ANNUAL REPORT
OF SID BANK AND
SID BANK GROUP
FOR 2010

Company name:	SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana
Address:	Ulica Josipine Turnograjske 6, SI-1000 Ljubljana, Slovenia
ID Number:	5665493
Tax Number:	82155135
VAT Identification Number:	SI82155135
BIC (SWIFT):	SIDRSI22
Telephone:	+386 1 200 75 00
Management Board:	+386 1 200 75 53
Telefax:	+386 1 200 75 75
E-mail:	info@sid.si
Website:	http://www.sid.si

Companies of SID Bank Group

SID - Prva kreditna zavarovalnica d.d., Ljubljana
Ulica Josipine Turnograjske 6, SI-1000 Ljubljana, Slovenia
tel.: +386 1 200 58 00; fax: +386 1 425 84 45
http://www.sid-pkz.si

PRO KOLEKT, družba za izterjavo, d.o.o.
Ulica Josipine Turnograjske 6, SI-1000 Ljubljana, Slovenia
tel: +386 1 200 75 90, fax: +386 1 421 06 21
http://www.prokolekt.si

PRO KOLEKT d.o.o., Rapska 46B, 10000 Zagreb, Croatia
tel. +385 1 617 70 08, fax: +385 1 617 72 16
http://www.prokolekt.hr

PRO KOLEKT d.o.o. Bulevar Goce Delčev 11, 1000 Skopje, Macedonia
tel./fax: +389 2 312 18 13
http://www.prokolekt.com.mk

PRO KOLEKT d.o.o., Bulevar Mihajla Pupina 10ž/222, 11070 Novi Beograd, Serbia
tel.: +381 11 213 93 81
http://www.prokolekt-serbia.com

S.C. Pro Kolekt Credit Management Services Bucuresti s.r.l.,
Prof. George Murgoci Str. 2, District 4, 040526 Bucuresti, Romania
tel.: +40 21 335 90 30, fax: +40 21 337 03 43

Pro Kolekt Sofia EOOD, 65, Shipchenski prohod Blvd., 1574 Sofia, Bulgaria
tel./fax: + 359 2 971 44 63

PRO KOLEKT d.o.o. Sarajevo, Ulica Hamdije Čermelića 2, 71000 Sarajevo, Bosnia and Herzegovina
tel.: +387 70 35 80, fax: +387 70 35 8

PRVI FAKTOR, faktoring družba, d.o.o.,
Slovenska cesta 17, SI-1000 Ljubljana, Slovenia
tel.: +386 1 200 54 10, fax: +386 1 426 07 47
http://www.prvifaktor.si

PRVI FAKTOR, faktoring društvo, d.o.o., Hektorovićeva 2/V,10000 Zagreb, Croatia
tel. : +385 1 617 78 05; fax: +385 1 617 66 29
http://www.prvifaktor.hr

PRVI FAKTOR - faktoring d.o.o., Bulevar Mihajla Pupina 165/v, 11070 Novi Beograd, Serbia
tel.: +381 11 2225 400, fax: +381 11 2225 444
http://www.prvifaktor.co.yu

PRVI FAKTOR d.o.o., finansijski inžinjering, Džemala Bijedića bb,
71000 Sarajevo, Bosnia and Herzegovina
tel.: +387 33 767 210, fax: +387 33 767 211
http://www.prvifaktor.ba

Center za mednarodno sodelovanje in razvoj (Centre for International Cooperation and Development)
Kardeljeva ploščad 1, SI-1000 Ljubljana, Slovenia
tel.: +386 1 568 13 96, fax: +386 1 568 15 85
http://www.cmsr.si

Contents

I. BUSINESS REPORT OF SID BANK AND SID BANK GROUP

Statement by the President of the Board 4

Report of the Supervisory Board on the review and approval of the 2010 Annual Report of SID Bank and SID Bank Group 6

1. Highlights from the Business Operations of 2010 8

2. Corporate Profile of SID Bank 11

3. SID Bank Group 14

4. International Economic Environment and Slovenian Economy in 2010 16

5. Development Strategy of SID Bank and SID Bank Group 21

6. Business Operations of SID Bank and SID Bank Group in 2010 24
6.1. Financial Review of the Operations of SID Bank and SID Bank Group 24
6.2. Review of SID Bank Operations by Business Activity 27
6.2.1. Financing 27
6.2.2. Asset Liability Management 31
6.2.3. Borrowing 32
6.2.4. Credit Rating and Other Credit Information 32
6.2.5. Operations under Special Authorization – Insurance against Non-Marketable Risks 33
6.2.6. Operations under Special Authorization – Interest Rate Equalization Programme (IREP) 35
6.2.7. Operations under Special Authorization – Guarantee Scheme for Enterprises 36
6.2.8. Operations under Special Authorization – Guarantee Scheme for Individuals 36
6.2.9. Operations under Special Authorization – Guarantee Scheme for Investments 36
6.3. Review of SID Bank Group Operations in 2010 36
6.3.1. SID – Prva kreditna zavarovalnica d.d., Ljubljana 36
6.3.2. PRO KOLEKT Group 38
6.3.3. PRVI FAKTOR Group 38
6.3.4. Centre for International Cooperation and Development 38
6.4. Risk Management 39
6.5. Information System 45
6.6. Personnel 45
6.7. Corporate Social Responsibility of SID Bank 47
6.8. Internal Audit 50
6.9. Compliance Management 51

7. Appendices 52
7.1. Management Bodies of SID Bank as at 31 December 2010 52
7.2. Organisation Chart of SID Bank as at 31 December 2010 53
7.3. Organisation Chart of SID Bank Group as at 31 December 2010 54
7.4. Statement of Corporate Governance 55

II. FINANCIAL STATEMENTS OF SID BANK AND SID BANK GROUP **57**

III. DISCLOSURES PURSUANT TO THE REGULATION ON DISCLOSURES OF BANKS AND SAVINGS BANKS **132**

Statement by the President of the Board

Dear Ladies and Gentlemen,

SID Bank, as an institution specialized in providing of financial services designed to address market gaps and foster sustainable development of Slovenia's economy, has further enhanced and strengthened its role in 2010. Moreover, the Bank has met all its strategic and operational objectives despite the ongoing economic crisis.

Effectively performing its role

Enduring the harshest economic conditions since Slovenia's independence, SID Bank managed to deliver growth, generating an average 40 percent increase in business volume, to EUR 3.9 billion in total assets and EUR 1.4 billion in non-marketable insurance, thereby mitigating the effects of the crisis and opening up new opportunities. SID Bank, a highly efficient and responsive specialized bank, has once again demonstrated ability to provide Slovenia's economy with financial services required to foster development even in adverse conditions when the financial markets were not functioning normally.

In the period of market uncertainties, growing financial risks and weak regional growth, the importance of promotional and development banking has risen in comparison to commercial banking. The impact of the economic and financial crisis, such as the fall in GDP, exports, employment, as well as the limited options for bank refinancing on the financial markets, has limited the business opportunities, volume and number of transactions carried out by the Slovenian companies. The trend was particularly visible in the construction, transport, textiles, wood industry and trade. In light of the above, SID Bank continued to offer counter-cyclical financing mechanisms, through long-term loans to commercial banks and insurance against non-marketable risks ,both of which have increased substantially due to market failure.

In the four years of existence, SID Bank has acquired funds exclusively through borrowing on the international and domestic financial markets. Unlike comparable foreign promotional and development banks, SID Bank did not receive state funds. However, with competition for financing in international markets tightening due to crisis, the Bank is no longer able to provide favourable financing conditions for Slovenian companies. Determined to overcome this weakness and improve the existing mechanisms, instruments and conditions for financing the sustainable development, SID Bank reengineered its range of products and services and formed a new development promotion platform in cooperation with the Republic of Slovenia. The aim of the platform is to introduce a special form of financing also used elsewhere in the EU, namely combining loan funds provided by SID Bank with grants by the Republic of Slovenia. This mechanism would contribute to more efficient development promotion as it would enable financing of certain high-risk projects, e.g. research and development projects.

Generating high growth in financing in insurance

The ongoing economic and financial crisis in Slovenia had varied effects on the Bank's clients and the Bank had to adjust its operations accordingly. The primary focus was placed on financing new enterprise business models and completing several transactions and projects of development relevance, which had come to a halt due to the crisis.

In financing operations the Bank increased its credit portfolio by 27 percent, allocating a total of EUR 1.2 billion in loans to banks and companies. The loans were extended within the framework of a special scheme aimed at financing energy efficiency and reduction of CO_2 emissions (with EIB) in the manufacturing and automotive industries and through several new forms of financing in the field of ecology, research and development, small and medium-sized enterprises, with particular emphasis on infrastructure and export financing that began to rise again as a result of a boost in Slovenia's exports. In conducting financing operations, special attention was paid to long-term financing and to more responsible lending achieved through the use of new risk assessment forms and methods.

As for insurance against non-marketable risks, a sizeable increase in investment flow into southeastern Europe and reinsurance of short-term receivables from Russian entities, which private reinsurers declined to insure, resulted in a 51-percent increase in non-marketable insurance; to EUR 1.4 billion. Another outcome of the crisis was also growth in claims; in 2010 SID Bank paid EUR 3 million in claims arising from insurance against non-marketable risks, primarily for transactions in Russia and Kazakhstan.

The growth in claims was even higher at SID Bank's subsidiary, SID – Prva kreditna zavarovalnica, active in marketable insurance business, which paid out EUR 25 million in claims. Balancing the claims result with a 21-percent rise in marketable insurance volume, PKZ managed to end the year 2010 successfully, reporting after tax net income of EUR 6.8 million. The Bank's other subsidiary, PRVI FAKTOR d.o.o., recorded a loss of EUR 3.9 million due to protracted crisis on the Southeastern European markets, its core region of operations. SID Bank's subsidiaries PRO KOLEKT and CMSR, however, were able to use these trends to their benefit, ending the year with a profit. The consolidated performance of SID Bank Group amounted to EUR 11.2 million in net profit on EUR 4.1 billion total assets. The positive result was also due to increased cooperation between CMSR and the Bank on the regional markets, which allowed the Bank to combine lending and insurance products and services.

Mitigating the effects of the crisis

In order to mitigate the effects of the crisis, SID Bank, acting under authorization of the Republic of Slovenia, continued to implement guarantee schemes for enterprises and individuals. On the basis of state guarantees in the amount of EUR 310 million, 427 companies received EUR 841 million worth of credit facilities since the scheme was introduced in 2009. The guarantee scheme was also used to provide collateral to over one thousand individuals for bank loans in a total amount of EUR 35 million.

In accordance with the EU anti-crisis measures, the said two schemes expired in 2010. However, considering that the negative economic conditions continued to pervade Slovenia's economy and the lack of investments was recognized as one of the main problems hindering the recovery, SID Bank and the Republic of Slovenia started a new guarantee scheme to cover investments by Slovenian companies up to the maximum of 75 percent for individual investments.

In 2010, as previously, internationalization was a vital part of SID Bank's operations. In addition to traditional financial instruments designed to support internationalization of enterprises, mostly SMEs, the Bank actively participated in government's initiative to expand the economic diplomacy services and also prepared an action plan for the post-crisis period.

Financial position, risks, results, and international cooperation

We wish to stress that despite the financial crisis and rapid growth SID Bank maintained its financial stability in 2010 and preserved comparable rating to development banks; Aa2 (Moody's). Appropriate policies, assessments and lending criteria have helped the Bank increase the quality of its credit portfolio with a 79 percent share of first-rate clients. Furthermore, impairments and provisions (standing at EUR 31 million at year-end) were increased to cover rapid growth, new business and risks assumed on account of crisis conditions. The Bank's stability was enhanced further, on the assets side, by diversification of financial sources and, most importantly, by the first issue of the 5-year Eurobond in the amount of EUR 750 million. Capital adequacy stood at 13.5 percent at the end of 2010, well above the average for Slovenian banks and the revised capital requirement regulation. As a result, both regulatory and internal capital of the Bank were found to be above the Slovenian average, signaling good risk management by the Bank.

All of the above was reflected on the business result of SID Bank, with profit after tax amounting to EUR 5.7 million. The ratio of operating costs to net revenues declined below 20 percent, which places the Bank at the top of the most cost efficient banks in Slovenia. It should be noted that non-marketable insurance services, which the Bank carries out on behalf and for the account of the State, delivered net income of EUR 4 million from premiums earned despite increased claims paid which in turn strengthened the contingency reserves of the Republic of Slovenia to EUR 124 million.

Another very important factor contributing to the Bank's performance in 2010 was excellent international cooperation with peer banks and institutions (e.g. EIB, KfW), associations (EAPB, Berne Union, ISLTC, Prague Club, NEFI) and our joint operations within the European Union and wider.

Acknowledgments and prospects

None of the above results would have been possible without dedicated and professional employees of the Bank, their continuous growth and development, effective supervision and strong corporate governance. Therefore, we would like to extend our appreciation to all employees, owners and supervisory board, as well as business partners and the wider community for their unwavering trust and support in achieving the Bank's strategy and business results, which fills us with satisfaction and motivation for the future.

With gradual improvement in the economy, the market gaps in Slovenia's economy are expected to narrow down, which will slow SID Bank's growth in the following years. The strategy for the period through 2014 has been adjusted accordingly, selecting new priorities and simplifications of certain key internal processes, values and the vision of the Bank. In the future, internal quality growth and enhanced risk management based on continuous improvement of processes and computerization will replace quantitative external growth. This will enable the Bank to take its qualitative development another step higher, helping it to promote higher value added, increased competitiveness of the Slovenian economy, creation of new jobs and, most importantly, sustainable development.

Committed to promoting sustainable development and responsible operation for the benefit of our partners and other stakeholders, we look forward with optimism in the future, readily awaiting new challenges and opportunities for the Slovenian economy and SID Bank.

Sibil Svilan, M.Sc.

Report of the Supervisory Board on the review and approval of the 2010 Annual Report of SID Bank and SID Bank Group

In 2010 SID Bank's operations were overseen by the Supervisory Board in the following composition:

Andreja Kert, Chairperson; Samo Hribar Milič, M.Sc., Deputy Chairperson; Aleš Berk Skok, Ph.D.; Marko Jaklič, Ph.D.; Gregor Kastelic, M.Sc.; Peter Kraljič, Ph.D.; and Viljem Pšeničny, Ph.D. (until resignation on 4 August 2010 due to assuming the position of State Secretary at the Ministry of Economy). As at 1 October 2010, the Government of the Republic of Slovenia appointed Hugo Bosio as the new member of the Supervisory Board.

The Supervisory Board comprehensively monitored and supervised the operations of the Bank against its set strategic goals and business objectives, working in accordance with the Rules of Procedure of the Supervisory Board, the Statute of SID Bank, and in line with the regulations stating the authorities of the Supervisory Board.

Professional support for the work of the Supervisory Board was provided by the Audit Committee, which studied the issues and drew up opinions mainly with regard to the internal and external audits, accounting policies and accounting data, risk management, risk profile assessment, and internal controls. In 2010 the Audit Committee drew up the criteria and started the proceedings for selecting the auditor for 2011.

In 2010 a Recruitment Committee of the Supervisory Board was established to provide the Supervisory Board with professional support in adopting the rules for concluding service agreements with members of the Management Board and assist the Supervisory Board in the organisation and execution of a public tender for the appointment of the President and Member of the Management Board of SID Bank in the new term.

In 2010, the Supervisory Board met at seven (7) regular and six (6) correspondence meetings where it studied periodical reports on the operations of SID Bank and the companies of the SID Bank Group, reports prepared by the Internal Audit and other departments of the Bank, and other general and specific issues related to the business operations of the company, and decided on the matters within its powers.

In 2010 the Supervisory Board discussed and decided on the following important issues:

- the Annual Report for 2009, the Independent Auditor's Report, and the proposal concerning the allocation of distributable profit,
- the Bank's Action Strategy for the period ending in 2014,
- the annual operations plan and financial plan for the years 2010 and 2011,
- proposed changes to the Statute of SID Bank,
- Internal Audit strategic plan for the years 2010 and 2011,
- the annual internal audit report for 2009 and periodical internal audit reports for 2010,
- risk management strategy and policies,
- assessment of the Bank's risk profile for 2009,
- Compliance Management reports and work plan,
- the findings made by the Bank of Slovenia and other supervision bodies,
- borrowings of the Bank and SID Bank’s first Eurobond issue,
- cooperation with development promotion financial institutions in the framework of the development promotion platform (DPP),
- strategic orientations regarding the ownership in the companies of the SID Bank Group.

In monitoring and supervising the business operations of SID Bank, 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 20 April 2011, the Supervisory Board examined in detail the Annual Report of SID banka, d.d., Ljubljana and Skupina SID banka for 2010 together with the proposals regarding the allocation of distributable profit of SID Bank made by the Management Board of SID banka, d.d., Ljubljana. The Supervisory Board also examined the reports of certified auditors prepared by the auditing company Deloitte revizija d.o.o., which gave its positive opinion on the financial statements of SID Bank and the SID Bank Group for 2010. According to the Independent Auditor's Report, the financial statements give a true and fair view of the financial position of SID banka d.d., Ljubljana and Skupina SID banka as at 31 December 2010 and of its income statement and cash flow statement for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU, and the Bank's business report is consistent with the audited financial statements.

The Supervisory Board had no comments as to the Independent Auditor's Report of Deloitte revizija d.o.o.

Upon examination of the Annual Report, the Supervisory Board had no reservations to and gave its approval to the 2010 Annual Report of SID banka d.d., Ljubljana and Skupina SID banka.

Andreja Kert
Chairperson of the Supervisory Board

1. HIGHLIGHTS FROM THE BUSINESS OPERATIONS OF 2010

Introduction

As at 31 December 2010, SID Bank Group consisted of the following companies:

	Relationship	Ownership share of SID Bank
SID banka, d.d., Ljubljana	Parent company	-
SID-Prva kreditna zavarovalnica d.d., Ljubljana	Subsidiary company	100%
PRO KOLEKT, družba za izterjavo, d.o.o.	Subsidiary company	100%
PRVI FAKTOR, faktoring družba, d.o.o.	Joint venture	50%
Centre for International Cooperation and Development	Co-foundation	-

Notes in the continuation of this report refer to SID Bank and SID Bank Group and shall be read together as one. The consolidated statements of SID Bank Group include SID-Prva kreditna zavarovalnica d.d., Ljubljana by the method of full consolidation, and the PRVI FAKTOR Group by the proportional consolidation method. Due to its immateriality for the financial position and profit or loss of SID Bank Group, the PRO KOLEKT Group is not included in the consolidation (cf. Chapter II, points 2.1.2. and 2.1.3.).

Business results of SID Bank and SID Bank Group in 2010

Key business data

in EUR million	2008		2009		2010	
	SID Bank	SID Bank Group	SID Bank	SID Bank Group	SID Bank	SID Bank Group
Number of shareholders	1	-	1	-	1	-
Total assets	2,087.7	2,301.7	3,024.9	3,215.6	3,895.5	4,086.1
Equity	160.8	179.9	322.0	333.7	327.8	344.9
Loans given	1,952.2	2,112.4	2,922.4	3,049.5	3,714.4	3,835.7
Net interest	14.3	19.8	21.5	28.5	40.2	44.9
Net revenues from insurance operations	-	6.3	-	2.1	-	3.6
Net profit/loss for the year	2.8	2.9	0.9	(5.4)	5.7	11.2
Return on equity after tax in %	2.28	1.86	0.42	(2.09)	1.76	3.29
Number of employees (31 Dec.)	76	287	87	306	94	303
International credit rating – Moody's	-	-	Aa2	-	Aa2	-

SID Bank business results

- **Total assets**: EUR 3.9 billion (up by 28.8%)
- **Equity**: EUR 327.8 million (up by 1.8%)
- **Loans given**: EUR 3.7 billion (up by 27.1%)
- **Net profit for the year**: EUR 5.7 milion (up by 504.0%)
- **Return on equity after tax**: 1.76% (in 2009: 0.42%)

Business volume and results from operations on behalf and for the account of the Republic of Slovenia

- **Export credit and investment insurance against non-marketable risks:** EUR 1,440.1 million of business insured (up by 51.2%)
- **Premiums:** EUR 8.2 million (up by 74.2%)
- **Claims:** EUR 3.0 million (down by 50.2%)
- **Contingency reserves:** EUR 124.2 million (up by 3.5%)
- **IREP funds:** EUR 7.8 million (up by 2.7%)
- **Guarantee scheme for enterprises:** EUR 300.4 million in loan guarantee quota distributed in 2010 (in 2009: EUR 509.0 million)
- **Guarantee scheme for individuals:** EUR 50.5 million in loan guarantee quota distributed in 2010 (in 2009: EUR 38.4 million)

Business results of SID Bank Group

- **Total assets:** EUR 4.1 billion (up by 27.1%)
- **Equity:** EUR 344.9 million (up by 3.3%)
- **Net profit for the year:** EUR 11.2 million (in 2009: loss of EUR 5.4 million)
- **Return on equity after tax:** 3.29% (in 2009: -1.92%)

Business results of SID Bank Group companies in 2010

SID – Prva kreditna zavarovalnica d.d., Ljubljana

- Equity: EUR 20.3 million (up by 120.9%), including credit risk equalisation reserve in the amount of EUR 1.7 million (up by 113.0%);
- Business volume (domestic and export credit insurance against marketable risks): EUR 4.8 billion (up by 21.0%)
- Gross claims paid: EUR 24.8 million (up by 117.5%)
- Loss ratio: 126.0% (in 2009: 104.7%)
- Total assets: EUR 72.6 million (up by 15.6%)
- Net profit for the year: EUR 6.8 million (in 2009: loss of EUR 6.5 million)

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

- Equity: EUR 0.3 million (up by 41.9%)
- Value of debts collected: EUR 8.3 million (down by 10.4%)
- Total assets: EUR 0.5 million (up by 0.2%)
- Net profit for the year: EUR 79 thousand (up by 79.6%).

