865 | 761,192 |
| Accrued costs (expenses) and deferred revenues | 5.5.15. | 932,571 | 840,717 |
| Provisions for liabilities and costs | 5.5.16. | 2,944,104 | 2,553,319 |
| Insurance technical provisions | 5.5.17. | 3,978,595 | 4,033,402 |
| Provisions for general banking risks | 5.5.18. | 254,500 | 925,000 |
| Subscribed capital | 5.5.19. | 9,323,540 | 9,323,540 |
| Capital reserves | 5.5.20. | 1,337,489 | 1,337,489 |
| Reserves from profit | 5.5.21. | 4,589,938 | 2,739,830 |
| Capital revaluation adjustments | 5.5.22. | 5,362,464 | 5,336,370 |
| - General capital revaluation adjustment | | 5,283,938 | 5,283,938 |
| - Specific capital revaluation adjustment | | 78,526 | 52,432 |
| Net profit brought forward | | 118 | 0 |
| Net profit for the year | | 535,263 | 308,782 |
| **TOTAL LIABILITIES SEC** | | **153,603,784** | **118,896,721** |
| **LIABILITIES FOR CONTINGENCY RESERVES** | 5.5.23. | **22,242,712** | **21,499,189** |
| **TOTAL LIABILITIES** | | **175,846,496** | **140,395,910** |
| | | | |
| OFF-BALANCE-SHEET ITEMS | 5.5.24. | 72,971,587 | 57,890,103 |

Note: The comparative column of the balance sheet for 2004 includes adjustments arising from the amended method of disclosing SEC's operations on behalf and for the account of the Republic of Slovenia (Note 5.5.1).

Accounting policies and the pertaining notes form an integral part of these financial statements.

## *2. Consolidated Income Statement for 2005*

| | | | In thousands SIT |
|---|---|---|---|
| | Note | 2005 | 2004 |
| Interest and similar income | | 4,648,498 | 5,208,456 |
| Interest and similar expenses | | (2,662,461) | (2,093,625) |
| Net interest and similar income | 5.6.1. | 1,986,037 | 3,114,831 |
| Income from equity investments | 5.6.2. | 45,272 | 0 |
| Fees and commissions received | | 1,652,714 | 2,846,275 |
| Fees and commissions paid | | (49,639) | (141,058) |
| Net fees and commissions | 5.6.3. | 1,603,075 | 2,705,217 |
| Income from financial transactions | | 990,617 | 1,689,544 |
| Expenses for financial transactions | | (907,801) | (1,772,930) |
| Net profit (or loss) on financial transactions | 5.6.4. | 82,816 | (83,386) |
| Other operating income | 5.6.5. | 506,055 | 6,052 |
| Labour costs | 5.6.6. | (910,984) | (776,545) |
| Costs of material and services | 5.6.7. | (572,881) | (520,077) |
| Depreciation, amortization and revaluation operating expenses for intangible long-term and tangible fixed assets | 5.6.8. | (101,383) | (87,926) |
| Other operating expenses | 5.6.9. | (425,735) | (1,344,206) |
| Losses on loans and receivables less recoveries | 5.6.10. | 4,055 | (829,101) |
| Net provisions for general banking risks | 5.6.11. | 670,500 | (925,000) |
| **Profit on ordinary activities** | | **2,886,827** | **1,259,859** |
| Extraordinary income | | 297 | 0 |
| Extraordinary expenses | | 0 | 0 |
| - Excluding capital revaluation adjustment | | | |
| - Arising from capital revaluation adjustment | | | |
| Profit or loss on extraordinary activities | | 297 | 0 |
| **Pre-tax profit** | | **2,887,124** | **1,259,859** |
| Corporate income tax | 5.6.13. | (1,130,315) | (642,491) |
| Taxes not disclosed under other items | | 410,184 | 0 |
| **NET PROFIT FOR THE FINANCIAL YEAR** | | **2,166,993** | **617,368** |

Accounting policies and the pertaining notes form an integral part of these financial statements.