PRO KOLEKT Group

- Consists of PRO KOLEKT, Ljubljana, and its subsidiaries in Zagreb, Belgrade, Sarajevo, Skopje, Bukarest, and Sofia
- SID Bank's equity: EUR 284.3 thousand (up by 4.0%); minority owners' equity: EUR 85 thousand
- Value of debts collected: EUR 15.0 million (up by 18.9%)
- Total assets: EUR 4.3 million (down by 2.9%)
- Net profit for the year: EUR 23 thousand (down by 88.5%).

PRVI FAKTOR, faktoring družba, d.o.o.

- Equity: EUR 3.2 million (down by 55.5%)
- Value of receivables purchased: EUR 227.8 million (up by 5.0%)
- Total assets: EUR 129.9 million (down by 3.0%)
- Loss for the year: EUR 3.9 million (in 2009: net profit EUR 1.8 million)

PRVI FAKTOR Group

- Consists of PRVI FAKTOR, Ljubljana, and its subsidiaries in Zagreb, Belgrade, Sarajevo, and Skopje
- Equity: EUR 6.2 million (down by 45.2%)
- Value of receivables purchased: EUR 862.1 million (up by 5.1%)
- Total assets: EUR 332.7 million (down by 1.1%)
- Loss for the year: EUR 4.7 million (in 2009: net profit EUR 0.6 million)

Centre for International Cooperation and Development

- SID Bank co-founded the institution Centre for International Cooperation and Development
- Operating income: EUR 0.6 million (up by 16.4%)
- Net revenue surplus in the business year: EUR 3 thousand (in 2009: EUR 0).

2. CORPORATE PROFILE OF SID BANK

Legal status and history

SID Bank was established on 22 October 1992 as Slovenska izvozna družba, družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana (hereinafter referred to as SID), a specialised private-law financial institution for insurance and financing of exports of the Republic of Slovenia. The operation of SID Bank was governed by the Export Insurance and Finance Corporation of Slovenia Act, adopted in 1992.

The Act on Insurance and Finance of International Business Transactions (ZZFMGP), which became effective in February 2004, codifies the fundamental principles governing the insurance and financing of international business transactions as Slovenia's trade policy instruments, and defines the role of the Republic of Slovenia in such transactions. Pursuant to the ZZFMGP, SID was obligated to harmonise its insurance-related operations which it had conducted on its own behalf and for its own account with the regulations governing the operation of insurance companies by 31 December 2004, and to harmonise its non-insurance related operations (i.e. operations not regulated by the ZZFMGP) with the regulations governing the operation of banks by 31 December 2006.

Acting in accordance with the law, SID established an insurance company to which it transferred the portfolio of marketable insurance performed on own behalf and for own account up until the end of 2004. SID – Prva kreditna zavarovalnica d.d., Ljubljana, in which SID held a 100 percent equity interest, was entered into the Register of Companies on 31 December 2004.

On 18 October 2006 the company obtained a license from the Bank of Slovenia to provide banking and other financial services. At the end of the same year it received the Decision of the District Court in Ljubljana on changing the company's name into SID – Slovenska izvozna in razvojna banka, or SID Bank, Inc., Ljubljana for short[1], and on 1 January 2007 the company began formally operating as a specialized bank.

On 21 June 2008 the Slovene Export and Development Bank Act (hereinafter ZSIRB) entered into force although it applies from the date when the Republic of Slovenia became the single shareholder of SID Bank, namely from 18 September 2008. The ZSIRB bestows upon SID Bank two mandates: firstly, SID Bank shall be Slovenia's specialized promotional, export and development bank authorized to promote and pursue the activities under the ZSIRB and, secondly, the Bank shall have the authority to perform all transactions under the ZZFMGP.

The Act Amending the Banking Act - Zban-1E (Official Gazette of the RS, no. 79/10 of 8 October 2010), which came into effect on 9 October 2010, further specified the status of the Bank by stipulating that SID Bank is Slovenia's authorized and specialized promotional, export and development bank which is not allowed to receive deposits from the general public. Furthermore, the Act laid down that any licenses issued with regard to SID Bank pursuant to the Banking Act shall remain valid with except in the part which relates to receiving deposits from the general public. It also states that the provisions of other laws applicable to banks shall also apply for SID Bank unless otherwise stipulated by the law.

Thus, SID Bank holds the authorization by the Bank of Slovenia to perform the following financial services:

- receiving deposits from informed persons;
- granting of credit, including:
    - mortgage credits,
    - factoring (with or without recourse),
    - financing of commercial transactions, including forfeiting;
- issuance of guarantees and other commitments;
- trading for own account or for account of customers in:
    - foreign exchange, including currency exchange transactions,
    - financial futures and options,
    - exchange and interest-rate instruments;
- trading for own account in:
    - money market instruments;
- credit reference services: collection, analysis and provision of information on creditworthiness.

With the adoption of the Commission Directive 2010/16/EU of 9 March 2010 amending Directive 2006/48/EC of the European Parliament and of the Council, the status of SID Bank was also defined for the needs of the EU banking

[1]In the continuation of this Annual Report, regardless of the time of operation and the change of company name, SID Bank, Inc., Ljubljana, and prior to 29 December 2006 Slovene Export Corporation, Inc. Ljubljana, are referred to as SID Bank or SID, whereas all capital-linked SID Bank companies are referred to as SID Bank Group or SID Group.

regulations. With the Directive, the European Commission, acting in accordance with the opinion of the European Banking Committee, confirms SID Bank as an institution involved in specific activities in the public interest and therefore eligible for inclusion in the list of institutions excluded from the scope of application of Directive 2006/48/EC pursuant to Article 2 of that Directive. According to the Directive, SID Bank supports structural, social and other public policies of the Slovenian government, by providing financial services, counselling and education in areas such as international trade and international cooperation, economic incentives for small and medium enterprises, research and development, regional development and commercial and public infrastructures, among other things. The Republic of Slovenia is the sole shareholder of SID Bank and is also the guarantor of all the liabilities incurred by the bank.

Capital

Pursuant to the provisions of the Act Amending the Slovene Export and Development Bank Act (ZSIRB), at the General Meeting of Shareholders, held on 20 May 2009, the Republic of Slovenia as the single shareholder of SID Bank adopted a Decree on increase of capital from EUR 140 million to EUR 300 million through the issue of 1,664,933 new ordinary no-par value shares in a total value of EUR 160 million. All the newly issued shares are held by the single shareholder, Republic of Slovenia. The capital increase was entered into the Register of Companies on 14 August 2009. Distributable profit of SID Bank may not be distributed to shareholders. In accordance with the ZSIRB, distributable profit shall be allocated to other profit reserves.

In 2010 there were no changes in share capital; as at 31 December 2010 the share capital was EUR 300 million.

The capital is divided into 3,121,741 ordinary registered no-par value shares issued in uncertificated form. The central securities register and all securities trading procedures are managed by the Central Securities Clearing Corporation in Ljubljana.

At the General Meeting of SID Bank Shareholders held on 27 August 2010, a decision was taken that the distributable profit for the year 2009 totaling EUR 450 thousand shall be allocated to other profit reserves.

Equity was EUR 327.8 million as at 31 December 2010. The audited book value per share was EUR 105.63 as at 31 December 2010 and EUR 103.75 as at 31 December 2009.

Shareholders as at 31 December 2010

	Number of shares	Ownership share in %
Republic of Slovenia	3,103,296	99.4
SID Bank – own shares	18,445	0.6
Total	3,121,741	100.0

The voting rights of the shareholders of SID Bank are not limited, and the one share–one vote principle is applied. Financial rights attached to shares are linked to share ownership. Pursuant to the provisions of Article 4 of the ZSIRB, the Republic of Slovenia is the single shareholder of the SID Bank.

Role, purpose and tasks of SID Bank

On the basis of, and in accordance with:

- the Act on Insurance and Financing of International Business Transactions (ZZFMGP), which regulates the fundamentals of insurance and financing of international business transactions as Slovenia's trade policy instruments,
- the Slovene Export and Development Bank Act (ZSIRB), which designates SID Bank as Slovenia's specialized export and development bank authorized to engage in activities specified in the ZSIRB and as an authorised institution under the ZZFMGP and
- other laws and individual documents governing the promotional and development forms and instruments of the Slovenian, European and international economic activities in covering market gaps and other (permitted) forms of interventions and assistance, in particular international development cooperation, through exercising individual rights and obligations and the role of the Republic of Slovenia and its institutions in actively pursuing the objectives set forth in the development strategy of the Republic of Slovenia,

the role, purpose and tasks of SID Bank are to promote, in the general economic and public interests, in particular through appropriate financial instruments and services:

- a balanced and sustainable economic development of the Republic of Slovenia, through financing and insurance for international business transactions and cooperation as well as other forms of operation of economic operators, in particular SMEs, in Slovenia; research and innovation, along with other forms of economic and development cooperation which increase competitiveness and excellence of economic operators in the territory of the Republic of Slovenia;
- a sustainable development of the environment characterized by a high degree of protection of the environment and habitat, public and utility infrastructure, and in particular energy efficiency, with special stress on voluntary restraint and quality as well as local factors;
- social progress, education and employment and other diverse forms and methods of significance in these areas in the Republic of Slovenia and abroad through international development cooperation;

and other forms of economic activities contributing to the growth, development and prosperity, whereby the management and supervision bodies of SID Bank will, within the framework of the Bank's strategic policies, strive to meet the requirements of the users of such services and exercise as well as progressively improve the same by way of introducing and implementing:

- systems for comprehensive assessment and management of specific development risks,
- quality management systems, and
- corporate and social responsibility.

Furthermore, the ZSIRB authorizes SID Bank to pursue its activities concerning deployment of EU funds and other assets from the EU budget. In so doing, SID Bank may, under agreements concluded with the competent Ministries and other national authorities, entities and persons, extend diverse types of development finance and carry out various measure packages of the Republic of Slovenia as well as other schemes and projects compliant with EU rules, and for this purpose participate in various ways with European financial institutions. The Act Amending the Public Finance Act (ZJF-F, Official Gazette of RS, no. 107/10, of 28 December 2010) further specifies, inter alia, that budget funds may be allocated to SID Bank for promotion of technological development projects through a direct agreement, without a call for tenders.

In conducting its operations, SID Bank may use all financial instruments provided for in the existing financial legislation, namely loans, guarantees and other forms of collateral, purchase of receivables, financial leasing, concession credits and other international development cooperation instruments, other forms of finance, capital investments and other forms of risk assumption, and integrate these into promotional financing schemes.

Activities

In accordance with the above listed role, purpose and tasks of SID Bank, the Bank mainly provides financial services, within the authorizations issued by the Bank of Slovenia. These are primarily granting of loans, which are normally and to a large extent carried out through banks, in individual cases in cooperation with other commercial banks in bank syndicates, while on a lower scale, the Bank grants direct loan to final beneficiaries.

With a view to managing its assets and liabilities and ensuring safety from risks arising from the banking book, SID Bank also conducts, for own account, certain investment services and transactions, e.g. purchase and sale of securities and/or interest rate and foreign exchange derivatives. SID Bank also performs these transactions for the account of SID – Prva kreditna zavarovalnica, d.d., Ljubljana.

The activities of the Bank are presented in more detail in Point 6.2 SID Bank Operations by Business Activity.

SID Bank operations for the account of the Republic of Slovenia

SID Bank performs insurance of international business transactions against non-marketable risks and conducts the Interest Rate Equalization Programme on behalf and for the account of the Republic of Slovenia, as an agent of the state. The funds needed to ensure efficient provision of insurance under the ZZFMGP were guaranteed by the Republic of Slovenia in form of contingency and special contingency reserves, primarily utilized to settle liabilities to the insureds (claims payments), cover the cost of prevention and mitigation of future or reported losses, and to cover losses incurred. If the losses cannot be indemnified from the contingency reserves, the funds for claims payments are supplied by the Republic of Slovenia. Contingency reserves are set aside primarily from paid premiums, fees and commissions, recourses from paid claims and other revenues from insurance and reinsurance against non-marketable risks.

Under the Guarantee Scheme Act of the Republic of Slovenia (Official Gazette of RS, no. 59/09 of 30 April 2009), SID Bank was authorized to administer and for the account of the Republic of Slovenia, a guarantee scheme for enterprises. The Act was adopted as part of the EU stimulus package and was not extended after its expiry at the end of 2010.

Under the Guarantee Scheme Act of the Republic of Slovenia (Official Gazette of RS, no. 59/09 of 30 April 2009), SID Bank was authorized to administer, on behalf and for the account of the Republic of Slovenia, a guarantee scheme for individuals.

Under the Act on Guarantees of the Republic of Slovenia for Financing Investments of Enterprises (Official Gazette of RS, no. 43/10 of 31 May 2010), SID Bank is also authorized to conduct contracts relating to the issuance of guarantees on behalf and for the account of the Republic of Slovenia as well as other operations under this Act.

2010 was also the year of the entry into force of the Act Amending Environment Protection Act (ZVO-1C; Official Gazette of RS, no. 108/2010 of 28 December 2009), which bestowed upon SID Bank additional authority to act as state auctioneer at emission allowance auctions and to carry out the Kyoto units and emission allowance trading scheme, and any related transactions, on behalf and for account of the Republic of Slovenia.

The activities of the Bank for the account of the Republic of Slovenia are presented in more detail in Point 6.2 SID Bank Operations by Business Activity.

3. SID BANK GROUP

SID – Prva kreditna zavarovalnica d.d., Ljubljana

The harmonization of Slovenian legislation with the acquis communautaire and the adoption of new legislation, in particular the ZZFMGP, have led to changes in the organisational structure of SID and seen the expansion of the SID Group. As the sole owner of the company, SID established a specialized credit insurance company SID – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter PKZ). In so doing, SID harmonized its legal status and insurance-related business on own account with the regulations governing the operation of insurance companies.

PKZ started its business operations on 1 January 2005. On that date, the insurance portfolio of short-term insurance which SID had conducted for its own account up to the end of 2004, was transferred from SID onto the assuming insurance company, PKZ.

PKZ provides insurance for short-term credits to private-law entities (normally, suppliers' credit for up to 180 days or, exceptionally, up to one year). It conducts insurance against commercial and non-commercial risks for companies selling abroad and/or in Slovenia on deferred payment, normally on open account. Insurance contracts are renewable, insurance cover extending to the entire turnover generated by the insured in the foreign and/or domestic markets. The company also concludes indirect insurance contracts: it uses facultative quota reinsurance to provide covers for insurance operations of loan collaterals, collateralized with export credit agencies. The principal characteristics of insurance transactions insured in such a manner are the same as for direct insurance transactions and were, also in 2010, negligible when compared with direct insurance transactions.

The company is led by a two-member Management Board, represented by Mr. Ladislav Artnik, President of the Board, and Dr. Rasto Hartman, Member of the Board. The Supervisory Board is composed of three members: Mr. Jožef Bradeško, President, and Mr. Leon Lebar, Deputy President, both from SID Bank, and Mr. Ivan Štraus, Employee Representative of PKZ.

At its regular meeting held on 15 January 2010, the Supervisory Board of SID Bank approved an increase in the share capital of its subsidiary company SID-Prva kreditna zavarovalnica d.d., Ljubljana, in the amount of EUR 4.2 million. In January 2010 the increase of capital, which had been paid in full, was confirmed by the General Meeting of PKZ.

The nominal value of the equity interest owned by SID Bank was EUR 8.4 million as at 31 December 2010.

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

PRO KOLEKT, družba za izterjavo d.o.o., with registered offices at Ulica Josipine Turnograjske 6, Ljubljana (hereinafter PRO KOLEKT, Ljubljana), was established in 2004 by SID as its sole owner. The nominal capital of the company as at 31 December 2010 was EUR 418.8 thousand. The nominal value of the equity interest of SID Bank in PRO KOLEKT, Ljubljana, was also EUR 418.8 thousand.

PRO KOLEKT, Ljubljana, specializes in out-of-court debt collection. Originally, the company was established as a debt collection service for SID Group. Today it handles debt collection cases for creditors in Slovenia and abroad. Among foreign clients, the principals of PRO KOLEKT increasingly include export credit agencies and debt collection agencies. For foreign creditors, PRO KOLEKT, Ljubljana, performs representation in court proceedings (recovery of debt through court action, voluntary compositions, bankruptcy proceedings, etc.) and provides credit rating information.

PRO KOLEKT Group is composed of the parent company PRO KOLEKT, Ljubljana, and a network of subsidiaries based in the countries of South East Europe, including:

- PRO KOLEKT d.o.o., Zagreb, Croatia, specializing in entrepreneurial consulting, was founded on 1 February 2006 by PRO KOLEKT, Ljubljana, as its sole owner. The nominal capital of the company is EUR 23.8 thousand. The General Manager of the company is Mr. Ivica Balenović; the General Meeting of PRO KOLEKT d.o.o., Zagreb, is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2010, equalled the balance of the nominal capital on the same day.
- PRO KOLEKT d.o.o., Skopje, Macedonia, specializing in entrepreneurial consulting, was founded on 6 July 2006 and is 80 percent owned by PRO KOLEKT, Ljubljana, and 20 percent owned by Mr. Vlado Naumovski. The nominal capital of the company is EUR 10.0 thousand. The General Manager of the company is Mr. Goran Markovski; the General Meeting of PRO KOLEKT, d.o.o, Skopje is represented by the General Manager of PRO KOLEKT, Ljubljana and Mr. Vlado Naumovski. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2010 equalled EUR 8.0 thousand.
- PRO KOLEKT, društvo za izterjavo dolga, d.o.o., Beograd, Serbia, specializing in other financial activities, was founded on 18 December 2006, and is wholly-owned by PRO KOLEKT, Ljubljana. The nominal capital of the company is EUR 25.0 thousand. The General Manager of the company is Mr. Nikola Debač; the General Meeting of PRO KOLEKT, društvo za izterjavo dolga, d.o.o., Beograd is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2010, equalled the balance of the nominal capital on the same day.
- PRO KOLEKT CREDIT MANAGEMENT SERVICES BUCURESTI S.R.L., Bukarest, Romania, specializing in business consulting, was founded on 6 April 2007, with a nominal capital of EUR 25.0 thousand. The nominal capital of the company is EUR 39.2 thousand. PRO KOLEKT, Ljubljana holds a 51.02 percent ownership share of the company, Mr. Teodor Gigea 25.51 percent, and Roexpert S.R.L. Bucaresti 23.47 percent. The General Manager of the company is Mr. Teodor Gigea; the General Meeting of the company is represented by the General Manager of PRO KOLEKT, Ljubljana, the Director of Roexpert S.R.L. Bucuresti, and Mr. Teodor Gigea. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2010 equalled EUR 20.0 thousand.
- PRO KOLEKT SOFIA OOD, Sofia, Bulgaria, specializing in business consulting, was founded on 9 May 2007, with a nominal capital of EUR 25.0 thousand. The nominal capital of the company as at 31 December 2010 is EUR 40.0 thousand. PRO KOLEKT, Ljubljana owns 62.50 percent of the company, the remaining share of 37.50 percent is owned by Ms. Mariana Ikonomova, who is also the General Manager of the company. The General Meeting of PRO KOLEKT SOFIA OOD is represented by the General Manager of PRO KOLEKT, Ljubljana, and Ms. Mariana Ikonomova. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2010 equalled EUR 25.0 thousand.
- PRO KOLEKT d.o.o. Sarajevo, Bosnia and Herzegovina, specializing in business consulting, was founded on 13 July 2007 and is wholly-owned by PRO KOLEKT, Ljubljana. After the capital increase of EUR 10 thousand carried out in 2010 the nominal capital of the company is EUR 36 thousand. The General Manager of the company as of 1 December 2010 is Ms. Elzana Behrić; the General Meeting of PRO KOLEKT, d.o.o, Sarajevo, is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2010, equalled the balance of the nominal capital on the same day.

  The General Manager of PRO KOLEKT is Mr. Miloš Varga. The General Meeting of the company is represented by the Management Board of SID Bank.

PRVI FAKTOR, faktoring družba, d.o.o.

PRVI FAKTOR, faktoring družba d.o.o., with registered offices at Slovenska cesta 17, Ljubljana (hereinafter PRVI FAKTOR, Ljubljana), is the leading factoring company in Slovenia. The principal business activity of the company is the performance of factoring services for clients with registered offices in the Republic of Slovenia and abroad with regard to claims arising from the sale of goods and services. The company mainly provides the following services: repayment assumption or purchasing of receivables arising from the sale of goods and services with or without protection against the risk of non-payment; financing of purchased receivables; receivables management; encashment and collection of receivables; trading in claims; mediation and representation in factoring transactions in Slovenia and abroad.

In 2002 SID acquired a 50 percent equity interest and half of the voting rights in the company PRVI FAKTOR, Ljubljana, the other shareholder being Nova Ljubljanska banka d.d., Ljubljana. The nominal value of the equity interest owned by SID Bank was EUR 3,1 million as at 31 December 2010.

PRVI FAKTOR, Ljubljana, has founded and is the sole owner of four enterprises:

- PRVI FAKTOR, faktoring društvo, d.o.o., Zagreb, Croatia, specializing in factoring. The company was founded on 17 December 2003 with a nominal capital of EUR 2.6 million. The General Manager of the company is Mr. Tomaž Kačar; the General Meeting is made up of the representatives from PRVI FAKTOR, Ljubljana.

- PRVI FAKTOR, faktoring d.o.o., Beograd, Serbia, specializing in factoring, was founded on 24 February 2005. The nominal capital of the company is EUR 1.3 million. The General Manager of the company is Ms. Jelena Tanasković; the General Meeting is made up of the representatives from PRVI FAKTOR, Ljubljana.
- PRVI FAKTOR d.o.o., financijski inženiring, Sarajevo, Bosnia and Herzegovina, specializing in other types of financial intermediation, was founded on 27 February 2006. The nominal capital of the company is EUR 451.0 thousand. The General Manager of the company is Mr. Đenan Bogdanić; the General Meeting is made up of the representatives from PRVI FAKTOR, Ljubljana.
- On 22 September 2006, PRVI FAKTOR d.o.o., Skopje was entered into the Register of Companies; the founding capital of the company is EUR 5.0 thousand. The company has not begun operating yet.

The company's bodies are the General Meeting and General Manager, Mr. Ernest Ribič. In 2010, SID Bank was represented at the General Meeting of PRVI FAKTOR, faktoring družba, d.o.o. by Mr. Sibil Svilan (MSc) and Mr. Leon Lebar.

The nominal value of the equity interests owned by PRVI FAKTOR, Ljubljana in the companies of the PRVI FAKTOR Group as at 31 December 2010 equaled the balance of the nominal capital of these enterprises on the same day.

Centre for International Cooperation and Development

Upon signing the second Amendment to the Agreement Concerning the Restructuring of the Centre for International Cooperation and Development (hereinafter CMSR) on 28 December 2006, SID Bank became a co-founder of CMSR with which it had worked closely prior to the signing. In recent years CMSR has become Slovenia's central institute to perform technical and operational tasks linked to international development cooperation on the basis of an authorization issued by the Government of the Republic of Slovenia.

The CMSR management bodies are Director and Council of the Centre. The institute is represented by Mr. Gašper Jež, temporarily appointed Acting Director. The CMSR Council is made up of seven members; SID Bank's representatives sitting on the Council are Mr. Sibil Svilan (MSc), who is also the President of the Council, and Mr. Bojan Pecher.

4. INTERNATIONAL ECONOMIC ENVIRONMENT AND SLOVENIAN ECONOMY IN 2010[2]

World economy in 2010

Whilst the global economic recovery continues, its pace remains uneven and has lost momentum compared to the first six months of 2010 as the influence of certain positive factors such as the inventory cycle and government incentives weakens. Public debt has risen close to the limit in a number of countries, due to recent fiscal interventions and reduced budget inflows. Additional limitations have also been imposed in response to weaker confidence in the euro area, brought about by the debt issues of PIIGS countries (Portugal, Ireland, Italy, Greece, and Spain).

In developed economies the recovery is sluggish, partly because said countries need to improve their public finances, cope with poor labour market prospects and weak consumer confidence. On the other hand, economic growth in emerging market economies remains dynamic despite a modest slowdown at the end of 2010. Recent surveys confirm that the global economic recovery continued in the second half of the year, but at a moderate degree.

Germany’s GDP grew by 3.6 percent in 2010, the highest rate since the unification, which is considered vital for the growth in the euro area. The USA recorded a 2.9 percent growth of GDP in 2010, Japan 3.1 percent, Russia 4.0 percent, China 10.3 percent, and India 9.1 percent. The growth of GDP in the euro area was about 1.6 percent. The indicators of global economic activity pointed to a deteriorating outlook for economic growth in the last quarter of 2010, but at the beginning of 2011 relevant institutions and agencies began revising their forecasts mainly because due to an upturn in household consumption and a rise in production volume, predominantly in the USA. Forecasts for economic growth were also revised for the euro area, mainly due to the expansion of German economy.

Central and East European countries outside the euro area have been emerging from the biggest recession since their transition to market economy. Most of them have been recording positive quarterly growth rates since the second half of 2009. Economic recovery is expected to speed up in 2011 except in Bulgaria and Romania where the recovery will be

[2]The data presented is obtained from the following sources: Umar – Slovenian Economic Mirror; Bank of Slovenia – Price Stability Report (Oct 2010), Operation of Banks in 2010 (Jan 2011), Stability of the Slovenian Banking System (Dec 2010), Monthly Bulletin (Jan-Feb 2011); Economic Trends by SKEP group of the Chamber of Commerce and Trade of RS (Nov 2010).

more moderate. Biggest growth is predicted for the Baltic countries, with exports continuing to be the main driver of economic activity in the region.

The economic situation in other EU member states outside the euro area has generally improved in the second quarter of 2010. Real year-on-year GDP growth rate in Russia was 5.2 percent in the second quarter but slowed down to 2.7 percent in the third quarter, which is also the estimation for the future.

Inflationary pressure remained weak in advanced economies although inflation has risen over the last few months. In OECD countries the year-on-year headline inflation rate increased by 1.9 percent in this year by October. On the other hand, the emerging economies are still facing major inflationary pressure caused by higher energy and food prices (reaching highest levels so far). The 2010 increase in raw materials prices in international markets was significant, similar to 2007 and 2008. On average, the rise was 29 percent compared to 2009. oil prices were 22.8 percent higher year-on-year in December; the rise in oil prices is mainly attributable to global economic recovery and increased demand.

International trade witnessed even greater fluctuations than GDP during the economic crisis. It declined by 11 percent in 2009 only to strengthen considerably in 2010, by a good 12 percent, mainly between the third quarter of 2009 and second quarter of 2010. In the second half of 2010 world trade activities seemed to ease gradually. In the third quarter of 2010 the international trade grew by a low 0.9 percent at a quarterly level, which is significantly less than in the second quarter (3.2 percent). Evidently, international trade growth rate will remain steady at around 6 percent in the coming years, pushing to above average figures in developing countries and remaining below 5 percent in the developed economies. Commercial trade among developing countries is expected to gain greater importance.

During the crisis, the central banks lowered their interest rates to almost zero through monetary policy instruments aiming to revitalize the economic activity. This has helped stimulate the lending activities and improve corporate liquidity. However, low interest rates cannot be applied over the long term. Based on the analyses and data published in November, the Governing Council of the European Central Bank assessed that the key interest rates of ECB were at an appropriate level and left them unchanged. The main interest rate of ECB has been unchanged at 1 percent since mid-May 2009. In the interbank lending market, interest rates have been growing since May 2010. On average, the value of the three-month EURIBOR stood at 1.025 percent in December 2010, 34 basis points higher than in January 2010.

Certain countries devalued its currency in order to increase market competitiveness and raise foreign demand. This new-age "money printing" through buying bonds was publicly announced by the USA in October and ever since the U.S. dollar has been weakening gradually. Due to the strengthening euro, the competitive position of the euro area could also have weakened; however, continued debt crisis in Europe again put pressure on euro's decline. The euro declined against the dollar until the end of June, strengthened in July and then declined again at the end of 2010. In the coming months, fluctuations in the value of the euro are to be expected due to the situation on the global market; according to analysts, the euro should reach USD 1.30 or higher in 2011.

Risks affecting the global economic growth are weakening, but the level of uncertainty remains high. Positive trends can be observed in trade balance which might grow faster than expected. However, there are still reasons for concern, namely the possibility of increased tensions in some segments of financial markets, repeated rise in the price of oil and other raw materials, rising protectionist pressures and potentially uncontrollable adjustments of the global imbalances.

Slovenian economy in 2010

The latest figures from the national accounts indicate a return to moderate economic growth. There are still, however, significant macroeconomic imbalances, in particular high unemployment and the general government deficit. After stagnating at the beginning of the year, GDP in Slovenia rose more sharply in the second quarter, by 1.1 percent in current terms. Growth was driven primarily by the response of the manufacturing sector to a sharp increase in foreign demand and a partial renewal in inventories, the decrease in which contributed significantly to the decline in economic activity last year. In the third quarter of 2010, GDP quarterly growth rate was already 0.3 percent. GDP growth is expected to be 1.7 percent in 2011.

In 2010 consumer prices measured by HICP increased by 2.2 percent, the same figure as in the euro area. Relatively modest price growth was mainly a result of weak economic activity, which influenced moderate core inflation, and certain one-off factors related to changes in taxation and higher prices of energy.

After slowing down in autumn 2010, the production volume in manufacturing increased again in November 2010. It recorded a year-on-year rise of 7.1 percent, but remained below the average for 2008. The value of realized projects in the construction sector posted a 16.9 percent drop compared to 2009.

In the second half of 2010 the year-on-year growth in high and medium-high-technology industries was more modest than in the first half of the year, as a result of anticipated growth slowdown in certain industries (motor vehicle manufacturing industry). The growth of production in medium-high and low-technology industries was higher in the second half of 2010 than in the first six months, mainly because these industries are more export oriented. In eleven months of the year, the production volume achieved in the year before was exceeded in both groups of industries, in contrast to low-technology-industries.

Exports in goods were 13.6 percent higher year-on-year in 2010 but still below the absolute value of exports in the pre-crisis year 2008. The imports of goods were 14.6 percent higher year-on-year in 2010, largely under the impact of higher import prices rises (higher prices of oil and other primary commodities). In 2010 exports of services were only 1.2 percent higher year-on-year (instead of 4.7 percent, as according to October's data), with the greatest contribution to growth coming from higher exports of transport, particularly road and railway transport services. Imports of services were up 3.5 percent year-on-year in nominal terms in 2010. The terms of trade deteriorated considerably last year, with the growth of import prices (6.5 percent) considerably higher than the growth of export prices (3.1 percent). Exports to the EU were EUR 12 billion in the eleven months of 2010, and imports amounted to EUR 14 billion. In the same period, Slovenia exported EUR 2.4 billion to the countries of former Yugoslavia and imported EUR 1.4 billion. Exports to the CIS markets were EUR 0.8 billion in the eleven months of 2010, and imports amounted to EUR 0.3 billion. Over the same period, exports to EFTA countries was EUR 0.2 billion, with imports coming to EUR 0.3 billion.

The number of insolvent business entities increased once again in 2010. AJPES (The Agency of the Republic of Slovenia for Public Legal Records and Related Services) records show that among the business entities with outstanding matured liabilities for more than five consecutive days in a month, the number of legal entities increased by more than one fifth in the second half of the year. The increase in the average daily amount of outstanding matured liabilities was much higher (almost 70 percent) and thus similarly high as in 2009. In 2010, 1.5 times more compulsory settlement procedures were filed than in 2009 and there were 65 percent more bankruptcy procedures against legal entities.

On average, 100,504 persons registered as unemployed in 2010, which is 14,151 persons, or 16.4 percent, more than in 2009. Due to insuffiecient job creation, the number of long-term unemployed persons and the number of first-time job seekers also rose in 2010, compared with 2009 (by 35.8 percent and by 17.9 percent, respectively).

General government revenue amounted to EUR 13.1 billion and expenditure to EUR 14.9 billion in the first eleven moths of 2010. The deficit thus totaled approximately EUR 1.8 billion. Over the same period, revenue increased by 0.7 percent year-on-year and expenditure rose by 2.4 percent. The total balance of local government budgets recorded a deficit in the amount of EUR 109 million and a 4.7 percent growth in expenditure while the deficit of the health fund stood at EUR 31 million. In the eleven moths of 2010, the transfer from the state budget into the pension fund amounted to EUR 1,284 million, up 5.5 percent from the year before.

In 2010 Slovenia received EUR 0.7 billion from the EU budget, close to 70 percent of funds envisaged in the supplementary budget for 2010. Around half of all receipts (50.4 percent) came from structural funds (68.6 percent of anticipated reecipts). The bulk of funds were allocated for regional development (74.1 percent). Slovenia paid EUR 0.4 billion into the EU budget, 96.1 percent of funds envisaged in the supplementary budget. Slovenia thus recorded a positive net budgetary position against the EU budget in 2010, in the amount of EUR 0.3 billion, a much higher figure than in 2009 (EUR 0.2 billion).

The interest rates in Slovenia in 2010 were, similarly to the rest of the euro area, fairly flat with minimal changes, however, an upward trend can be observed. Interest rates on corporate loans were 2 percentage points above the average for the euro area. Interest rates on housing loans in Slovenia decreased slightly in 2010 compared with 2009. The rates were slightly over 3 percent throughout the year, which is still higher than the euro area where the interest kept below 3 percent throughout the year.

Total asset size of banks decreased by EUR 1.3 billion in 2010. In December only, the year-on-year growth rate of total assets was -2.6 percent. The decline is largely attributable to a reduction in claims abroad, which the banks expanded from mid-November in order to use the funds collected to pay their financial obligations towards the Eurosystem. In 2010 foreign liabilities decreased overall by EUR 1.3 billion (in 2009 by EUR 3.1 billion). On the financing side, the non-banking sector deposits decreased as the government withdrew its deposits from the banking sector again; in 2010 these funds amounted to EUR 863.5 billion, while the year before the government deposited EUR 2.1 billion with banks. The maturity breakdown of deposits by non-banking sector is changing in favour of long-term deposits.

Net loans to non-banking sector decreased in December 2010 as well. Companies were attempting to deleverage most with majority foreign-owned banks where the negative year-on-year growth dynamic of loans of non-financial corporations increased over 7 percent in December 2010; whereas with the banks in domestic ownership the growth was only modestly negative. Corporate borrowing abroad started to pick up in the second half of the year, largely due to the credit crunch by domestic banks. At the same time, enterprises were also taking advantage of the still much lower loan interest rates abroad. The share of short-term loans in total loans by non-banking sector grew in the last year and exceeded 73 percent in December 2010.

Net interest income was up 11.2 percent on the year before. The rise in net interest income was more a result of a faster decline in interest expenses than the growth of interest income. Net non-interest expenses were 12 percent lower in 2010 compared with 2009, the decline resulting from losses from trading in financial assets. Growth in net fees and commissions was nevertheless positive (1.3 percent), and operating costs decreased slightly.

The quality of banks' assets continues to deteriorate. In December 2010 unprofitable receivables represented 3.7 percent of all banks' receivables, which is 1.5 percent more than at the end of 2009. Yearly costs of impairments and provisions of the banking system that reflect the increase of the credit risk amounted to EUR 757 million and were more than a half higher than in 2009. Consequently, the banking system recorded a pre-tax loss in the amount of EUR 48.4 million in 2010.

Influences on SID Bank Operations in 2010

- **Financing**

Slow and unstable economic growth, deteriorating payment discipline, shrinking total assets of banks, decrease in loans to companies, fall in bank portfolio quality, tightened financing conditions and increasing borrowing costs are just a few factors that profoundly affected the dynamics and composition of SID Bank loans extended to the corporate sector in 2010. The year continued to show extreme reluctance of the banking sector towards providing corporate financing; as a result, loans to corporates dropped while the structure of loans to clients other than banks pointed to a rise in the share of long-term loans. Banks became considerably more conservative in assessing risks and tightened their credit insurance requirements. Enhanced risk monitoring and risk assessment was also reflected in the evaluation of the risks in financing costs; given a limited supply of sources of finance, this pushed interest margins above the reference interest rates.

In 2010 SID Bank, aiming to assist the recovery of Slovenia's economy and provide the much-needed long term finance in support of new, development-oriented projects in the Slovenian corporate sector, secured a hefty EUR 0.9 billion of long term earmarked funds, of which EUR 0.3 million was allocated to enterprises in direct loans. Also, the Bank carefully monitored utilization of funds in accordance with the contractually agreed dynamics and criteria, and carried out monitoring of financial institutions and companies.

- **Asset-liability management and borrowing**

In 2010 the crisis in international capital markets took on new dimensions, especially in Europe. Several countries in the euro area, i.e. the PIIGS countries, were no longer able to service their debt and ensure the stability of their banking systems. Their problems have impacted the credit risk of other euro area countries, including the Republic of Slovenia. The yields on government bonds of the Republic of Slovenia are the benchmark, or the basis, for calculating the cost of funding raised by SID Bank in international financial markets.

At the beginning of 2010, the easiest way to access fresh funds was in international capital markets, and the issuers were mainly countries with higher credit ratings, and transnational organizations and banks issuing state guarantee backed bonds. In its December 2010 Report, Standard & Poor's cited a weakening commitment to budgetary consolidation by the Government of the Republic of Slovenia and noted the fast accumulation of the country's debt burden. This increased the possibility that Slovenia's credit rating might be reduced over the medium term, which would have adverse effects on the cost of government borrowing and the cost for bond issuers based in the Republic of Slovenia.

SID Bank was not significantly exposed to reduced euro interest rates due to the composition of its Statement of Financial Position. Variable-rate investments and variable-rate liabilities linked to EURIBOR take up a considerable portion of assets and liabilities, respectively. SID Bank conducted most of its transactions in euros. The changes in currency markets had no marked effect on SID Bank as its open foreign currency position was cut back.

- **Insurance against non-marketable risks**

In 2010 SID Bank's main partner in the field of insurance was Serbia although its economy had been hit hard by the crisis. The Serbian Government was forced to tighten public spending in order to trim its budgetary deficit, which made it eligible to receive IMF funds. The European Investment Bank also launched a programme to grant Serbia a loan for investments of small and medium-sized enterprises (SMEs) and priority projects by the National Bank of Serbia.

The aftermath of the global crisis was also felt in Russia, as in all other countries. The political situation in Russia is estimated as stable, and so are the country's relations with the West. GDP growth in Russia picked up in 2010 as a result of the government's stimulus package, the rise in export demand, and low interest rates. Russia's oil production rose to a new high after the collapse of the Soviet Union. With the country's natural gas production up 12 percent, the exports of energy products contributed to the improvement of macroeconomic indicators. In 2011 Russia is expected to join the group of 153 countries in the World Trade Organization. Despite an overall improvement, domestic demand for products and services weakened, causing production and sales volumes to drop, which negatively affected the volume of

investment insurance provided by SID Bank. Exports transactions and investments insured in Russia chiefly cover construction sector, exports of high technology equipment, and logistics.
Recovery of the economic and financial sectors was slow, making it increasingly hard for exporters to acquire new export transactions. As a result, there was no marked rise in demand for medium-term export credit insurance to the markets of South East Europe. Merchandise trade was largely related to exports of goods on short-term payment, these primarily covered by SID Bank's subsidiary, PKZ (insurance of marketable risks), and the volume of business insured climbed considerably in 2001, mainly in the pharmaceuticals sector.

The low demand for medium-term export credit insurance was exceeded by the demand for investment insurance. The key reason is a relatively unstable political environment which continues to characterize the Balkan countries despite their moving closer to the EU. As a result, risk exposure for investment insurance in the area of the Balkans is increasing, with the majority of investments insured being placed in Serbia and Bosnia and Herzegovina.

- **Guarantee schemes**

Aiming to mitigate the effects of the financial crisis, SID Bank, acting as an agent of the Republic of Slovenia, ran three guarantee schemes: for enterprises, for individuals, and for investments of enterprises into development projects. These schemes have facilitated access to funds acquired with commercial banks. By way of guarantee schemes, banks enabled borrowers to acquire guarantees of the Republic of Slovenia to back up a part of their loan related liabilities and meet the requirements for loan reinsurance by commercial banks.

As the banks took a conservative approach to risk assessment and tightened their conditions for insurance, the volume of guarantees issued in 2010 increased considerably compared with the 2009 figure.

The demanding conditions that pervade the international business environment have also increased the pressure on the demands for payment of the guarantees on behalf and for the account of the state.

Influence on the operations of other companies within SID Bank Group

- **PKZ**

Owing to the characteristics of credit insurance, economic conditions in Slovenia and in the markets where PKZ clients perform their business activities have a decisive influence on the operations of PKZ. The most important economic indicators include the scope of economic activity (economic growth, exports and imports of products and services), inflation, liquidity (number of insolvency cases and payment incidents) and the trend observed in corporate credit ratings in individual markets.

In most markets which are important for PKZ the economic activity increased when compared to 2009 although growth remained unstable and began to show signs of a slowdown towards the end of the year. Slovenia's exports rose once again and this, together with the increased awareness of the importance of credit insurance, brought business insured by PKZ in 2010 above the 2009 result. However, liquidity situation in most countries and markets remained tight and payment incidents were frequent, which is why claims paid by PKZ in 2010 climbed considerably as well.

PKZ is a specialized credit insurance company, dealing exclusively in insurance of short-term credits to private-law entities against commercial and non-commercial risks. This class of insurance is characterized by severe fluctuations which are in close connection with the economic cycles, and can be mitigated with appropriate measures, but not eliminated. Compared to other classes of insurance that are not as exposed in terms of premiums and claims, the effects of the crisis on the insurance of credits in 2009 were much more severe. With credit insurance heavily dependent on economic trends, the economic recovery of 2010 had a profound effect on PKZ operations, even when compared with other insurance classes.

In 2010 the liquidity situation in most main PKZ markets was still tight, which led to an increase in claims paid although mostly to cover the risks insured in past years. However, the year 2010 was also positive in terms of claims, with the exception of claims paid in the Slovenian market. It also became evident that claims payments for the most critical years 2008 and 2009 will be lower than foreseen at the end of 2009. In short, despite tight liquidity and extremely high claims paid in 2010, the claims segment as well is beginning to show signs of improvement.

- **PRO KOLEKT Group**

The economic and financial crisis has led to a reduction in trading activity in the economies of South East Europe. As a result, there was a drop in the number of applications for debt collections and credit rating reports, with tight liquidity further reducing the possibility of collection.

- **PRVI FAKTOR Group**

Harsh economic climate in South East Europe continued to affect the operations of PRVI FAKTOR Group in 2010. Following a significant drop observed in GDP, industrial production and exports in 2009, the situation improved slightly in 2010 although in certain segments negative trends still persist. In terms of liquidity and credit risk portfolio, the overall situation saw a turn for the worse in 2010, which is also reflected in the results of the PRVI FAKTOR Group.

In Croatia, exports picked up in 2010 while GDP continued to drop slightly. Croatia was also troubled by its high foreign debt and current account balance deficit. In spite of the above, PRVI FAKTOR, Zagreb succeeded in meeting the set objectives thanks to its good market position and appropriate client structure.

Serbia's economy is slowly recovering. In 2010 it saw a considerable rise in exports, which still take up a relatively low share in the country's GDP. The country is burdened by large external debt and high general government deficit. In this situation, PRVI FAKTOR Beograd managed to generate a minimal positive operating result.