## 3. Consolidated Cash Flow Statement for 2005

In thousands SIT

| | | 2005 | 2004 |
|---|---|---|---|
| **A.** | **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **a)** | **Cash inflows from operating activities** | **4,118,524** | **7,867,317** |
| | Interest and similar income | 4,384,331 | 5,345,265 |
| | Fee and commission income | (900,292) | 2,595,765 |
| | Income from previously written off bad loans | 173 | 876 |
| | Income from equity investments | 0 | 0 |
| | Net profit or loss on financial transactions | 128,088 | (83,386) |
| | Other operating income | 506,224 | 8,797 |
| **b)** | **Cash outflows from operating activities** | **4,939,421** | **4,853,316** |
| | Interest and similar expenses | 2,478,675 | 2,036,117 |
| | Fee and commission expenses | 49,639 | 63,687 |
| | Payments to employees | 899,834 | 775,470 |
| | Other operating expenses | 692,095 | 1,861,856 |
| | Corporate income tax | 819,178 | 116,186 |
| | Total operating income/expenses before changes in operating assets and liabilities | (820,897) | 3,014,001 |
| **c)** | **(Increase)/decrease in operating assets** | **(29,304,008)** | **(25,904,097)** |
| | Net (increase)/decrease in loans to banks (excluding revaluation) | (22,495,364) | (12,293,695) |
| | Net (increase)/decrease in loans to non-banks (excluding revaluation) | (7,634,850) | (10,285,701) |
| | Net (increase)/decrease in securities held for trading (excluding revaluation) | 0 | 0 |
| | Net (increase)/decrease in other operating assets (excluding revaluation) | 826,206 | (3,324,701) |
| **d)** | **Increase/(decrease) in operating liabilities** | **34,496,647** | **9,196,931** |
| | Net increase/(decrease) in deposits from banks (excluding revaluation) | 36,244,261 | 8,239,389 |
| | Net increase/(decrease) in deposits from non-banks (excluding revaluation) | (486,646) | 957,542 |
| | Net increase/(decrease) in other operating assets | (1,260,968) | 0 |
| **e)** | **Net outflows (a+c-b+d) or net outflows (b+d-a+c) from operating activities** | **4,371,742** | **(13,693,165)** |
| **B.** | **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| **a)** | **Cash inflows from investing activities** | **15,520,188** | **7,773,353** |
| | Inflows from disposal of debt securities | 15,517,972 | 7,771,856 |
| | Inflows from disposal of tangible fixed assets and intangible long-term assets | 2,216 | 1,497 |
| **b)** | **Cash outflows from investing activities** | **18,862,002** | **12,105,649** |
| | Outflows from purchase of debt securities | 18,692,869 | 11,000,609 |
| | Outflows from acquisition of equity investments | 0 | 1,010,100 |
| | Outflows from acquisition of tangible fixed assets and intangible long-term assets | 169,133 | 94,940 |
| **c)** | **Net inflows (a-b) or outflows (b-a) from investing activities** | **(3,341,814)** | **(4,332,296)** |
| **C.** | **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| **a)** | **Cash inflows from financing activities** | **97,993,921** | **130,617,242** |
| | Loans received | 93,803,576 | 130,617,242 |
| | Increase in debt securities and subordinated liabilities (excluding revaluation) | 4,180,345 | 0 |
| | Inflows from disposal of treasury shares | 0 | 0 |
| **b)** | **Cash outflows from financing activities** | **103,451,357** | **106,659,114** |
| | Dividends paid by bank | 0 | 139,261 |
| | Loan repayments | 100,851,999 | 105,619,210 |
| | Decrease in debt securities and subordinated liabilities (excluding revaluation) | 2,599,358 | 900,643 |
| | Outflows from acquisition of treasury shares | 0 | 0 |
| **c)** | **Net inflows (a-b) or outflows (b-a) from financing activities** | **-5,467,436** | **23,958,128** |
| | Effects of changes in exchange rates on cash and cash equivalents | | |
| **D.** | **CLOSING BALANCE OF CASH** | **1,916,564** | **6,354,072** |
| | x) Net cash flows for the period (Ae + Bc + Cc) | (4,437,508) | 5,932,667 |
| | + | | |
| | y) Opening balance of cash | 6,354,072 | 421,405 |

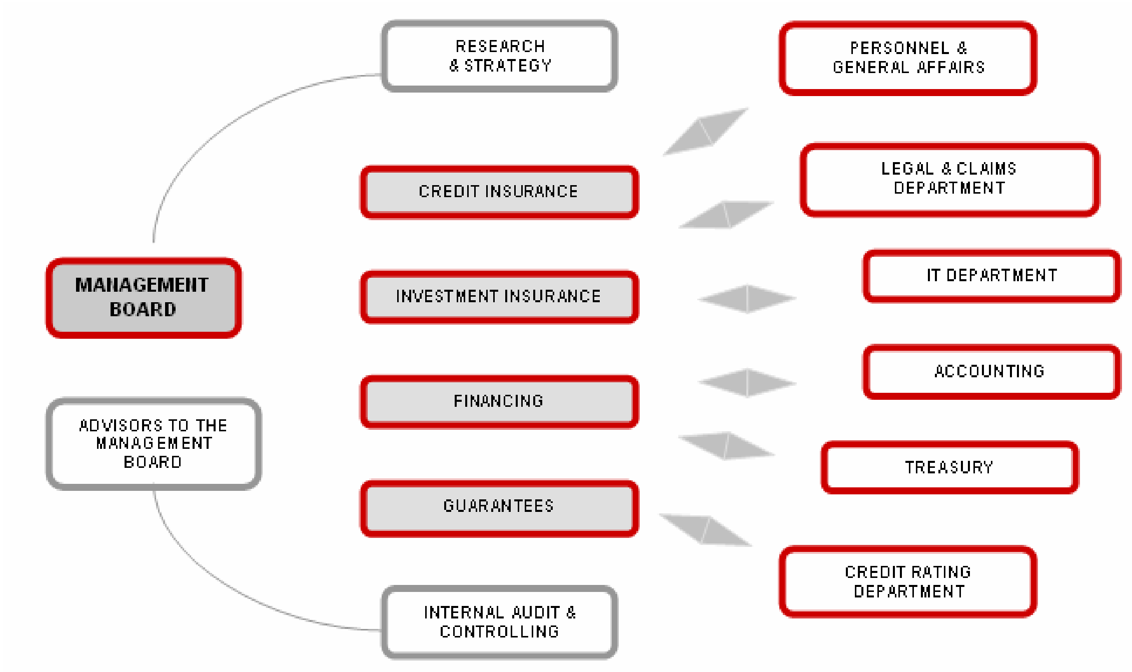
Accounting policies and the pertaining notes form an integral part of these financial statements.