Of all the markets where the PRVI FAKTOR Group is present the situation was most demanding in Bosnia and Herzegovina. In addition to high foreign exposure, low GDP and large budget deficit, operating conditions are further tightened by a complex administrative system. The adverse effects of the crisis in this economically-weakened country were also reflected in the poor results of PRVI FAKTOR Sarajevo.

5. DEVELOPMENT STRATEGY OF SID BANK AND SID BANK GROUP

In accordance with the strategic planning process in place, which also foresees implementation of the sliding mode strategy, strategic plans of SID Bank were reviewed and revised at the end of 2010, and used as the basis for the adoption of SID Bank Action Strategy 2011-2014.

In the course of the process, the operations and orientations strategy matrix was reviewed and reformulated in terms of both content and form, changes in form aimed at greater efficiency and operability. In reply to the fundamental strategy- and business-related dilemmas, key strategic orientations of SID Bank were also revised and, consequently, so were the key strategic indicators and strategic projects the implementation of which is crucial for the future development of SID Bank.

In redesigning its strategy, SID Bank paid due consideration to the expectations of the European Commission concerning the scope of operations of SID Bank and other comparable institutions in the EU as well as the response of the regulator and banking sector to SID Bank's recent growth. Also, the Bank needed to respond appropriately to the operating conditions which have changed markedly in the light of weak economic growth and high leverage of the Slovenian economy.

Having already achieved its break-even point, SID Bank's revised corporate strategy placed greater emphasis on the Bank's internal growth and gradual abandonment of crisis intervention measures on the one hand and on the strengthening of the Bank's development elements and management of specific internal risks on the other.

Furthermore, the Bank has decided to restructure its range of development-oriented schemes and instruments, aiming to facilitate access to development funding by SID Bank to final beneficiaries and financial intermediaries. Also, it plans to implement a development promotion platform (hereinafter DPP), which is based on the concept of financial engineering (as defined in the Public Finances Act) and aligned with the characteristics of the EU's New Financial Perspective. The key elements to mark the next strategic period include the development of the concepts of responsible lending and management by objectives.

The concrete activities which SID Bank intends to carry out by the year 2014 as part of its Action Strategy are based on the realistic scenario of its external environment, which considers the existing phase of the economic cycle as well as official macroeconomic forecasts. An integral element of the Action Strategy is SID Bank's Risk Profile, which is the basis for risk management, mainly at strategic level.

Mission

We develop, promote and provide innovative, long-term financial services designed to complement financial markets for the sustainable development of Slovenia.

Values

SID Bank's corporate values, a set of basic principles which guides the Bank's operations and which employees should embrace and demonstrate in their daily work, relations with colleagues and contacts with customers and other interest groups include, first and foremost, responsibility, professionalism, commitment, cooperation, and creativity.

Vision

Through dedication to its mission SID Bank will retain its position of a main Slovenian promotional institution by the year 2014 whose comprehensive range of services complementary to the financial market and the integrating role in the field of Slovenian development financing will continue to be an important factor in Slovenia's sustainable development.

By assisting clients in all phases of their business transactions, supporting development projects, ensuring safety in internationalization of operations and positioning itself as a one-stop-shop for modern financial services, SID Bank will encourage Slovenian companies to exploit the opportunities opening up in the international economic and development cooperation. The Bank will strive to achieve its objectives largely through the provision of long-term financing and insurance facilities.

Transparent, efficient and socially responsible SID Bank operations sensitive to the needs of its employees and the company's internal growth; increased financial value of services for final beneficiaries, in particular SMEs, performed at a high technological level and to high quality standards; implementation of the objectives of Slovenia's development strategy; and efficient execution of mandates will be the framework on which SID Bank will base its efforts – to be seen as an effective and valued development partner.

Through provision of development promotional instruments, SID Bank's growth will follow the growth of Slovenia's banking sector while maintaining its financial stability.

Strategy

Market aspect

From the market aspect, SID Bank will, in the following strategic period, work to gradually adjust its growth to the banking sector's average growth rates and to strengthen the element of development at the expense of the intervention element. To this aim, SID Bank will expand its activities to cover all four pillars of its development strategy: development of the knowledge society and innovative entrepreneurship, development of an eco-friendly society and eco-friendly manufacturing; development of competitive economy and internationalization; and regional and social development. This also means that the Bank's development will be oriented towards one of the pillars of Slovenia's post-crisis development model.

The Bank will pay special attention to increasing lending volumes to support the development of the knowledge society and innovative entrepreneurship, while also ensuring a suitable degree of flexibility in channeling the funds to other uses and the appropriate response to the changed conditions and/or demand for such funds. Another important issue will be usage of product synergies within SID Bank Group.

As regards its business model, SID Bank will continue to focus on indirect financing extended through banks on the basis of specifically-designed development and promotional schemes. To facilitate access to funds and ensure sustainability, the Bank will restructure its range of products and services both in terms of content as well as in the products available. Particular attention will also be paid to developing project financing products, their promotion in Slovenia and abroad, and to the development of customer consulting services.

SID Bank's key orientation in the field of internationalization processes will be to support the efforts of Slovenia's enterprises to enter new markets with high export potentials, thereby reducing their dependence on traditional export destinations. Additionally, the Bank plans to increase the number of its insurance scheme users, volume of export transactions, and premiums paid.

In its dealings with business partners, SID Bank will promote quality and excellence with an aim to strengthen its image and enhance its reputation with key stakeholders.

Financial aspect

From the financial aspect, SID Bank will primarily strive to meet its financial stability objectives, retain the same international rating as the rating of the Republic of Slovenia, and keep the Bank's capital adequacy at the set internal capital adequacy ratio.

In due consideration to the tightened operating conditions brought about by the economic crisis (weak economic growth), SID Bank will place great emphasis in the period 2011-2014 on ensuring high-quality investments on the one hand and improving bad debt management practices on the other. Additionally, the Bank will pay special attention to maintaining risk management at a level that meets the security requirements while it also ensures the desired business result, as well as on increasing the Bank's distribution of funds and investments and using new liquidity management instruments and long-term funds.

In this respect, the Bank will implement the concept of combining public and private funds and grants (SRP), bringing in favourable direct funds, including fiscal funds (national and EU), which will enable entities to assume larger risks and more favourable financing conditions, thereby increasing the financial value of SID Bank services for final beneficiaries.

In export credit and investment insurance against non-marketable risks, the financial aspect relates to pursuing a key strategic objective, namely to meet the minimum rate of return (threshold rate) and retain the first-class quality of insurance instruments.

In terms of capital investments, SID Bank Strategy is open both towards the possibility of selling-off individual shares and the possibility of expanding its network abroad; ultimately, the decision will depend on the suitability and benefits of such an intervention, or on the conditions of sale, which are characteristic of an option-based strategy.

Internal aspect

The growth break-even point which SID Bank has reached through its counter-cyclical measures taken at the time of the crisis, requires a shift from quantitative increase to qualitative improvement of distributed funds (efficiency) and in-company balance achieved through a mitigation of operational risks. The specific development risks which SID Bank is undertaking call for an integral structured approach, risk assessment and management.

Further optimization of business processes, efficient change management and management of fast growth will continue to be major challenges facing the entire organisation. In the period 2011-2014, SID Bank will also continue to adapt its organisation to modern corporate governance forms, preservation of synergies (also in terms of processes) within the Group, modern objective-based management, quality assurance, further development of the corporate culture of the Bank by promoting the ethical values and high professional standards; and efficient management of SID Bank Group.

Learning and development aspect

The key strategic objectives associated with the learning and development aspect relate mainly to exploitation of rich Slovenian and international connections for transfer of knowledge, experience and contemporary trends in financing and insurance, and, most importantly, to acquisition and pooling of comprehensive expertise that will enable SID Bank employees to conduct the Bank's new and existing activities quickly and effectively. The latter has been recognized as an important goal by several associated companies, in particular CMSR, which will develop towards a think-tank institution specializing in international development cooperation. In this respect, particular attention will be paid to the creation and maintenance of SID Bank's expert networks (financial, technical/technological, and institutional networks).

SID Bank will apply the novel concept of responsible lending, including upgrades of the credit-rating based decision model and the price-based decision model, and put in place a system for evaluating the effects of SID Bank's activities, which will help it identify the value added of certain products and enhance their efficiency.

Additionally, SID Bank will proceed with its implementation of the "Learning Organisation and Knowledge Management" and the Key Competencies model. Also, the Bank will attempt to modify its innovation management system and develop a comprehensive decision-making system.

Strategic and operational business process

In accordance with its strategic and operational system in place, SID Bank will in the future continue to run regular checks, at least quarterly, of the performance of planned activities undertaken to achieve long-term strategic goals (annual operational plan) and consequently the Action Strategy; it will take corrective measures, whenever necessary, and promptly amend the Action Strategy when the change in conditions, in particular external conditions, is so severe that any insistence on keeping the text unchanged would be unreasonable or even detrimental to the interests of the Bank.

6. BUSINESS OPERATIONS OF SID BANK AND SID BANK GROUP IN 2010

6.1. Financial Review of the Operations of SID Bank and SID Bank Group

Total assets of SID Bank were EUR 3.9 billion at the end of 2010; with net profit for the year totaling EUR 5.7 million. The net profit of SID Bank Group amounted to EUR 11.2 million in 2010; in 2009, the Group ended the year with a loss in the amount of EUR 5.4 million attributable to the loss incurred by its subsidiary company, PKZ.

In the continuation we present the Statement of Financial Position and the Statement of Comprehensive Income for 2010 for SID Bank and SID Bank Group. The consolidated financial statements of SID Bank Group include PKZ according to the full consolidation method and the PRVI FAKTOR Group according to the proportional consolidation method. Owing to its insignificant impact on the financial position and business results of the SID Bank Group, the PRO KOLEKT Group is not included in the consolidation.

Statement of Financial Position Summary as at 31 December 2010 - Assets

	SID Bank			SID Bank Group		
	in EUR thousand	as % of total	Index 10/09	in EUR thousand	as % of total	Index 10/09
Available-for-sale financial assets	110,956	2.8	221.7	132,638	3.2	183.2
Loans to banks	2,955,894	75.9	128.9	2,976,328	72.8	129.0
Loans to clients other than banks	796,980	20.5	120.3	913,201	22.4	116.4
Other assets	31,711	0.8	159.4	63,913	1.6	123.5
- reinsurers' assets and receivables from insurance business	-	-	-	*38,313*	*0.9*	*118.9*
Total assets	**3,895,541**	**100.0**	**128.8**	**4,086,080**	**100.0**	**127.1**
Investments of contingency reserves	129,400		103.2	129,400		103.2
Investments from IREP	7,830		102.7	7,830		102.7

As at 31 December 2010, total assets of SID Bank stood at EUR 3.9 billion, 28.8 percent higher than as at 31 December 2009. The growth in SID Bank total assets in 2010, as well as in the previous years, was a result of intensive financing activities. Loans to banks (including deposits totaling EUR 38.4 million) went up 28.9 percent, and loans to clients other than banks saw a 20.3 percent upturn. Loans to banks represent 75.9 percent of all assets; their share as at 31 December 2009 was 75.8 percent.

Contingency reserves for insurance performed on behalf and for the account of the state and the corresponding liabilities rose by 3.2 percent in 2010 to EUR 129.4 million. Investments from IREP went up 2.7 percent, totaling EUR 7.8 million.

The composition of assets of the SID Bank Group is similar to the composition of assets of SID Bank.

Statement of Financial Position Summary as at 31 December 2010 – Liabilities and Equity

	SID Bank			SID Bank Group		
	in EUR thousand	as % of total	Index 10/09	in EUR thousand	as % of total	Index 10/09
Deposits	1,006	0.0	0.4	1,006	0.0	0.4
Loans	2,123,691	54.5	111.8	2,243,571	54.9	111.0
Debt securities	1,436,166	36.9	262.5	1,436,166	35.2	262.5
Provisions	2,761	0.1	63.0	48,426	1.2	85.4
- obligations from insurance contracts	-	-	-	*45,515*	*1.1*	*90.5*
Other liabilities	4,101	0.1	76.0	12,056	0.3	112.9
Equity	327,816	8.4	101.8	344,855	8.4	103.3
Total liabilities and equity	**3,895,541**	**100.0**	**128.8**	**4,086,080**	**100.0**	**127.1**
Contingency reserves	129,400		103.2	129,400		103.2
IREP	7,830		102.7	7,830		102.7

SID Bank's loans rose by 11.8 percent, totaling EUR 2.1 billion at the end of 2010. Debt securities, including issued bonds, promissory notes and registered bonds, make up 36.9 percent of total liabilities, having risen 162.5 percent since the end of 2009.

In view of the dominating influence of SID Bank in the SID Bank Group and the specific nature of the Group, and considering the inter-company relations within the Group, total assets of SID Bank Group were only 4.9 percent higher than those of SID Bank, standing at EUR 4.1 billion end of year. The composition structure of assets and liabilities in the consolidated financial statements of the SID Bank Group is therefore very similar to that of the Statement of Financial Position of SID Bank.

Statement of Comprehensive Income Summary for 2010

	SID Bank		SID Bank Group	
	in EUR thousand	Index 10/09	in EUR thousand	Index 10/09
Net interest	40,149	186.7	44,875	157.6
Net non-interest income	4,322	62.3	8,071	90.3
Net income from insurance	-	-	3,554	171.0
Operating costs	(6,717)	105.4	(12,430)	104.9
Impairments and provisions	(30,576)	146.4	(29,649)	86.6
- change in insurance contract liabilities	-	-	*7,465*	-
Pre-tax profit/loss	**7,178**	**609.3**	**14,421**	**-**
Corporate income tax	(1,452)	631.3	(3,272)	-
Net profit/loss of the year	**5,726**	**604.0**	**11,149**	**-**

Net interest of SID Bank was EUR 40.2 million, rising 86.7 percent over 2009, mainly as a result of strong growth in loan portfolio.

In 2010 net non-interest income of SID Bank was EUR 4.3 million, 37.7 percent below the 2009 figure. In 2009 net non-interest income totaled EUR 6.9 million, with income from dividends of SID Bank's subsidiaries amounting to EUR 2.5 million and other non-interest income generating EUR 4.4 million. In 2010 SID Bank generated no income from dividends. Income from the reimbursement SID Bank receives from the state for performing transactions on behalf and for the account of the Republic of Slovenia totaled EUR 2.6 million (in 2009: EUR 2.3 million). Income from fees and commissions was EUR 1.5 million (2009: EUR 1.5 million) and other non-interest income totaled EUR 0.2 million (2009: EUR 0.6 million).

The largest share in the structure of net income generated by the SID Bank Group is taken up by net interest, which came to EUR 44.9 million in 2009 and was up 57.6 percent from the previous year. At 79.4 percent, the share of net interest as of net income for the SID Bank Group was considerably lower than that of SID Bank. Net income from insurance rose by 51.9 percent in 2010 to EUR 12.0 million; the end-of-year figure for 2009 was EUR 7.9 million. The share of net income from insurance as of net income of the SID Bank Group also rose: in 2010 it was 21.2 percent while in 2009 its value was 19.9 percent.

In 2010 SID Bank continued its successful management of operating costs. The operating costs of SID Bank totaled EUR 6.7 million in 2010 and were 5.4 percent higher compared to 2009. Labour costs went up 11.3 percent as a result of increased recruitment carried out in 2010 to cope with the expansion of SID Bank's activities. The number of SID Bank employees rose from 87 at the end of 2009 to 94 at the end of 2010. In the structure of operating costs, labour costs accounted for 64.5 percent (2009: 61.2 percent), costs of services 24.1 percent, depreciation and amortization 9.2 percent, and material costs 2.2 percent. The percentage of operating costs as of assets lowered from 0.3 percent in 2009 to 0.2 in 2010. Efficient cost management was also reflected in the ratio between the operating costs and net income, falling from 22.4 percent to 15.1 percent.

The operating costs of the SID Bank Group totaled EUR 12.4 million in 2010 and were 4.7 percent higher compared to 2009. Labour costs were up 6.5 percent, and there was a 1.2 percent rise in the costs of material, services, and depreciation and amortization. Operating costs as of assets lowered from 0.4 percent in 2009 to 0.3 percent in 2010.

SID Bank's net expenses from impairments and provisions were EUR 30.6 million (EUR 20.9 million in 2009). The rise in expenses from impairments is attributable to the growth in loans given and assumptions of risks due to financial crisis. For the SID Bank Group, expenses from impairments and provisions totaled EUR 29.6 million; the figure includes changes in insurance contract liabilities of EUR 7.5 million. Expenses from impairments and provisions not including this item were EUR 37.1 million (2009: EUR 25.5 million). High expenses from impairments and provisions in the SID Bank Group were largely attributable to the effects of the financial and economic crisis.

In 2010 SID Bank generated pre-tax profit of EUR 5.7 million, and the SID Bank Group reported profit of EUR 11.2 million. Within SID Bank Group, the PRO KOLEKT Group and the PKZ Group reported profit, whereas the PRVI FAKTOR Group reported a loss in the amount of EUR 4.7 million, which is recognized in its proportionate part of EUR 2.4 million in the consolidated financial statements of SID Bank (for more information refer to Chapter II, point 2.1.3).

Key figures of SID Bank and SID Bank Group

in EUR thousand	2008		2009		2010	
	SID Bank	Group	SID Bank	Group	SID Bank	Group
Statement of Financial Position Summary						
Total assets	2,087,717	2,301,654	3,024,894	3,215,633	3,895,541	4,086,080
Loans of banks	1,633,867	1,792,105	1,799,948	1,921,338	2,023,693	2,143,572
Deposits from non-bank sectors	22,376	22,376	91,870	91,870	5	5
Equity	160,757	179,928	321,982	333,726	327,816	344,855
Loans to banks	1,512,381	1,534,606	2,292,668	2,306,883	2,955,894	2,976,328
Loans to clients other than banks	500,183	653,075	662,284	784,616	796,980	913,201
Impairments of financial assets measured at amortised cost, and provisions for off-balance-sheet liabilities	26,414	33,220	47,424	56,081	77,305	90,305
Off-balance-sheet operations (B1 to B4)	162,921	169,257	566,747	580,129	802,473	803,798
Statement of Comprehensive Income Summary						
Net interest	14,308	19,809	21,502	28,471	40,149	44,875
Net non-interest income	5,428	8,853	6,939	8,934	4,322	8,071
Net income from insurance	-	6,317	-	2,078	-	3,554
Labour, general and administrative costs	(5,161)	(10,843)	(5,729)	(10,971)	(6,101)	(11,582)
Depreciation and amortization	(617)	(860)	(643)	(881)	(616)	(848)
Impairments and provisions	(10,955)	(19,272)	(20,891)	(34,152)	(30,576)	(29,649)
- change in insurance contract liabilities	-	(3,761)	-	(8,618)	-	7,465
Pre-tax profit/loss	3,003	4,005	1,178	(6,521)	7,178	14,421
Corporate income tax	(236)	(1,149)	(231)	1,137	(1,452)	(3,272)
Net profit/loss for the year	2,767	2,856	948	(5,384)	5,726	11,149
Shares						
- number of shareholders	1		1		1	
- number of shares	1,456,808		3,121,741		3,121,741	
- nominal value per share (in EUR)	96.10		96.10		96.10	
- book value of a share (in EUR)	111.76		103.75		105.63	
Number of employees*	76	287	87	306	94	303

* The total headcount of the SID Bank Group includes all employees of SID Bank as well as the employees of PKZ, PRVI FAKTOR Group, PRO KOLEKT Group, and CMSR.

in %	2008		2009		2010	
	SID Bank	SID Bank Group	SID Bank	SID Bank Group	SID Bank	SID Bank Group
Selected indicators*						
Equity:						
– capital adequacy**	11.08	9.94	16.65	15.70	13.53	13.08
Quality assets of the statement of financial position and contingent liabilities:						
– impairments of financial assets measured at amortised cost, and provisions for contingent liabilities/classified on-balance-sheet items and classified off-balance-sheet items	1.19	-	1.46	-	2.03	-
Profitability:						
– interest margin	0.93	1.06	0.87	1.03	1.14	1.23
– financial intermediation margin***	1.29	1.53	1.15	1.50	1.27	1.78
– return on assets before tax	0.20	0.21	0.05	(0.24)	0.20	0.40
– return on equity before tax	2.48	2.60	0.53	(2.54)	2.20	4.25
– return on equity after tax	2.28	1.86	0.42	(2.09)	1.76	3.29
Operating costs:						
– operating costs / average assets	0.38	0.63	0.26	0.43	0.19	0.34
– operating costs / net income	29.28	33.46	22.40	28.57	15.10	23.48

* The indicators are calculated using the Bank of Slovenia methodology.

** The computations of capital adequacy for the SID Bank Group considered the assets of SID Bank and 50 percent of assets of the PRVI FAKTOR Group.

*** The computations of financial intermediation margin for SID Bank Group do not consider income from PKZ insurance business.

Events after the statement of financial position date

There were no business events after the statement of financial position date that would influence the separate and consolidated financial statements of SID Bank and the SID Bank Group. However, the following business event was important for SID Bank:

- In March 2011 SID Bank realized the issue of Eurobond on the international capital market in the amount of EUR 350 million.

6.2. Review of SID Bank Operations by Business Activity

6.2.1. Financing

At SID Bank the services of financing are provided by two separate departments, The Promotional and Development Financing Department , and The Export and Project Financing Department.

Promotional and Development Financing carries out the development and marketing functions of banking products and services aimed at providing promotional and development financing for residents, mainly for projects associated with the development of the knowledge society and innovative entrepreneurship, development of an eco-friendly society and eco-friendly manufacturing; competitive economy and internationalization; and regional and social development.

Export and Project Financing carries out the development and marketing functions of banking products and services aimed at providing export and project financing for residents and non-residents, mainly supporting projects of Slovenian exporters abroad, their international business transactions and more active approach to direct financing or co-financing of companies and support to internationalization. Furthermore, it provides its clients and Slovenian banks with project financing consulting as well as certain agency services it carries out for the Republic of Slovenia.

Within the scope of both fields, the financing facilities offered by SID Bank included loans, purchase of receivables, project financing, participation in syndicated loans, purchase of assets, and unfunded risk taking, in the provision of which SID Bank actively worked with most Slovenian banks with an aim to provide, as a bank, the comprehensive range of products and services to cater for the entire life or business cycle of all target groups of final beneficiaries as well as their geographic distribution, regardless of sector policy.

In 2010 SID Bank used financial instruments mainly to support economic, structural, social and other policies in the areas specified in Article 11, point 1, of the ZSIRB and in accordance with the provisions of the ZZFMGP, with special emphasis on the following:

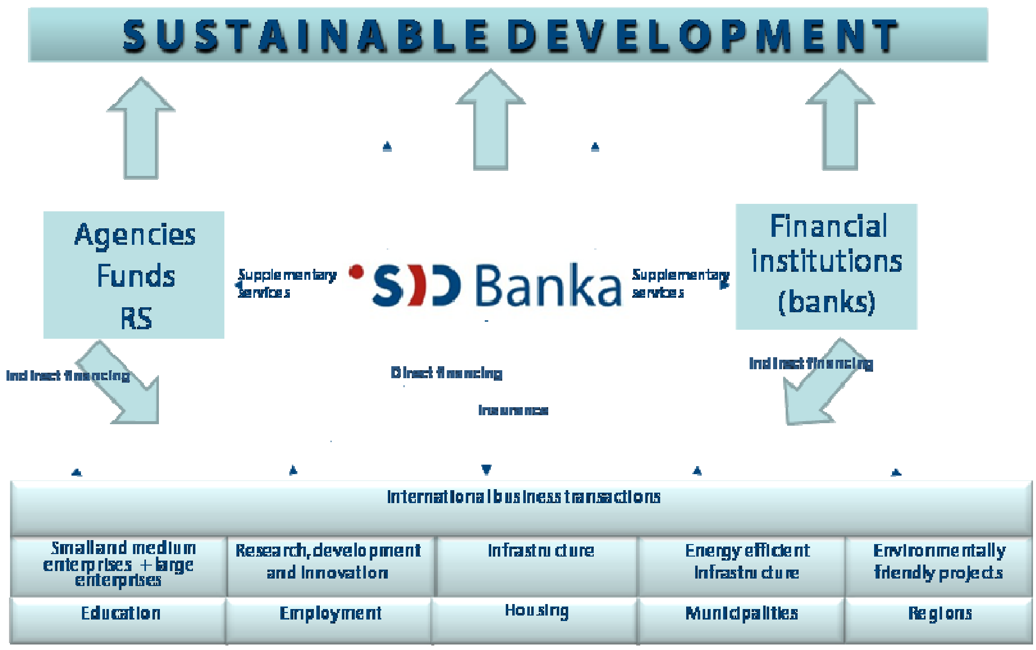
- international business transactions and international economic cooperation,
- economic incentives, with particular emphasis on small and medium-sized enterprises, and entrepreneurship,
- research and development,
- preserving the environment and energy efficiency,
- regional development,
- commercial and public infrastructure.

In accordance with its legally stipulated operations, its mission to carry out development and promotional activities in the segments where market gaps occur or have been observed, and in line with its transition role, SID Bank, acting directly on its own behalf and for its own account and indirectly through commercial banks, provided the Slovenian corporate sector with funds intended for favourable long-term development and promotional financing of projects associated with the development of the knowledge society (innovation projects, including research and development, education, recruitment), eco-friendly society (nature conservation, renewable energy sources, efficient energy use; eco-friendly products), competitive enterprises (entrepreneurial projects in all development stages, internationalization of operations), and regional and social development (infrastructure, housing).

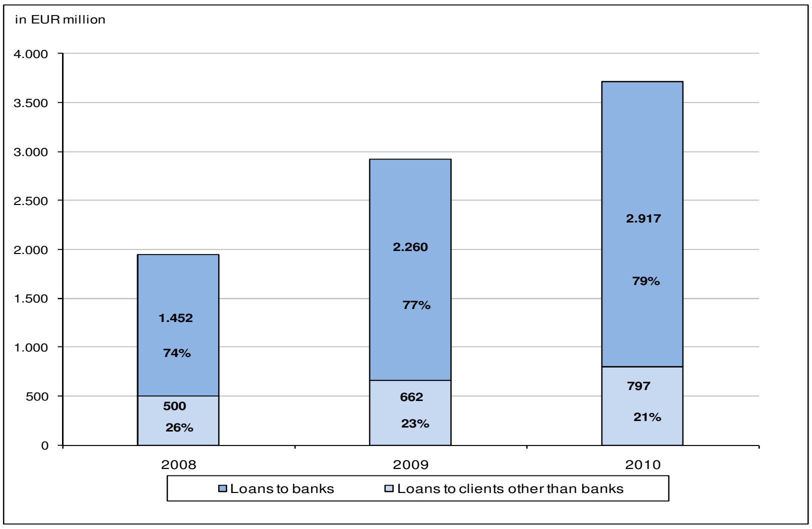
In financing of international business transactions, greater emphasis was placed on comprehensive promotion of business internationalization carried out through international trade financing in the form of long-term loans which enable the market participants to enter new markets and start business there. SID bank's activities in this segment include support for related import transactions, pre-shipment financing, investments and incentives for sustainable growth of exports and internationalization of business operations and activities, extended with an aim to promote and conduct business transactions under concession conditions and to promote joint performance on third markets with domestic, foreign or international markets players.

Also, SID Bank lay the foundations for the upgrade and redesign of its range of financing products in 2011 to establish a comprehensive set of development financing instruments. During the crisis, the Bank introduced new development and promotional schemes which contained the elements of state aid, and focused on its role to secure appropriate sources of funding and take the correct anti-crisis measures which would continue after the crisis through the expansion of the set of development financing instruments and introduction of new development and promotional schemes, including the elements of state aids.

SID Bank financing operations



- ***Outstanding loans as at 31 December, by year***



The Bank's outstanding loan portfolio at the end of 2010 was EUR 3,714.4 million and was up 27.1 percent from the end of 2009, when it stood at EUR 2,922.4 million. The share of loan portfolio in total assets of SID Bank was 95.4 percent (2009: 96.6 percent).

The growth of SID Bank's loan portfolio in 2010 mainly reflects the Bank's participation in the anti-crisis measures and helped keep the volume of loans to the corporate sector at a level similar to that of 2009. In 2010 SID Bank ensured EUR 845.4 million to be extended to businesses through commercial banks and granted EUR 337.5 million in direct loans to clients other than banks. The growth of all loans extended to the Slovenian banking system recorded a rise of approximately 29.1 percent over the year 2009 whereas the share of SID Bank financing in all loans extended to the Slovenian corporate sector, directly or through commercial banks, went up 20.3 percent in 2010 compared to 2009.

The maturity structure of the SID Bank loan portfolio confirms the orientation of SID Bank towards the activities specified in the ZZFMGP and ZSIRB; the share of long-term financing amounted to 99.7 percent of SID Bank loan portfolio at the end of 2010, with short-term loans taking up a low 0.3 percent of the Bank’s total loan portfolio. Most loans extended in 2010 were long-term in nature.

In 2010 loans to clients other than banks at the entire banking system level were mostly short-term; as a result, SID Bank's year-round provision of earmarked long-term funds through commercial banks contributed significantly to the alleviation of the credit crunch and provision of the much needed long-term funds to the corporate sector.

Commercial banks remained SID Bank’s most important partner also in 2010, their share in SID Bank’s loan portfolio reaching 78.5 percent, compared to 77.3 percent in 2009. The demand for cofinancing and direct financing by SID Bank of development projects by the automotive industry, projects by Slovenian exporters abroad, their international business transactions as well as demand for financial support to internationalization and development and environmental projects of the Slovenian economy rose steadily throughout 2010, posting a 20.3 percent increase in loans to clients other than banks compared to the year 2009.

Despite significant growth in loans to clients other than banks, this segment only took up 21.5 percent of the total loan portfolio as at 31 December 2010 (in 2009: 22.7 percent). The share of loans to non-residents in SID Bank’s loan portfolio remains a low 5.3 percent, reporting a relative decline of 0.8 percentage points from 2009.

The sizeable increase in the volume of direct financing extended to Slovenian exporters, their buyers and investors abroad in 2010 did not affect the high quality of SID Bank's loan portfolio as the assets classified in classes lower than A and B only take up 2.5 percent of the Bank's loan portfolio. For more information on portfolio classification and risk refer to Point 6.4.

In 2010 SID Bank generated EUR 89.6 million in interest income from financing, a 13.8 percent rise on the year before. Income from fees and commissions rose 12.5 percent on the year 2009, totaling EUR 2.3 million, largely as a result of loan portfolio growth.

The balance of issued guarantees and unfunded risk sharing arrangements as at 31 December 2010 amounted to EUR 31.9 million, posting a 17.9 percent decrease over the year before. The 2010 volume of newly issued guarantees was EUR 16.0 million (in 2009: EUR 16.0 million). The negative trend was also observed in liabilities arising from unfunded risk sharing, which went down 56.9 percent to EUR 6.3 million as at 31 December 2010.

New developments in 2010 concerning financing

The year 2010 brought about the following important developments in the field of financing:

- SID Bank revised its offer of financing through financial institutions with an aim to simplify, modernize, and expand its range of products. To this aim, the Bank:
    - reclassified the purposes of financing into four areas: 1) development of competitive economy and internationalization, with emphasis on SMEs, development of the eco-friendly society and eco-friendly manufacturing; 2) environmental and energy management projects, regional and social development; 3) infrastructure and housing and development of the knowledge society and innovative entrepreneurship; 4) research, development, innovation, education and recruitment;
    - expanded the range of financing purposes;
    - expanded the list of eligible final beneficiaries, etc.

- With an intent to spur the economic recovery, SID Bank increased the amount of funds to be placed through commercial banks in 2010, offering the banks two large credit lines:
    - In April 2010 SID Bank launched EUR 250 million in long-term finance to be extended to final beneficiaries. In that amount, loans to SMEs with a maturity of 5 years took up EUR 160 million; a further EUR 44 million was intended for the financing of structural investments and regional development investments over a 10-year term, EUR 36 million went to financing of investments in nature conservation, including the measures aimed at efficient energy use and use of renewable energy sources over a 10-year term; and EUR 10 million was allocated to the financing of innovation and new technologies over an 8-year term.
    - In November 2010 SID Bank launched a credit line of EUR 385 million as part of its new range of financing options aimed at posting funds to final beneficiaries through commercial banks. In that amount, EUR 215 million was intended for the financing of competitive economy and internationalization over a 5-year term; EUR 125 million for the development of eco-friendly society and eco-friendly manufacturing over a 15-year term, EUR 36 million for regional and social development over a 15-year term; and EUR 9 million was intended for the development of the knowledge society and innovative entrepreneurship over an 8-year term.
    - SID Bank also took a more active approach to direct financing and cofinancing of companies, and provided its clients and Slovenian banks with project financing consulting.

- In securing long-term special-purpose funds from foreign/international development banks/institutions (for transfer of their schemes to SID Bank financing schemes), SID Bank:
    - took out a long-term loan with the German Kreditanstalt für Wiederaufbau (KfW) in the amount of EUR 80 million to acquire the finance for environmental investment projects and long-term investments undertaken by SMEs;
    - started the procedure aimed at borrowing EUR 40 million for the Council of Europe Development Bank (CEB); the funds acquired will be allocated to financing of environment protection and regional development projects;
    - signed a Loan Agreement in 2010 with the European Investment Bank (EIB) in the amount of EUR 50 million. The funds were used to extend a successful credit line started in 2009, through which SID Bank provided long-term finance for development projects concerning investments in the field of research, development and innovation for use in the automotive sector, which target the EU requirements on CO2 emissions and other emission regulations, notably the development of new generation technologies that aim for emissions reduction and higher efficiency.

- In the framework of the scheme for financing development projects mounted by companies in the automotive sector, SID Bank, benefiting from EIB funding and other sources, extended a total of EUR 211 million to support 27 development projects proposed by 14 Slovenian companies of varying sizes, with a total amount of costs eligible for financing reaching EUR 278 million. The funds were extended to companies that operate in the sector which is characterized by a high level of innovation and long development cycles, especially as car manufacturers transfer the development of certain components on their suppliers. The credit line has helped the Slovenian automotive industry to improve its competitive position, acquire new business and orders, create new jobs, and retain the status of a development supplier. The collective corporate-level effects include business effects (a EUR 500 million rise in revenue; orders involving higher value added, retention and creation of jobs – 20,014; maintaining the status of a development supplier, exporters' share in GDP), development effects (31 new patents, RDI investments, cooperation between the corporate sector and research institutions), and environmental effects (decrease in CO2 emissions of 4.7 million tones per year). As this is the first case of the so-called decentralized performance of an EIB credit line (EIB normally provides direct financing to the automotive industry) and it marks a beginning of a long-term cooperation between EIB and SID Bank, the success of the scheme is ever more important. Also, it points to the capabilities of SID

Bank as a development promotion institution, which can combine various sources of financing and thus contribute to the survival, restructuring and progress of individual companies and industries.

- SID Bank started cooperation with the EKO Fund; the two signed a loan agreement in the amount of EUR 15 million for financing of investments into the environment and environment protection.

- Implementation of project financing principles in Slovenia. Besides dealing with concrete projects, SID Bank also focused on conceptual project financing issues, transfer of related knowledge and experience, and alerting the parties involved to the importance of starting up project financing and ensuring cooperation among stakeholders. To this aim, SID Bank held a congress for companies and banks, titled the Hub of Knowledge (*Stičišče znanja*). The congress was attended by around 100 invited participants from a variety of backgrounds and featured presentations from reputable Slovenian and foreign experts on various aspects of project financing. By holding such an event, SID Bank, which had already acquired international experience in banking and project financing insurance, has set off to evolve into a hub of knowledge and the enabler and promotor of project financing in Slovenia. In so doing, SID Bank helps create the good practice of project financing and harmonize the relations among Slovenian partners in individual project financing cases.

- Activities were underway to set up a new concept of a development model, i.e. a new development promotion platform (DPP):
  - January 2010: inclusion of SID Bank (and its activities) into Slovenia's Exit Strategy (in the final version of the Strategy the activities are included in a slightly more limited scope than originally agreed, due to inter-sectoral arrangements);
  - July 2010: DDP initiative was presented and debated at the Government of RS Session; the Working Group to prepare the implementation and monitor the operation of the DPP was formed and began working;
  - October 2010 – December 2010: Activities to carry out a DPP pilot project.

6.2.2. Asset Liability Management

In 2010 SID Bank continued its active approach to interest rate management. To contain the potential loss of the Bank arising from changes in market interest rates, SID Bank introduced at the end of 2009 hedging against interest rate risk occurring as a result of the difference between the interest-bearing receivables and interest-bearing liabilities of the Bank (for more information see point 6.4.).

In 2010 SID Bank, striving to control its liquidity, mainly held investments in short-term deposits with Slovenian and foreign commercial banks, and investments in other short-term and medium-term debt instruments issued by high-rated issuers. In liquidity control, the Bank followed the strategy aimed at limiting the risk concentration, which means that excess liquidity was placed largely with banks to which SID has a low exposure in terms of financing transactions.

Normally, SID Bank does not hold investments that are not settled by an independent institution. Priority is given to investments which can be used in concluding REPO transactions as well as investments which, on the basis of the existing decisions of the Bank of Slovenia, can be considered as category one investments in the calculation of liquidity ratios or can be considered as ECB eligible. On account of lower transaction costs, primary market investments are given slight preference over secondary market investments. SID Bank operates in the financial markets of EEA and OECD member states, conducting transactions with partners rated BBB- or higher and with certain unrated Slovenian banks whose credit rating under the methodology of SID Bank is not lower than B (for more information see point 6.4.).

SID Bank is not an authorized participant in the securities market. In 2010 transactions in securities were concluded as an investment option supplementing the Bank's core activities and a way to control the Bank's liquidity and not for the purpose of trading.

Investments from SID Bank's own funds for the purpose of liquidity control amounted to EUR 149.4 million as at 31 December 2010, representing 3.8 percent of the Bank's total assets. The majority of investments, namely EUR 110.9 million, is held in securities; the remaining funds totaling EUR 38.5 million as at 31 December 2010 were placed in deposits. The investments include mainly Slovenian and foreign government bonds, market bonds by other issuers, and deposits. All the investments are denominated in euro. In accordance with its policy, SID Bank's placements in this segment are to investments rated investment-grade or higher. More than 83 percent of all investments are rated A- or higher (S&P), and 10 percent are held in investments to unrated issuers, only from the Republic of Slovenia. Deposits were placed with Slovenian commercial banks whose credit rating, according to SID Bank methodology, was not lower than B. As at 31 December 2010, 91 percent of all investments for the purpose of managing liquidity were taken up by fixed rate investments.

The currency structure of investments corresponded with the currency structure of SID Bank's assets and was closely coordinated with the adopted limits. The policy of closed foreign exchange positions was appropriately followed. In this segment of SID Bank's operations, currency denominated derivative instruments were only used to a limited extent, solely to close open foreign exchange positions.

6.2.3. Borrowing

SID Bank, as an authorised institution under the ZZFMGP and ZSIRB, strives to obtain sources of long-term financing in Slovenia and in international financial markets, and is Slovenia's only bank that has in the previous years continuously acquired funds in the international markets. In raising funds, SID Bank focuses on selecting flexible instruments that can be tailored to meet investment needs. Accordingly, it has a diversified portfolio of borrowings, funds obtained varying in maturity, size and the dynamics of disbursements. The Bank aims to obtain long-term sources of funding comparable in rates to funds secured by the Republic of Slovenia, with due consideration paid to the mark-up over the government borrowing.

Working to provide businesses and their commercial banks with favourable long-term sources of financing for the operations under the ZSIRB, SID Bank continued to raise funds through diverse financial instruments in Slovenia and international financial markets. SID Bank's long-term borrowings in 2010 amounted to EUR 1.1 billion.

In April 2010 SID Bank, acting in response to the ongoing financial crisis and the pressing need of the Slovenian banking and corporate sectors for fresh long-term finance, issued its first Eurobond on the international capital market in a total amount of EUR 750 million and with a maturity of 5 years. The majority of buyers were commercial banks, monetary funds, and insurance companies, over a half of them from Slovenia and Germany. SID Bank used the collected funds to finance long-term, special-purpose loans extended through commercial banks for the purposes specified in the ZSIRB.

Additionally, in 2010 SID Bank drew a total of EUR 130 million under two loan agreements concluded with the European Investment Bank (EIB) and Kreditanstalt fűr Wiederaufbau (KfW); furthermore, it concluded three long-term bilateral loan agreements with other foreign banks in the total amount of EUR 60 million.

In foreign capital markets SID Bank has issued several emissions of debt instruments (i.e. Schuldscheindarlehen) in a total amount of EUR 57 million, increased the issue of its SI01 bond in the domestic market by EUR 69 million and realized a private bond issue totaling EUR 50 million.

In 2010 the Bank obtained a limited amount of short-term fixed interest rate funds in the inter-bank money market, in particular from commercial banks in Slovenia.

In 2010 borrowing through the Eurobond proved to be most effective, in other words, the type of borrowing which provided SID Bank with most favourable long-term finance at the time of the crisis. Also, the Bank has gained enhanced visibility, secured a competitive source of funding, increased borrowing transparency, and was able to use secondary bond trading as an indicator of credit risk on future borrowing.

6.2.4. Credit Rating and Other Credit Information

SID Bank continued to perfect its own Credit Rating System in 2010. In its work, the department uses cutting-edge risk assessment methodology recommended by Basel II, which is further upgraded to consider SID Bank's vast experience in the area and is supported by the Bank's own information system. SID Bank has put in place a number of internal databases which are updated daily to include reliable up-to-date information and analyses of Slovenian and foreign data providers.

Striving to provide an excellent all-round service, SID Bank has developed its internal methodology to consider soft indicators, which means that the credit rating report also includes:

- the company's overall and market position (track record, business operations, industry position and prospects, rank in industry)
- ownership and corporate management (ownership and loyalty, company management, recruitment policy, processes, medium-term development plan);
- social responsibility (reputation, inclusion in the social environment, transparency, energy and environmental impact),
- company ethics (integrity of executives and staff, ethics code, violations of law, e.g. corruption, money laundering),
- cooperation to date, etc.

In assessing risks of foreign markets SID Bank works closely with other relevant institutions, in particular with the Centre for International Cooperation and Development, which provides basic country risk reports for selected markets. For use internally, within SID Bank and SID Bank Group, the Credit Rating Department prepares credit rating reports and credit information on domestic and foreign companies and banks.

In 2010 clients were most interested in the information on individual markets, companies and banks in Slovenia and in those South East European countries that represent Slovenia's traditional markets.
SID Bank's internal company assessment methodology is also used by the Bank's subsidiary, Pro Kolekt, which prepares, for the needs of SID Bank Group companies and other clients, credit rating reports on enterprises from South East Europe.

6.2.5. Operations under Special Authorization - Insurance against Non-Marketable Risks

Select commercial and non-commercial or political risks (non-marketable risks) of the nature and level which private reinsurance market lacks either willingness or capacity to cover are insured by SID Bank as an authorized institution operating on behalf of and for the account of the Republic of Slovenia. According to the EU legislation, non-marketable risks are defined as commercial and political risks exceeding two years in the OECD countries, and all risks in countries which are not OECD members. The role of the Republic of Slovenia is of key importance as without an insurance cover most such business transactions, especially medium-term, would not be carried out.