## *4. Consolidated Statement of Changes in Equity*

| In thousands SIT | Subscribed capital | Capital reserves | Reserves from profit | Net profit/loss brought forward from previous years | General capital revaluation adjustment | Specific capital revaluation adjustment | Net profit/loss for the year | Total capital |
|---|---|---|---|---|---|---|---|---|
| **OPENING BALANCE AS AT 31 DECEMBER 2004** | **9,323,540** | **1,337,489** | **2,739,830** | **0** | **5,283,938** | **52,432** | **308,782** | **19,046,011** |
| **Transfers to equity** | | | | | | | | |
| - Specific capital revaluation | | | | | | **26,094** | | **26,094** |
| - Net profit for the year | **0** | **0** | **0** | **0** | **0** | **0** | **2,166,994** | **2,166,994** |
| **Transfers within equity** | | | | | | | | |
| - Allocation of net profit to reserves from profit | | | **1,940,395** | | | | **(1,940,395)** | **0** |
| - Corporate income tax 2003 | **0** | **0** | **(90,287)** | **0** | **0** | **0** | **0** | **(90,287)** |
| - Net profit brought forward from previous years | | | | **118** | | | **(118)** | **0** |
| **Transfers from equity** | | | | | | | | |
| - Distribution of dividends | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **CLOSING BALANCE AS AT 31 DECEMBER 2005** | **9,323,540** | **1,337,489** | **4,589,938** | **118** | **5,283,938** | **78,526** | **535,263** | **21,148,812** |

| In thousands SIT | Subscribed capital | Capital reserves | Reserves from profit | Net profit/loss brought forward from previous years | General capital revaluation adjustment | Specific capital revaluation adjustment | Net profit/loss for the year | Total capital |
|---|---|---|---|---|---|---|---|---|
| **OPENING BALANCE AS AT 31 DECEMBER 2003** | **9,323,540** | **1,337,489** | **2,431,244** | **0** | **5,283,938** | **0** | **139,274** | **18,515,485** |
| **Transfers to equity** | | | | | | | | |
| - Specific capital revaluation | 0 | 0 | 0 | 0 | 0 | 52,432 | 0 | 52,432 |
| - Net profit for the year | 0 | 0 | 0 | 0 | 0 | 0 | 617,368 | 617,368 |
| **Transfers within equity** | | | | | | | | |
| - Allocation of net profit to reserves from profit | 0 | 0 | 308,586 | 0 | 0 | 0 | (308,586) | 0 |
| - Transfer of net profit | 0 | 0 | 0 | 139,274 | 0 | 0 | (139,274) | 0 |
| **Transfers from equity** | | | | | | | | |
| - Distribution of dividends | 0 | 0 | 0 | (139,274) | 0 | 0 | 0 | (139,274) |
| **CLOSING BALANCE AS AT 31 DECEMBER 2004** | **9,323,540** | **1,337,489** | **2,739,830** | **0** | **5,283,938** | **52,432** | **308,782** | **19,046,011** |

# Organization Chart and Bodies




**Shareholders' Assembly of Slovenska izvozna družba, d.d. Ljubljana**

mag. Simon Oblak – Chairperson
Metod Zaplotnik – Deputy Chairperson

**Supervisory Board of Slovenska izvozna družba, d.d., Ljubljana**

1. dr. Andrej Bajuk - President
   Ministry of Finance
2. mag. Helena Kamnar, Deputy Chairperson
   University of Ljubljana
3. mag. Gonzalo Caprirolo
   Ministry of Finance
4. dr. Božo Cerar
   Ministry of Foreign Affairs
5. mag. Jožko Čuk
   Chamber of Commerce and Industry
6. dr. Andrej Kitanovski
   Ministry of Economy
7. dr. Mojmir Mrak

**International Trade Promotion Commission**

1. mag. Mojca Jazbinšek Volk - Chairperson
   Ministry of Economy
2. mag. Andrijana Starina Kosem – Deputy Chairperson
   Ministry of Economy
3. Robert Kokalj
   Ministry of Foreign Affairs
4. mag. Janez Košak
   Bank of Slovenia
5. mag. Cveto Stantič
   Chamber of Commerce and Industry
6. mag. Stanislava Zadravec Caprirolo
   Ministry of Finance

# Organization Chart of the SEC Group