By ensuring appropriate insurance, exporters and investors in higher-risk countries are able to mitigate risks arising from business operations, thereby creating a sense of economic safety.

In 2010 SID Bank reported continued growth in its business performed on behalf and for the account of the Republic of Slovenia in the field of export credit insurance, extending its support largely to exports and investments to the CIS markets and the markets of South East Europe.

The operations which SID Bank 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 separated from the operations performed on SID Bank's own account.

Review of operations in 2010

Insurance against non–marketable risks on behalf and for the account of the state 2008–2010

in EUR million	2008	2009	2010
Business insured	914.3	952.5	1,440.1
Exposure (31 Dec.) – net	932.8	962.0	1,032.3
Premiums	4.1	4.8	8.2
Claims	(0.0)	(4.9)	(3.0)
Number of claims	0	1	2
Recoveries	0.1	0.0	0.1

*Exposure also considers offers of insurance, in accordance with the ZZFMGP and with regard to their nature (binding).

Business insured

The volume of business insured against non-marketable risks reached EUR 1,440.1 million in 2010, a 51.2 percent increase on the previous year. The realized volume represents 21.1 percent of the maximum amount of new yearly obligations as defined in the ZZFMGP. At 71.0 percent, the largest share in the structure of generated business insured was taken up by insurance of outward investment, totaling EUR 1,022.9 million, and reinsurance of short-term export credits (renewable insurance against non-marketable risks), generating EUR 405 million, or 28.1 percent of total business insured.

Outward investment insurance rose 45.7 percent over the previous year; the figure includes new insurance for outward investments and insurance renewals which are treated as new insurance covers because of the investors' right to terminate the contract after three years period. The growth in business insured can be partly attributed to insurance of non-shareholder loans or loans to subsidiaries of Slovenian investors abroad, which covers commercial as well as non-commercial risks. In 2010 new insurance covers structured made for investments into construction, metal processing, manufacturing, food processing, and tourism sectors, focused primarily on South East Europe and Russia.

The 2010 insurance figures indicate continued demand for insurance of foreign investments. The positive trend is driven largely by limited access to funds due to higher risk arising from the financial and economic crisis, and by the ownership structure of Slovenian companies, which has fueled increased demand for insurance of ownership shares. Another contributing factor is the experience Slovenian investors have gained in their business operations with foreign entities.

Export credit (re)insurance (of trade receivables) against non-marketable risks, short-term insurance amounted EUR 405 million in 2010, an increase of 77.7 percent over the 2009 figure. The main growth driver is directly linked to financial crisis and due to the decision of private insurers to withdraw from certain markets and/or sectors. In the light of adverse economic conditions, the private (re)insurance market was also affected by a series of changes. Withdrawal of private reinsurers and/or the decrease in the capacities available in the credit insurance market facilitated SID Bank to reinsures Slovenian insurance companies when they are unable to obtain reinsurance cover in the private market. The major part of reinsurance volume realized in 2010 was linked to supporting export transactions in Russia.

The changed market conditions were responsible for a shortage in reinsurance capacity and the withdrawal of private reinsurers from certain countries and industries, causing the reinsurers to reduce or cancel reinsurance cover limits. In turn, this made it impossible for credit insurance companies to provide sufficient insurance cover for companies, which further constrained sales in the already harsh economic conditions.

In accordance with the European Commission's Memorandum, SID Bank as a publicly held insurer and a state authorized agency filed a proposal with the Commission to introduce a scheme aimed at reinsuring risks in the private insurance market as a temporary state aid measure to fight the current financial and economic crisis and fill the market gap in the credit insurance market. In March 2010 SID Bank, acting in accordance with the Commission Decision, started implementing the new reinsurance scheme covering reinsurance of export credits in the so-called marketable markets (EU member states and certain OECD members), where the private reinsurance market exists but is in the time of crisis unable to provide sufficient insurance cover. Given that private credit insurance market still does not operate as efficiently as desired, SID Bank has extended the implementation of the scheme through 2011 based on EU Commission decision of 18 January 2011.

Tightert supply of financing has also negatively affected the demand of exporters for medium-term export credit insurance, mostly to South East Europe, which is the traditional market for Slovenian exporters, given reduced capital investments in the region. Other factors affecting the volume of business insured also includeless favourable insurance conditions for South Eastern European markets stemming from their unfavourable risk classification (consistent with OECD classification) and that terms offered by Slovenian banks are less competitive than those provided by foreign banks.

The majority of export credits (trade receivables), investments and medium-term credits insured in 2010 were linked to exports to Serbia, Russia, and Bosnia and Herzegovina.

Exposure

Total exposure from insurance transactions, including binding insurance offers, executed for the account of the Republic of Slovenia amounted to EUR 1,032.3 million at the end of 2010, an increase of 7.8% over 2009 result.The growth was driven by a 12.9 percent rise in exposure from outward investment insurance while exposure from insurance against medium-term commercial and non-commercial risks dropped 17.2 percent below the 2009 figure. Exposure from short-term export credit (re)insurance increased by 15.9 percent compared to 2009.

Limited geographic diversification (exposure to Serbia 39.3 percent, Russia 30.3percent) required additional monitoring of the political and economic situations in the countries concerned. In Russia, where the political situation is considered stable, economic recovery is already under way. The Russian authorities spurred the growth with a combination of government incentives and low interest rates, which was complemented with increasing demand for raw materials. In line with positive trends, OECD upgraded Russia to risk category 3 in January 2011. The political situation is also improving in Serbia, though the coalition government's inability to establishing a dialogue with Priština has negatively affected the political risk in the region. In terms of economy, Serbia is only slowly recovering from the crisis and, according to analysts, no speedy GDP growth can be expected before 2012. As a result, Serbia made no progress on the OECD risk classification, staying in risk category 6 (out of 7).

Exposure from binding insurance offers, counted under total net exposure pursuant to the ZZFMGP, decreased 80 percent to EUR 1.1 million at the end of the year.

Exposure represents 41.3 percent of the limit as defined in the Republic of Slovenia Budget for 2010 Implementation Act and 5 percent of the limit as defined in the ZZFMGP.

Insurance technical figures

Insurance premium against non-marketable risks amounted to EUR 8.2 million in 2010, up by 70.6 percent from the 2009 figure. The premium growth in 2010 is largely attributable to (re)insurance premiums arising from short-term export credit (re)insurance, which increased more than five-fold from the 2009 figure. Income from fees was negligible because SID Bank, in conformity with its business policy and valid price lists, returns the amount charged to exporters and other insured entities, includes it in the premium charged, provided the project is implemented.

Claims paid in 2010 recorded a drop from the year before, amounting to EUR 3.0 million at the end of 2010 (in 2009: EUR 4.9 million). A large part of claims paid is related to medium-term business transactions (Russia, Kazakhstan) while the share of claims arising from short-term export credit (re)insurance remained low at 4.4 percent (Kyrgyzstan).

As a result of the financial crisis, reports of payment defaults, mainly with regard to Kazakhstan (financial sector), pushed up the volume of claims under consideration (claims filed) to a total of EUR 4 million at the end of 2010 (in 2009: EUR 0.2 million). The volume of potential claims dropped by 14.2-times in 2010, to a low EUR 0.4 million.

The business result for the account of the State recorded a rise from the 2009 levels despite the claims paid, amounting to EUR 4.2 million at the end of the year (in 2009: EUR 0.1 million). Consequently, contingency reserves rose by 3.5 percent to EUR 124.4 million at the end of 2010.

Contingency reserves

The contingency reserve fund constitutes an important capacity of SID Bank and the Republic of Slovenia for insurance against non-marketable risks before claims arising from insurance for the account of the Republic of Slovenia are paid out of the state budget.

Investment policy aims at contingency reserve management, which is the capacity to settle insurance claims. Contingency reserve funds are invested in liquid instruments to the amount representing the sum of all potential claims and claims under consideration from non-marketable risks insurance, or not less than 20 percent of investments from contingency reserve funds. Liquid investments include debt securities traded on a regulated market and all other debt documents with residual maturity of under one year. The volume of liquid investments is changing subject to expected claims payments and the related liquidity position of contingency reserves.

As at 31 December 2010, contingency reserves were largely composed of long-term domestic currency loans extended to commercial banks based in the Republic of Slovenia, totaling EUR 75.3 million (58.2 percent of all assets); investments in securities of A-rated Slovenian and foreign issuers in a total value of EUR 25.3 million (19.5 percent of all assets), short-term deposits in banks amounting to EUR 23.8 million (18.4 percent of all assets), and other assets of EUR 5.0 million (3.9 percent of all assets).

New developments relating to insurance on behalf and for the account of the state

In 2010 the department for credit and investment insurance, having introduced an insurance product aimed at providing banks with insurance of (service) guarantees (expansion of insurance cover including an option to cover the exporter's performance risk), prepared the guidelines governing introduction of a new SID Bank insurance product to complement the existing offer in 2011. The new product will cover credit insurance used to facilitate pre-shipment financing. Within the framework of new product, SID Bank will cover purpose loans to provide exporters with operating capital for pre-shipment activities or investments into manufacturing activities, as preconditions for successful realization of an export transaction.

6.2.6. Operations under Special Authorization – Interest Rate Equalization Programme (IREP)

In accordance with ZZFMGP and on behalf and for the account of the Republic of Slovenia, SID Bank manages the Interest Rate Equalization Programme (IREP) for export credits, which falls within the scope of the OECD Arrangement on Officially Supported Export Credits. SID Bank and the Ministry of Finance of RS have concluded an Agreement on Implementation of the Interest Rate Equalization Programme and Management of IREP Funds.

The primary objective of IREP is to offer export credits at fixed interest rates which are lower than commercial interest rates. In so doing, SID Bank enters into interest rate swaps with participating banks, providing them with fixed interest rate finance. SID Bank covers the interest rate risks linked to IREP through reverse interest rate swaps into which the Bank enters with foreign banks not rated lower than BBB- by Standard & Poor's.

The purpose of interest rate swaps is to reduce the exposure of the participating bank to interest rate risks arising from approvals of fixed-rate export credits. As the participating bank needs to observe the fixed interest rate component in defining its margin, it is entitled to a compensation factor of up to 1 percent of the loan (expressed as the annual interest rate and subject to loan maturity), though the compensation factor can be transferred to the final borrower in full. For final borrowers (foreign buyers of Slovenian goods or services) the interest rate is not lower than the Commercial Interest Reference Rates (CIRR).

6.2.7. Operations under Special Authorization – Guarantee Scheme for Enterprises

The Guarantee Scheme Act of the Republic of Slovenia (hereinafter ZJShem) set up a system for the issue of government-backed guarantees to assume liabilities of A-, B- or C- rated companies arising from long-term loans acquired with commercial banks. The purpose of the Act was to relieve the credit crunch resulting from the global financial crisis that has reduced access to liquid assets of commercial banks, thereby decreasing the flow of funds into Slovenia's economy. By 31 December 2010, when the deadline for the issue of guarantees expired, EUR 809.4 million of the total guarantee quota of EUR 1.2 billion was granted at a total of 15 auctions; EUR 509.0 million of the guarantee quota was used in 2009, and additional EUR 300.4 million in 2010.

The banks awarded the guarantee quota granted 578 corporate loans worth a total of EUR 831.8 million. The Guarantee Scheme for Enterprises has thus helped Slovenian companies access the finance needed to cope with the unyielding global economic and financial crisis.

On the basis of guarantees issued, SID Bank received 26 claims under the guarantees in 2010. In close consideration of the conditions stated, the Ministry of Finance of RS honored 12 guarantee claims. If the guarantee is honored and the conditions are met, SID Bank initiates a collection procedure for guarantees paid.

6.2.8. Operations under Special Authorization – Guarantee Scheme for Individuals

The Guarantee Scheme for Individuals Act (hereinafter ZJShemFO) enabled individuals to obtain guarantees of the Republic of Slovenia for loans up to EUR 100,000 or EUR 10,000, depending on the category of borrower. The guarantee scheme for individuals persons lists four categories of borrowers, namely employees on fixed-term contracts, persons seeking to resolve their housing issue for the first time, young families, and unemployed persons. The total guarantee quota to be distributed in the period 2009-2010 under the ZJShemFO is EUR 350 million, of which EUR 50 million is held for the category of unemployed borrowers. By the end of 2010 SID Bank held six auctions and awarded the banks a total of EUR 88.9 million; EUR 38.4 million of the guarantee quota was used in 2009, and EUR 50.5 million in 2010.
The banks awarded the guarantee quota granted 1,025 individual loans worth a total of EUR 35.4 million. The deadline for the issue of state guarantees under the ZJShemFO expired on 31 December 2010.

In addition to guarantees issued, SID Bank received 38 claims under the guarantees in 2010. In close consideration of the conditions stated, the Ministry of Finance of RS honored 27 guarantee claims. If the guarantee is honored and the conditions are met, SID Bank initiates a collection procedure for guarantees paid.

6.2.9. Operations under Special Authorization – Guarantee Scheme for Investments

The aim of the Guarantee Scheme for Corporate Investments Act (hereinafter ZPFIGD) was to facilitate access to finance for corporate investments intended to strengthen the development and enhance the competitiveness of Slovenian companies. Backed by state guarantees, which are classified as first-class insurance, companies obtain funds needed to finance their investment projects more easily.

In 2010 SID Bank published its first invitation related to the issue of guarantees of the Republic of Slovenia to cover liabilities arising from loans acquired from first-class commercial banks and savings banks which are intended for the financing of development projects. The total guarantee quota to be distributed was EUR 50 million. By the end of 2010, SID Bank received 4 guarantee applications.

6.3. Review of SID Bank Group Operations in 2010

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

The business operations of 2010 were significantly affected by the onset of economic recovery coupled with persistently low liquidity situation in most PKZ markets. As a result, the business operations of persons insured picked up after the severe slowdown of 2009 and the demand for PKZ services remained high, making it possible for the company to acquire new clients. Besides, PKZ had limited possibility to assume risks due to a general decrease in its clients' credit ratings (risks), and the frequency and volume of claims paid rose as well.

In 2010 PKZ continued its measures taken to mitigate the effects of the economic crisis. As part of the measures, PKZ revised its insurance conditions to reflect the changed economic environment, introduced more intensive monitoring and speeded up and intensified other procedures for the prevention of claims and recovery collection. In the adoption and implementation of these crisis mitigation measures PKZ sought to maintain the balance between tightening its insurance conditions in the light of the changed economic environment and catering, to the highest extent possible, to the transactions performed by its clients. A welcome contribution to this aim was the increase in capital carried out at the beginning of 2010. Hit hard by uncertain economic conditions and a year of poor business results, the capital injection strengthened the firm and sent positive signals to PKZ partners (insured and reinsurers).

The effects of these measures were most clearly seen in the increase in premium written. The volume of business recorded a rise of 21 percent to EUR 4.8 billion (in 2009: a drop of 23 percent), and premiums written surged by 80 percent (after a 21 percent fall in 2009) to a total of EUR 19.9 million (the highest annual premium written in the company's history, compared to EUR 14 million in 2007 and 2008). PKZ retained most of its clients and acquired new ones, some of them large companies which made it to the TOP 25 list immediately.

Claims paid also hit an all-time high of EUR 24.8 million, pushing the total amount of insurance claims paid in 2010 116 percent above the 2009 figure. A considerable part of claims paid was related to risks insured in the previous years (2008 and 2009). However, the highest claim in the Slovenian market occurred and was partly paid in 2010 but as it was covered in a large part with reinsurance, it did not have a marked effect on the business result of PKZ. As for other risks insured in 2010, the trend in terms of claims shows a significant improvement over the past two, crisis-laden, years. The full effect of the measures taken to mitigate the effects of the crisis on the claims result will only be felt in the following years due to the time delay in the reporting of claims. Provisions for claims decreased in 2010 as a result of high claims paid and the upward trend. Largely, this was attributable to the favourable outcome of the claims cases in 2008 and 2009 which ended up much better for PKZ than we were able to estimate at the end of 2009. Due to positive trends, net income from premium written in 2010 exceeded net expenses for claims by EUR 6.8 million (in 2009 expenses for claims exceeded income from premium written by EUR 7.5 million). The result for insurance technical account was also positive at EUR 8.6 million (in 2009 it was negative at EUR 8.3 million).

The generated net profit totaled EUR 6.8 million (in 2009: negative result EUR 6.5 million). The equalization provisions (provisions for credit risks) went up by EUR 0.9 million, to EUR 1.7 million. The annual increase in equalization provisions is limited (the lower of the amounts in a percentage of net premium or insurance-technical account). In 2009 the provisions for credit risk (equalization provisions) were used to cover the loss arising from the negative technical-insurance result (EUR 8.3 million). The net profit or loss for 2010 was used in the preparation of the annual report to increase the legal and statutory reserves (total increase of EUR 2.4 million). The increase in capital and high profit generated in the current year caused the equity to rise from EUR 9.2 million at the end of 2009 to EUR 20.3 million as at 31 December 2010.

In 2010 the expectations for the year were strongly exceeded in terms of volume of insurance business and, in particular, premium written. Claims paid also pushed above the expectations, while the total claims load remained below the expected amount for the previous years as well as for 2010. By the end of 2010 and at the beginning of 2011, PKZ managed to renew the majority of insurance contracts under the conditions consistent with the current economic situation, which points to the fact that PKZ has managed to build long-term partnerships with its clients.

Provided the economic recovery continues, PKZ expects to maintain the moderate growth in business insured and premiums paid also in 2011. Clients are becoming increasingly aware of the importance of credit insurance, also as a result of the crisis, which confirms the expectations that high demand for insurance will continue. Nevertheless, the risks to be insured will continue to impose certain limitations on the growth of PKZ. Besides, 2011 is likely to see stronger activity from competitive insurance companies which have practically withdrawn from the markets or have at least significantly reduced their activities. PKZ expects high payments from claims insured in the previous years to continue in 2011, but the loss ratio for the currently insured transactions is likely to improve on account of an upturn in economic conditions and continued development of PKZ's risk management policy. To balance claims paid, PKZ will enhance its recovery collection activity, both internally and through cooperation with other companies of SID Bank Group.

In 2011 PKZ will continue to adapt its operations to the changed conditions. It will explore market opportunities for new and supplementary forms of credit insurance (also in combination with reinsurance schemes that started to run in 2009 and continued in 2010) which it could acquire through its parent company. PKZ will support its clients in their traditional markets and in entering emerging markets. In pursuing this aim, the insurance company will benefit from its membership in specialized credit insurance agencies as it will be able to assess risks quickly and more reliably, which constitutes an important competitive advantage in traditional and, even more so, in new markets, in particular at times of uncertainty.

To cater to increased needs, PKZ will purchase business premises at another location, and this will be the company's main investment in 2011. Also, it will assume full responsibility for IT, and system, support, which had been the responsibility of SID Bank in the past and until the move, pursuant to the agreement on excluded transactions entered into by the two companies. Another investment to be undertaken by PKZ in 2011 is the implementation of IT system management. PKZ already performs and will continue to perform a part of the Human Resources tasks.

To ensure rationalization of business operations, certain functions of PKZ will continue to be carried out by SID Bank. In terms of ownership and business performance, the operations of PKZ remain an integral part of SID Bank Group, thus ensuring synergetic effects of these complementary facilities.

In 2011 PKZ will intensify its efforts to meet the new requirements laid down in the EU Solvency Directive II.

6.3.2. PRO KOLEKT Group

In 2010 business operations of the PRO KOLEKT Group were focused on active marketing of the Group's services and its visibility in the markets of South East Europe.

In response to the needs of its clients, the PRO KOLEKT Group performs debt collection services (in-court and out-of-court) in almost all countries across the globe, on the basis of contracts or agreements concluded with local debt collection agencies.

In 2010, 2,347 new debt collection cases in the total value of EUR 50 million were referred to the PRO KOLEKT Group. The Group resolved 874 debt collections in a total value of EUR 15.5 million. In 2010 the PRO KOLEKT Group continued to conduct marketing and preparation of credit rating reports, generating revenue in the amount of EUR 0.3 million.

In 2010 the PRO KOLEKT Group generated EUR 2.0 million in revenues and ended the business year with a profit of EUR 23 thousand.

6.3.3. PRVI FAKTOR Group

In 2010 the value of accounts receivable purchased by the PRVI FAKTOR Group was EUR 862 million. The 2010 figures are 5 percent higher than the value of receivable purchased in 2009 and rise 8 percent above the plan for the year 2010. Subsidiaries contributed more than 74 percent to the total turnover of the PRVI FAKTOR Group. The 2010 turnover target was surpassed by PRVI FAKTOR Belgrade whose share in the total volume of receivables purchased by the PRVI FAKTOR Group had risen by 4 percentage points compared to the 2009 figure, to 28 percent. PRVI FAKTOR Zagreb continues to generate the highest share in the revenue in the PRVI FAKTOR Group: it was 41 percent in 2010, down 5 percentage points from the year before.

The majority of receivables financed by the PRVI FAKTOR Group arose from deliveries of goods or services among the entities within the country. In 2010, factoring of domestic receivables accounted for 91 percent of the total business volume (in 2009: 91 percent), export factoring for 4 percent and import factoring for 5 percent.

Consolidated total assets stood at EUR 332.7 million as at 31 December 2010, marking a year-on-year fall of 1 percent. In terms of total assets, the largest company in the PRVI FAKTOR Group is PRVI FAKTOR, Zagreb, whose total assets amounted to EUR 158.1 million at the end of the year. Lower total assets at higher business volume indicate that there has been an increase in the efficiency of asset management.

The total assets of PRVI FAKTOR, Ljubljana stood at EUR 129.9 million at the end of the year 2010, posting a drop of 3.0 percent over the previous year.

Harsh business conditions are reflected in the business result: the PRVI FAKTOR Group generated a negative result of EUR 4.7 million. The reason lies mainly in expenses from impairments and provisions, which totaled EUR 14.1 million.

The objectives of PRVI FAKTOR Group for the year 2011 are to maintain the Group's share in the existing markets and to further improve the services the Group delivers to its clients. PRVI FAKTOR Group plans to acquire receivables in the amount of EUR 862.7 million and generate profit of EUR 2 million.

6.3.4. Centre for International Cooperation and Development

In 2010 the Centre for International Cooperation and Development (hereinafter CMSR) met most of the goals set for the year. CMSR maintained and expanded its contact network of Official Development Assistance (ODA) recipient countries, in particular the sectoral ministries and municipalities, Slovenia's representatives in these countries, and with Slovenian contractors, companies as well as individual experts, who are potential providers of development assistance. Furthermore, CMSR has positioned itself as an institution that is able to invest budgetary funds by means of ODA instruments into development projects abroad, thereby securing exports transactions for Slovenian companies, which in turn generates economic growth, recruitment, and increase in budgetary income.

CMSR continued its publication of the magazine *Mednarodno poslovno pravo*. The publication *Doing Business in Slovenia,* available in paper form and as an e-book, was its source of income from sales and advertising.

6.4. Risk Management

SID Bank manages and controls risk in conformity with all risk management regulations. The principal risks faced by SID Bank are credit, currency, liquidity, interest rate, and operational risks. In assuming risks, the Bank's pays particular attention to credit risk, while minimising other types of risk (currency, liquidity and interest rate risk). SID Bank's risk management practices need to reflect the Bank's distinctive character derived from its public role and the division of its business into operations involving the Bank's own assets and activities performed for the account of the state, including the management of contingency reserves.

The primary objective of risk management is to reduce the probability of risk incidents and to mitigate loss when a loss event occurs. Risk management is concerned with identifying, measuring, and reducing risks, thus ensuring a safe and stable operation which is also SID Bank priority risk management objective as in the long term it leads to increased equity value, helps the Bank maintain its reputation, and maximises the benefits for the Bank's clients and other stakeholders.

The risk management process starts with establishing an appropriate organisational structure and regulated work processes, which facilitate the achievement of business objectives accompanied by the implementation of safe business operations in compliance with existing regulations. The key objective in the implementation of risk management measures is to ensure an appropriate level of risk awareness at all levels of the Bank's operation.

The identification of risks starts in commercial organisational units and continues within organisational units separated from commercial units up to the level of the Management Board, which ensures independence of the process. Responsibility for the direct implementation of risk management lies with the following bodies and organisational units:

- Credit Risk Committee: management of credit risk and large exposures,
- Liquidity Risk Committee: liquidity and currency risks,
- Asset - Liability Committee: balance sheet structure, capital adequacy, aggregate risks,
- Risk Management Department: preparation of risk management policies, risk monitoring,
- Credit Rating Department: assessment of the clients' financial position,
- Back Office and Payment Transactions: daily follow-up of currency and liquidity risks within the limits set.

In accordance with the Basel II guidelines, SID Bank assessed its risk profile and set up a portal for reviewing and evaluating the adequate internal capital assessment process.

Under its risk management strategy and capital risk and capital management policy, SID Bank established an appropriate process of assessing the adequacy of its internal capital, which:

- is based on the identification and measurement or assessment of risks, preparation of an aggregate risk assessment, and monitoring of material risks assumed by the Bank during the course of its operations,
- provides for adequate internal capital consistent with the Bank's risk profile,
- is appropriately integrated in the management system.

A comprehensive process of assessing the adequacy of internal capital, adapted to the risks assumed, ensures that the risks assumed remain within the limits of SID Bank's capacity to assume risks.

SID Bank also performs stress tests based on its own scenarios and scenarios provided by the regulator. By considering the results of these tests, SID Bank is able to identify the most exposed areas in time and well in advance, and improve its performance by taking appropriate measures.

On behalf and for the account of the Republic of Slovenia, SID Bank carries out credit and investment insurance. While the loss ratio can be offset using the contingency reserve, higher losses from these operations could bring contingency funds down to a level at which the Act Governing Insurance and Financing of International Commercial Transactions (ZZFMGP) requires additional funds to be appropriated from the budget of the Republic of Slovenia.

To maximize the efficiency of these operations, credit and investment insurance transactions are carried out by a special department, which is separated from banking operations up to the level of the Management Board. Similar to the banking segment, the authorization to conclude transactions is clearly defined, with all transactions of EUR 5 million or more requiring an approval from the International Trade Promotion Commission. The Commission also holds ultimate authority over other risk management issues, such as approving insurance policies for certain countries or groups of countries which are used in addition to the insurance limits specified in the ZZFMGP to limit the potential amount of loss. Moreover, SID Bank addresses the issues concerning the classification of risks, establishment of premium rates, etc., through a special analysis of fiscal sustainability of insurance transactions conducted for the account of the Republic of Slovenia in cooperation with the Ministry of Finance and the International Trade Promotion Commission. The initial findings revealed and the subsequent findings confirmed that even if worst-case scenarios were to materialize, the state budget would not suffer direct consequences, and any subsequent impacts would not be significant.

Capital and capital adequacy

Adequate amount of capital is the key element to ensuring the solvency and liquidity of the Bank and providing a basis for its uninterrupted operation, and the primary condition for the expansion of its business activities. Capital adequacy, expressed in relative terms with regard to the volume of business and the risks assumed, creates trust in the Bank's operations and ensures its stable development in line with the set goals.

SID Bank’s capital, as calculated in accordance with the Regulation on the Capital Adequacy of Banks and Savings Banks (CABSB), which covers all SID Bank’s transactions conducted for its own account, amounted to EUR 316.0 million as at 31 December 2010, and was EUR 2.1 million higher than at the end of 2009.

SID Bank’s capital requirements for credit and currency risks are calculated using the standardized approach, and the capital requirement for operational risk is calculated using the basic indicator approach.

The capital adequacy ratio is the ratio between the capital and the sum of capital requirements relating to credit, currency, and operational risks. In accordance with the Regulation on Reporting on the Capital and Capital Requirements of Banks and Savings Banks, SID Bank was not required to form capital requirements for currency risks at the end of 2010.

Capital adequacy, as calculated base don the Basel II requirements, stood at 13.53 percent as at 31 December 2011 (in 2009: 16.65 percent).

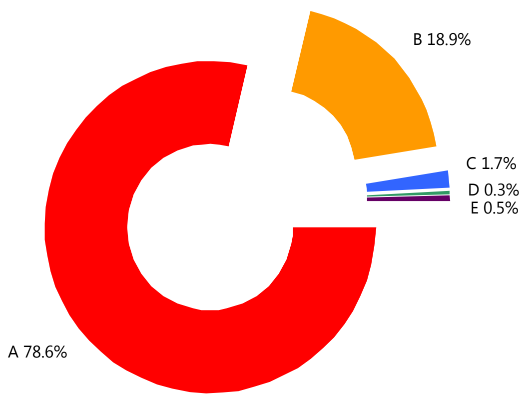
Credit risk

Credit risk is the risk of loss arising from a debtor's failure to settle its financial obligations. Credit risk management starts prior to entering into a contractual relationship by determining the credit rating of a client and by securing appropriate collateral. The credit exposure is approved by the Credit Risk Committee. During the course of a transaction, credit risk is managed by monitoring and managing the credit portfolio; by limiting credit risk concentration to a client, group of clients, sector or country; by classifying and creating impairments for expected losses; and by providing sufficient capital for cases when losses exceed expectations.

In credit and guarantee transactions, credit risk includes risk of losses arising from credit transactions and risk arising from the geographic location of the debtor’s country. Risk arising from a securities issuer is considered in securities investments. Counterparty credit risk is considered in settlements and derivative financial instruments.

Notwithstanding SID Bank’s introduction of individual assessment of losses and the calculation of impairments under IFRS, as a result of which it did not have to monitor impaired financial assets against the Bank of Slovenia classficiation into categories A to E, SID Bank Group continued to maintain such classification[3]. The clients with the highest credit rating are rated ‘A’, while the clients with the worst credit rating are rated 'E'. The quality of credit portfolio can thus be monitored continuously against these rating classes and compared with other banks.

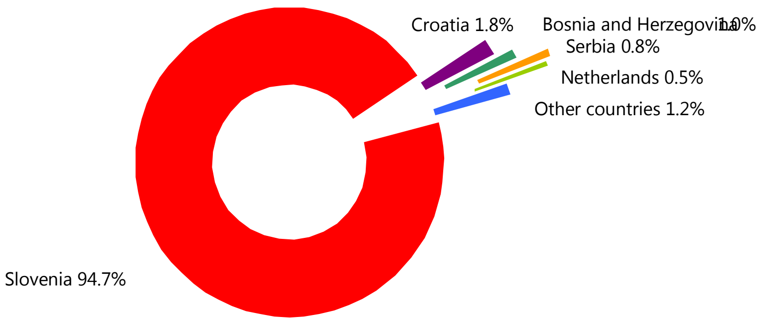
SID Bank credit portfolio by credit rating category as at 31 December 2010:



[3] For its internal use, SID Bank uses more detailed credit rating classes expressed in three-letter codes.

The balance of SID Bank's credit portfolio as at 31 December 2010 shows that 78.5 percent of all loans, other claims and off-balance sheet liabilities are classified in the highest credit rating class, 'A', further 18.9 percent of the portfolio falls into the 'B' credit rating class, 1.7 percent in 'C', whereas classes 'D' and 'E' together account for 0.8 percent.

SID Bank credit portfolio by debtor country as at 31 December 2010:

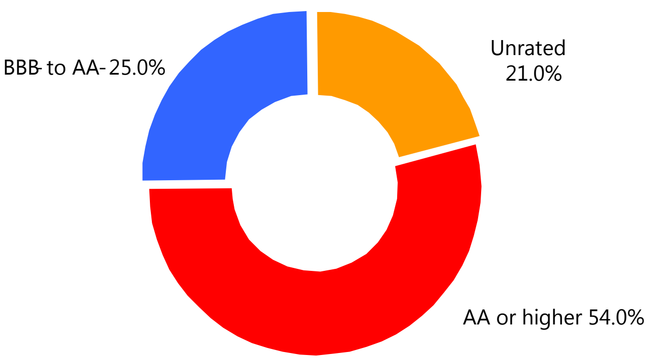


Claims and off-balance-sheet liabilities from Slovenian debtors account for the major part, 94.7 percent, of the credit portfolio, followed by exposure to the countries of South East Europe (Croatia, Bosnia and Herzegovina, Serbia), and the Netherlands.

Impairments and provisions are an important element of managing the risk of loss arising from credit transactions (impairment and provision creation policy is described in more detail in item 2.2.6, Chapter II, of Notes to the Financial Statements). As at 31 December 2010, SID Bank's impairments and provisions totaled EUR 77.3 million, which was EUR 29.9 million more than as at 31 December 2009. Impairments for loans granted were EUR 74.7 million and provisions for off-balance-sheet liabilities amounted to EUR 2.6 million. Impairments and provisions are derived from group and individual assessments of losses, with losses arising from exposures in credit rating classes 'C', 'D' or 'E' assessed on an individual basis. The ratio between total provisions and impairments and total exposure classified in these classes is 33.8 percent.

Issuer risk arises form the credit portfolio which is managed by SID Bank with an aim of ensuring liquidity and managing assets and liabilities. SID Bank does not conduct trading transactions. The Bank manages credit risk mainly by setting limits regarding the issuer credit rating and by monitoring the market values of securities.

Securities portfolio by issuer credit rating as at 31 December 2010



Detailed breakdown of the securities portfolio by issuer credit rating as at 31 December 2010 is available in item 2.3.4. of Notes to the Financial Statements.

Liquidity risk

Liquidity risk, in the narrow sense of the word, is the risk which arises if SID Bank is unable to offset its liabilities with its investments. Therefore, liquidity is the capacity of a company to hold and secure sufficient resources to meet its (balance-sheet or off-balance-sheet) obligations when they are due. These liabilities are normally settled using cash inflows, liquid assets, and borrowed funds. The larger the mismatch between the principal and interest flows on the side of assets, and liabilities and off-balance-sheet items, the larger the liquidity risk.

SID Bank does not accept deposits, meaning it is not exposed to liquidity risk in the conventional sense. Nevertheless, problems could occur should SID Bank be unable to replace these funds with new sources upon the maturity of its existing liabilities. If circumstances so require, SID Bank follows a stress test scenario.

In accordance with the adopted liquidity management policy, SID Bank ensured that all its financial liabilities were met regularly. Liquidity management is based on planning of inflows and outflows, which is performed separately for the Bank's own account and for the account of contingency reserves.

SID Bank also monitors its exposure to liquidity risk by means of liquidity ratios (ratios between outflows and inflows over one- to six-month periods). The Bank of Slovenia set the minimum value of one for this ratio for the period of up to 30 days. With SID Bank, the mentioned ratio normally exceeded 2.0 during the year. Despite the worsening financial and economic conditions, SID Bank does not experience liquidity-related difficulties, thanks to the long maturity of its liabilities and adequate secondary liquidity.

Liquidity risk in its broader sense, that is the risk of the Bank having to acquire additional funding at a higher interest rate (funding risk) and the risk that due to its liquidity needs the Bank will have to sell non-monetary investments at a discount (market liquidity risk), is low thanks to an excess short-term liquidity position and adequate secondary liquidity. Secondary liquidity contains a relatively high proportion of government and other securities of high quality and liquidity. The liquidity ratio for the periods up to 30 days, calculated using the Bank of Slovenia methodology, was 13.72 as at 31 December 2010.

Statement of Financial Position by maturity shows liquidity risk management in connection with credit risk. The items are given in net values, which means that the value of investments is reduced by impairments.

Statement of financial position of SID Bank by maturity as at 31 December 2010

	Assets		**Liabilities**		**Gap**	**Ratio***
Maturity class	in EUR million	% of total assets	in EUR million	% of total assets	in EUR million	in %
Sight	5.3	0.1	0.0	0.0	5.3	-
Up to 1 month	35.8	0.9	0.6	0.0	35.1	5570
1 month to 3 months	21.2	0.5	42.3	1.1	(21.1)	145
3 months to 1 year	549.7	14.1	595.4	15.3	(45.7)	96
1 year to 5 years	1,684.4	43.2	1,382.8	35.5	301.6	114
Over 5 years	1,599.1	41.0	1,874.3	48.1	(275.2)	100
Total	**3,895.5**	**100.0**	**3,895.5**	**100.0**	**0.0**	

The ratio is the sum of all assets items up to, and including, this maturity class and the sum of liabilities items up to, and including, this maturity class.

Detailed breakdown of assets and liabilities items as at 31 December 2010 by maturity is available in item 3.1.1. of Notes to the Financial Statements.

Currency risk

When managing currency risk, SID Bank determines the potential loss which could arise as a result of changes in foreign exchange rates, through the application of an open foreign currency position, that is the difference between the sum of all investments denominated in a foreign currency and liabilities in a foreign currency. Open foreign currency position, constrained by internal limits, was minimal throughout the year 2010.

Statement of financial position of SID Bank by currency structure as at 31 December 2010

	Assets		**Liabilities**		**Gap**	
	in EUR million	% of total assets	in EUR million	% of total assets	in EUR million	% of capital*
EUR	3,880.3	99.6	3,880.4	99.6	(0.1)	0.0
USD	15.2	0.4	15.1	0.4	0.1	0.0
Other currencies		-	-	-	-	-
Total	**3,895.5**	**100.0**	**3,895.5**	**100.0**	**0.0**	**0.0**

** Note: Capital taken into account in accordance with the Regulation of the Bank of Slovenia on the Calculation of Capital Adequacy of Banks and Saving Banks.*

Detailed presentation of the Statement of Financial Position by currency structure as at 31 December 2010 is available in item 3.2.1. of Notes to the Financial Statements.

Interest rate risk

In the conduct of its business operations, SID Bank encounters two types of interest rate risks. The first type arises from the difference between the SID Bank lending and borrowing interest rates or the difference in the sensitivity of these interest rates to changes in the overall level of market interest rates. The second type arises from the interest rate sensitivity of investments financed from SID Bank's capital.

SID Bank manages exposure to interest rate risk mainly through a coordinated interest accrual on assets and liabilities. Euro-denominated instruments with Euribor-linked interest rates account for the biggest share of assets and liabilities, which means the only remaining risk is the risk arising from the timing differences of repricing to the reference rate and incomplete coordination in selecting the reference interest rate (three- or six-month Euribor).

Taking advantage of more favourable conditions than applicable for variable-rate instruments, the Bank took out borrowing and acquired funds at a fixed interest rate. In 2010 it also concluded the first contracts related to IREP, which the Bank conducts on behalf and for the account of the Republic of Slovenia. To that aim and to reduce interest rate risk from these operations, SID Bank increased its use of derivative financial instruments (interest rate swaps) and implemented hedge accounting.

At the end of 2010, SID Bank held ten derivative financial instruments (interest rate swaps) in a total amount of EUR 736 million. As these instruments are included in the off-balance-sheet records, the effect of their use is not considered in the table below.

Assets and liabilities items by period remaining to interest rate repricing as at 31 December 2010

	Assets		**Liabilities**		**Gap**
Maturity class	in EUR million	% of total assets	in EUR million	% of total assets	in EUR million
Non-interest bearing	50.9	1.3	334.6	8.6	(283.7)
Demand	7.6	0.2	-	-	7.6
Up to 1 month	459.7	11.8	511.2	13.1	(51.5)
1 month to 3 months	688.8	17.7	217.7	5.6	471.0
3 months to 1 year	2.537.9	65.1	1.905.4	48.9	632.5
1 year to 5 years	94.8	2.4	815.1	20.9	(720.3)
Over 5 years	55.9	1.5	111.4	2.9	(55.6)
Total	**3,895.5**	**100.0**	**3,895.5**	**100.0**	**0.0**

Detailed presentation of the Statement of Financial Position by exposure to interest rate risk as at 31 December 2010 is available in item 3.3. of Notes to the Financial Statements.

Operational risk

Operational risk refers to the risk of occurrence of loss resulting from the company's failure to perform or perform effectively its internal processes, from deficiencies in human action or system operation, or from external factors. The degree of operational risk depends on the company's internal organization, business process management, functioning of internal controls, effectiveness of internal and external audits, etc. The main factors affecting operational risk are human resources, business processes, information technology and other infrastructure, organisational structure and external events.

Strengthening of the role of SID Bank as a main Slovenian development institution for financing and promotion, growth of the Bank's business volume and gradual increase in complexity of its products are the factors that contribute towards higher operational risk exposure. Notably, planned new activities will require recruitment of appropriate qualified staff and introduction of new information technologies for providing the required data and application support.

SID Bank has in place an operational risk management policy according to the recommendations of the Basel standards. The Bank monitors its operational risk using the basic indicator approach. The management of operational risk is based on the established system of internal controls, the decision-making and authorization system, appropriate substitution for absent workers, suitable staff qualifications and investments in information technology. System risks inherent in information technology are increasing in line with the level of computerization. They were managed through additional measures such as the establishment of a business continuity plan and other measures aimed at increasing information security.

Risk management in SID Bank Group

Consolidated risk management reflects the heterogeneous nature of SID Bank Group, which consists of the parent company authorized and supervised under banking regulations; a subsidiary insurance company authorized and supervised under the Insurance Supervision Agency; a factoring company, which assumes risks similar to those assumed by the Bank, but is not regulated, and PRO KOLEKT, a non-financial institution which does not assume any greater financial risks.

Business relationships among the Group companies affect the type and volume of shared risks. Particular attention is paid to areas in which the nature of transactions performed could lead to a concentration of the same risk, which is of particular importance in cases of concentration of credit and insurance risks to the same debtor (taking into account the risk/debtor relationship).

Similar to SID Bank, the primary objective of risk management in SID Bank Group is to reduce the likelihood of risk incidents and minimize losses when a loss event occurs. Particular attention is given to the measurement and management of credit risk at SID Bank Group level as well as to the exposure of SID Bank Group to a client, industry, or country.

All Group companies have in place an appropriate organisational structure which enables effective risk management based on the determination of risk assumption procedures as well as procedures aimed at identifying, measuring and mitigating risks.

SID Bank Group has adopted adequate policies and guidelines relating to risk management and protection against risk. The parent company has upgraded its policies and guidelines to specify risk management instructions for a particular risk class. Furthermore, the parent has coordinated the operations of the subsidiaries in the Group so as to ensure relevant and efficient risk management at the level of the entire Group.

In accordance with its risk management strategy, SID Bank Group pays particular attention to the following risks: capital credit, liquidity, currency, interest rate, operational, securities and derivatives, strategic, reputation, and profitability risks as well as other types of risk related to the probability of an event which is contrary to what is expected and may lead to losses from business operations.

Primary responsibility for the management of risks assumed by the companies of SID Bank Group lies with the management body of a particular Group member, which is obligated to pursue the business and strategic goals of SID Bank Group risk management policy. The management and the bodies of a subsidiary transfer their risk management authorizations to lower management levels.

SID Bank Group places great emphasis on credit risk, as it is the most significant risk at the level of the Group. In its organisational structure SID Bank Group has in place a hierarchical model for determination of credit limits depending upon the amount of the required credit limit and the type of transaction. In factoring transactions, the lowest limits are approved by commercial units, higher credit limits are approved by the credit committee of the subsidiary company and the highest limits are approved by the credit committee of the parent company. The highest limits are classified as limits exceeding EUR 2 million. All these transactions are reassessed and evaluated by the Credit Rating Department of the parent company. The transactions are carefully inspected at SID Bank Credit Committee Meetings, taking account of the economic and legal aspects, with special attention paid to credit insurance.

The companies of SID Bank Group make regular monthly reports on their operating results, which include reports on exposure to various risk types. Reports on exposure to currency and interest rate risks are made quarterly, while reports on credit, liquidity, and operational risks are prepared monthly. The submitted reports are regularly discussed at the meetings of SID Bank's competent bodies, which review them and, when appropriate, give instructions for activities to be taken.

Risk profile and internal capital adequacy assessment

SID Bank has prepared a risk profile which documents and categorizes a set of quantitative and qualitative assessments of risks which the Bank assumes in the course of its operation, and the control environment used to manage those risks.
The risk profile is used as a basis for:

- a comprehensive risk management process,
- internal capital adequacy assessment,
- planning internal audit procedures,
- direct supervision by the Bank of Slovenia.

In accordance with the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, the risk profile is assessed for the entire SID Bank Group.

The following risks and factors are taken into account in assessing internal capital adequacy assessment process:
- Pillar I risks (credit risk, market risk, operational risk),
- Pillar II risks (concentration risk, transfer risk, interest rate risk, liquidity risk, profitability risk, settlement risk, reputation risk, strategic risk, capital risk),
- other elements and external factors (regulatory changes, impact of economic cycles, stress tests).

In the internal capital adequacy assessment, capital requirements for credit risks hold a 82 percent share, followed by 2 percent share for operational risks, and 16 percent for strategic risk, concentration risk, and external factors.

Risk management in SID Bank Group based on the Bank's consolidation is presented in Chapter III on Disclosures made under the Decree on Disclosures of Banks and Savings Banks.

6.5. Information System

In 2010 SID Bank adopted a revised information system development strategy, which provides the basis upon which numerous activities associated with IT and technological development were carried out.

In the field of application software, great emphasis was placed on introducing a unified and standardized code system and implementing a new solution for business partners and other legal entities. Other achievements of 2010 include partial implementation of a new credit rating system and its ability to be used across the SID Bank Group; optimization of work processes; and an upgrade of the credit operations system.

As regards payments, SID Bank joined the new Target2 system and implemented a data archiving system to support S.W.I.F.T. transactions.

In terms of server infrastructure and virtual environment technologies SID Bank continued its activities at the central and back-up servers. As part of the package of measures designed to ensure business continuity, SID Bank regulated its documentation and several policies, and successfully tested its disaster recovery plan at the remote centre. In terms of security, several improvements and upgrades on various system segments were made.

Standardization of work with outsource providers continued in 2010 as did the expansion of IT support to software change management. SID Bank continued and completed the upgrade of its mailing system and reengineered certain applications from the document information system to the transaction-based system.

One of SID Bank's crucial ongoing tasks associated with the information system is to provide the basis for high-quality and timely reporting. In this respect, 2010 saw execution of a number of activities aimed both at supplementing and upgrading the Bank's external reporting processes in line with the requirements from external institutions and the bank's internal reporting, which is becoming increasingly complex and extensive in response to the growing business needs. One of the major changes undertaken in 2010 was a renewal of matrix reporting (ECB Report) for the Bank of Slovenia.

Given the role of SID Bank in the SID Bank Group, the activities arising from the Strategy were focused on coordinating the development and information systems of all companies of the Group, aimed primarily at the maintenance of server, system and network infrastructure of PRO KOLEKT, Ljubljana, and PKZ, and the virtualization of server infrastructure of PKZ.

6.6. Personnel

Recruitment - structure and trends

Personnel recruitment in 2010 was conducted in accordance with the annual recruitment plan and the orientations of the Action Strategy, based primarily on balancing recruitment against the growth of business volume and development of new products, hiring professionals who possess industry-specific knowledge and experience, and on retaining competent and high-potential staff.

In 2010, 10 new employees were engaged. SID Bank ended the year with 94 employees (64 women and 30 men), with the average number of employees in 2010 totalling 91.

Number of employees of SID Bank and the companies of SID Bank Group as at 31 December 2010

Company	2008	2009	2010
SID Bank	76	87	94
PKZ	51	52	53
PRO KOLEKT Group	19	25	24
PRVI FAKTOR Group	130	131	122
Centre for International Cooperation and Development	11	11	10
Total	287	306	303

At the end of 2010, PRO KOLEKT Group employed 24 people, seven of whom work in Ljubljana, six in Zagreb, two in Belgrade, four in Bukarest, one in Skopje, two in Sarajevo, and two for the Sofia affiliate. PRVI FAKTOR Group ended the year 2010 with a total of 122 employees, 36 of whom work in the Ljubljana company, whereas another 43 work in Zagreb, 30 in Belgrade, and 13 in Sarajevo.

Personnel structure by education level as at 31 December 2010

	SID Bank		SID Bank Group	
Level of education	Number	% of total	Number	% of total
Secondary or less	16	17.0	64	21.1
Higher professional education	9	9.5	38	12.5
University education	62	66.0	190	62.7
Master of science	6	6.4	9	3.0
Doctor of science	1	1.1	2	0.7
Total	94	100.0	303	100.0

Employee development

SID Bank is committed to promoting employee development to ensure the education and qualification structure comparable to the development level and strategic goals of the Bank, support successful adaptation of the employees to the changes and challenges inside the organization and in the environment, and create a stimulating work environment that will offer sufficient professional challenges also in the future.

Annual appraisal interviews and semi-annual interviews were conducted with all employees in order to determine the achievement of set goals. Annual appraisal interviews are the basis for the assessment of an individual's development potential, identification of key personnel (managers and specialists – responsible for the development of new activities) and preparation of an annual training plan, as they point to requirements for new knowledge and facilitate targeted training and education of individual employees and employee groups.

Training

As a company specializing in the provision of financial services, also in several highly specific areas, SID Bank considers personnel its key resource, and the development of human resources a key factor in ensuring the Bank's future development and existence. Fully aware of these facts, the Bank strives to promote progress, supports systematic professional education and training of its staff and facilitates exchange of knowledge and experience.

In line with the SID Bank Action Strategy, the Bank encourages acquisition of the needed knowledge and skills and their transfer into practice. In 2010 SID Bank employees acquired knowledge required for specific expert fields. 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 attended various forms of training to acquire the needed general and specific skills related to banking and other topics. In 2010 ninety-three employees (99 percent of all employees) attended various forms of training. The figure does not include the employees who were absent from work throughout 2010 due to maternity leave. The number of hours spent on training averaged at 46 per employee.

Remuneration

The remuneration and promotion scheme put in use at SID Bank was designed to reward and motivate high-performance personnel and utilize their capabilities to achieve ambitious business plans.

The payment of salaries and other remuneration complies with the provisions of existing legislation and the Collective Agreement of Banks and Savings Banks in Slovenia, whereas promotion and performance benefits are regulated with an internal SID Bank Act. Performance incentives are awarded to the employees by their superiors on a monthly basis as a variable component of pay, which can amount to a maximum of 20 percent of the salary for special achievements. The grounds for promotion at the same job position are established on the basis of an appraisal report drawn up by the superior following the conduct of annual and semi-annual interviews. Project work is assigned special value in performance assessments as it forms the basis for further development of individual employees and team work.

In accordance with its pension scheme, SID Bank covered, also in 2010, part of the premium for the voluntary supplementary pension insurance and the premiums for the voluntary supplementary health insurance for all employees.

Internal communication

As SID Bank performs a highly-specialized activity, it is critical for its performance that the employees understand and support the Bank's activities, and this can also be ensured through efficient and open communication.

The Bank ensures exchange of information and communication with its employees through numerous well-established tools and applications, including direct communication between the management and the employees (regular internal meetings and meetings with the Board), access to a number of databases (e.g., memos on business events, meeting minutes and decisions of corporate bodies, internal rules and regulations, expert library, descriptions of work processes and procedures, proposals and ideas, and clippings), internal e-newsletter, and quarterly publications of SID Bank's newsletter *Cekin*.

The Code of Ethics Values and Professional Standards is a formal confirmation of the established practice for promoting sound corporate culture and proactive and committed attitude of employees towards performance of tasks, both with regard to the customers and within the Bank environment. The Code places special emphasis on corporate social responsibility and maintains a responsible attitude towards the environment.

At the end of 2010, SID Bank contracted an outsource firm to conduct a survey on organisational climate and employee satisfaction using the questionnaire on the Organisational Climate in Slovenian Companies (SiOK). In addition to measuring the organisational climate, the survey also facilitates comparisons with other Slovenian companies and the findings obtained in previous years. The results obtained showed that the Bank achieved its strategic goal, namely 70-percent satisfaction, and will form a sound basis for improvement for all employees, in particular executive staff.

6.7. Corporate Social Responsibility of SID Bank

Mission and social benefits

SID Bank has the balanced and sustainable development of Slovenia at the heart of its mission, identity and activities, and is dedicated to further this mission by complying with the principles of corporate social responsibility (CSR), which seeks to balance economic growth, social well-being, and the protection of the environment.

In conducting its business as well as in decision-making, SID Bank is guided by the pursuit of expected social benefits arising from projects supported by the Bank. The basis for its operations is provided in the long-term development documents of the European Union and Republic of Slovenia which specify priority areas and the appropriate social consensus.
More importantly, SID Bank regards all the time, assets and efforts invested to be a permanent contribution to the implementation of its vision and mission on the one hand and to the development of the knowledge society, competitive entrepreneurship, and reduction of environmental impacts on the other. All in pursuit of the ultimate goal: to preserve equal opportunities for future generations to satisfy their needs.

Personal responsibility

SID Bank is fully aware that corporate responsibility can only be effected through development of personal responsibility of all people in the organization. To achieve this, SID Bank fosters the advance of social awareness at all levels and the promotion of social responsibility as a life-style option for the whole organization in all its operational aspects.
In 2010 SID Bank adopted the SID Bank Corporate Social Responsibility Policy, which defines CSR in the broadest sense of the term. This formally binding document stresses the role of all Bank staff in the enforcement of the policy and lays the foundations for systematic management of its contents. Another factor that fosters further development, upgrade, and monitoring of corporate social responsibility is it being a vital part of the Bank's strategic planning processes. Also, SID Bank started monitoring the examples of good practice in this field to learn from and use in the future development of its corporate social responsibility.

Bank management

SID Bank has put in place contemporary corporate governance models befitting a well-organised financial institution and has committed itself to further adjust its organisational structure to good business practices. The Bank places great emphasis on comprehensive risk management and on maintaining a high level of corporate culture.

Owing to rapid growth in the past years, all the employees of the Bank have had to contemplate future development and attempt to balance the Bank's external success with its internal growth. With these points in mind, SID Bank drew up the Strategic Plan for 2011-2014, which was adopted by the Supervisory Board of SID Bank in December 2010. In the next development period, the Bank will therefore focus on responsible growth, working to achieve business excellence.

Given the contents of its business, the Bank's focus is two-fold: transparency of all services on the one hand and transparent operations and business results on the other. In pursuing this goal, SID Bank pays close consideration to the relevant guidelines and good practice cases by EU-based benchmark institutions.

One of SID Bank's key strategic orientations is to keep the favourable cost effectiveness ratio at the levels achieved despite the continuous growth and expansion of the Bank's activities. Besides, SID Bank works to enhance its responsibility towards the society through proactive cost management since it is fully aware that the funds which it manages come, directly or indirectly, from taxpayers money. Under the legal requirement stipulating mandatory allocation of profit for appropriation to reserves, every euro saved increases the financial stability of the Bank, sustainability of its operations and its financial self-sufficiency while also increasing the volume of funds which the Bank is able to allocate to the sustainable development schemes of the wider community.

Business ethics

The key objective of SID Bank as a promotional and development bank is not to maximize the company's value but rather to provide social benefits while ensuring preservation and growth of capital.

Despite this underlying business objective, the Bank is fully aware that as an institution operating a number of public authorizations it is obliged to uphold a high standard of business ethics, both formally and informally, and most importantly, by example. On the one hand, the Bank's key focus shall be compliance management and high-level information management whereas on the other, it shall promote a comprehensive, sustainable and ethical attitude to business operations carried out in the course of the Bank's tasks or authorizations.

In support of these goals, SID Bank adopted the Code of Ethics Values and Professional Standards in 2009, which lays down detailed principles and rules to be observed by the Bank, its bodies and staff in carrying out the activities and tasks relating to clients, other banks, economic environment, and Bank's internal environment. In 2010 the Bank also adopted and put in place the Action Plan for the implementation of the code and implementation of the values set in the SID Bank Action Strategy:

Special emphasis was placed on prevention of corruption which, in Slovenia as well as elsewhere in the world, threatens the rule of law and undermines the trust of people in state institutions, and on prevention of money laundering and terrorism. Appropriate measures are also taken on fighting the corruption of foreign public officials in international business transactions.

SID Bank will continue to implement the principles of responsible lending, namely by assessing each transaction in terms of economic and financial viability, comprehensive risk assessment and management study, and by enforcing other advanced principles of responsible lending.

Given the status of SID Bank, any attempt by the Bank to distort free competition in areas where it exists would be irresponsible. Therefore in conducting its activities, the Bank does normally not compete with other financial organizations in the market but works instead to supplement the existing market to the highest degree possible. In 2010 SID Bank refused to respond to any initiatives related to services which, according to the Bank, could be carried out by other market players.

Another important topic to be addressed in the light of the global economic crisis is the incomes of managers, which SID Bank harmonized, fully and timely, with the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities (ZPPOGD), and did the same for the incomes of other employees.

Customer relationship

In conducting its range of services, SID Bank seeks to create value added, direct or indirect, for its clients. When operating indirectly, through financial intermediaries, the Bank ensures transfer of financial value onto the final beneficiaries using appropriate leverage. Normally, investments into sustainable development projects take longer to pay for themselves. The role of SID Bank is therefore much more expressed in long-term transactions, and the Bank considers this fact in shaping its offer for final beneficiaries.

With a view to facilitating access of users to promotional and development services, SID Bank has put the one-stop-shop principle at the heart of its development focus, choosing to offer the products and services that will contribute to a balanced regional accessibility and allocation of funds. In 2010 the Bank undertook to reengineer its development-oriented products and schemes to improve access to SID Bank's development funds both for final beneficiaries and financial intermediaries.

In particular in the light of its public promotional operations, the Bank implements the principles of equal access and equal treatment for all bank users, which means that it provides the same services under the equal conditions to all equally eligible persons, while also paying close attention to ensuring regional distribution of development funds.
SID Bank also ensures protection of the rights and benefits of its clients, fosters client confidentiality, effective information transfer and raises client awareness on relevant business policy changes, in which it is guided by the principle of reality and proportionality.
SID Bank employees working towards these goals use a carefully designed mix of communication activities and channels, in particular the Bank's website, public presentations and lectures, attendance at conferences, regular education and training programmes, participation at various professional events, and sponsorship of events (e.g. Gazelles) which are related to SID Bank's business activities, as well as other events aimed at raising the awareness of the general public about development banking, a relatively new and poorly known term.
In line with its internal Acts, the Bank handles customers' comments and complaints about their dealings with the Bank, within a reasonable period of time, and considers them in its operations whenever possible. Written complaints are replied to in written form.

Care for employees

Family, free time, and work are complementary and overlapping elements of life. In consideration of this fundamental principle, SID Bank organizes its working environment in a constructive and innovative way. Furthermore, the Bank places strong emphasis on the fundamental rights of the employees, their safety and health, conditions of work, social security, personal and professional development, social dialogue, and interpersonal relationships.
With regard to care for the employees, training, remuneration and internal communications, we need to stress the following:

- In view of safety and health of employees, SID Bank continued to pay for voluntary health insurance, regular medical examinations for all employees, and regular ophthalmological exams. Employees undergo regular health and safety at work training, which is obligatory for all employees and all new employees of SID Bank. The Bank paid for voluntary influenza vaccination, and a set of preventive measures was implemented at the novel flu pandemic. SID Bank implements flexitime, as it enables more flexible balance between life and work.
- In recruitment, the Bank has committed itself to ensuring complete absence of discrimination, based on nationality, race, or ethnic origin, national and social origin, sex, colour of skin, health status, disability, religion or belief, age, sexual orientation, family situation, trade union membership, wealth, and any other circumstance.
- In 2010 the executive management team strengthened its team spirit at a team building training. The Bank also organized the traditional SID Bank Day, which is a get-together of the employees of the entire SID Bank Group.
- SID Bank has an active trade union movement (section of the Trade Union of Banking Slovenia) with which the management of the bank has led a constructive dialogue. The Union is consulted and its approval obtained for every change to internal rules and acts prior to their adoption.

Environment friendly society

Environment protection and energy efficiency are two of the core areas of SID Bank operation and an element of the Bank's mission. SID Bank develops schemes that are focused on achieving the sustainable objectives set for these areas, mainly those related to nature protection, waste management, use of natural resources, promotion of investment in nature protection infrastructure, renewable sources of energy and efficient energy use. In 2010 SID Bank supported the construction of a photovoltaic power station in Slovenia.
The Bank also pursues its corporate responsibility sustainable development objectives in the field of export credits, on the basis of a special nature protection policy. Thus, it prevents support to international business transactions with highly adverse effects on the environment.
Apart from providing external support to nature protection measures, SID Bank wishes to act in a socially responsible manner also on the inside. To achieve this, the Bank is committed to strict adherence to nature protection regulations to which is adjusts its equipment and technological processes. One of the first measures to be implemented was the use of environment-friendly materials and environment–friendly waste management, focused on waste separation and recycling.
SID Bank has discontinued its practice of corporate gifts for business partners and decided to allocate the funds to the preservation of biodiversity of the Slovenian landscape. The funds which had previously been spent on corporate gifts are now donated to Umanotera, the Slovenian foundation for sustainable development. The funds are used to plant rare native Slovenian tree species to increase the diversity of forests and fields and protect natural ecosystems and the typical Slovenian landscape (Magical Tree Crowns Project). Another argument in favour of this practice in 2010 was the declaration of the year as the International Year of Biodiversity.
Furthermore, SID Bank employees took part in several campaigns which concern their way of living and have a positive impact on reducing CO_2 emissions. SID Bank Team attended an eco-sports event called "Cycling in Threes." Although the weather was not ideal for cycling, SID Bank Team managed to put in 39 cycling days in a month, cycling a total of 468 km. The campaign attracted 200 teams, which cycled 67,524 kilometres in 19 days, i.e. more than 100 km per participant, generating 10 tones of CO2 less than they would had they driven to work by car.

Other areas of activity

SID Bank also supports transactions and pursues social benefits in the areas which form the core of sustainable development of every society together with environmental issues. These areas are related to research and development, innovation, innovative entrepreneurship, education, recruitment, growth and development of SMEs, internationalization of Slovenia's economy, provision of economic and public infrastructure, housing and regional development in general. With its entire operations oriented towards sustainable development, SID Bank supported a number of projects related to these areas in 2010.

Peer commitments and cooperation

Since inter-bank agreements and guidelines promote good practice, rules and principles of the banking industry and sound business performance, thereby contributing to sound business results, security and liquidity in the banking sector and wider, the Bank places great emphasis on agreements with financial institutions at the national and transnational level and actively participates in the exchange of information, good business practices and industry peer values.
SID Bank considers particularly important the agreements made by the Bank Association of Slovenia and agreements with other Slovenian and foreign bank associations of which it is a member. SID Bank acts as a responsible member of these associations, promotes the agreed standards and addresses and works proactively to resolve the issues that may hinder or prevent implementation, never failing to be constructive and cooperative.
Furthermore, SID Bank is a member of several international associations of financial institutions which operate in equal or similar areas (e.g. European Association of Public Banks (EAPB), Club of Institutions of the European Union Specializing in Long-Term Credit (ISLTC Club), Network of European Financial Institutions for SMEs (NEFI), the Berne Union). SID Bank is an active member of the Berne Union, international union of credit and investment insurers, which supports with its services over 10 percent of the total world trade. The Bank values the technical support provided by the Union and is committed to forward this inexhaustible source of experience, good practice and knowledge to other export credit agencies which are in their initial stages of development. To this aim, SID Bank upheld its membership in the Prague Club, a waiting room for the entry to the Berne Union, together with the Czech (EGAP) and Polish (KUKE) export-credit agencies it shared its experience with other members, responsibly fostering their development.
By signing a special declaration on Berne Union Values, SID Bank, as well as 50 other members, undertook to conduct its activities in a professional and financially accountable manner which is respectful to the environment and to high ethical standards.
Apart from intensive cooperation in these international organizations, SID Bank maintains and develops a close bilateral cooperation with many other, mostly foreign, financial institutions, at the national and transnational levels (e.g. German KfW).

6.8. Internal Audit

The Internal Audit of SID Bank is organised as a service directly responsible to the Management Board. It provides audit assurances and advisory services consistent with the applicable legislation of the Republic of Slovenia and the International Standards for the Professional Practice of Internal Auditing, the code of internal auditing principles and the code of professional ethics for internal auditors. The key purpose of its operations is to increase the benefits and improve the overall performance of the Bank. The Internal Audit helps SID Bank accomplish its set goals by supporting a conceptually sound and consistent method for assessing and improving the efficiency of risk management and mitigation procedures.

The basis for planning the areas subject to Internal Audit reviews in 2010 was the SID Bank Risk Profile for 2009; risk profile analyses lay the groundwork for identifying the business activities and risk areas within certain business activities which were to be reviewed. Throughout 2010, the Internal Audit conducted 12 reviews, one of which related to the internal audit of information systems and was carried out by two certified information systems auditors. All reports on conducted reviews were discussed by the Management Board.

The recommendations which the Internal Audit made after conducting the reviews were oriented towards further improvements of internal controls by individual organisational units and business processes and towards a further reduction of risks in various segments of the Bank's operation. The Internal Audit continuously monitors the implementation of recommendations made, as well as the recommendations made by the Bank of Slovenia and external auditors, and reports on the status of these in its quarterly reports to the Management Board.

In addition, Internal Audit draws up quarterly reports of its operations and relevant findings. All the reports are discussed by the Management Board, Audit Committee, and the Supervisory Board of SID Bank.

6.9. Compliance Management

In 2010 the Compliance Management continued full provision of the independent compliance function. The compliance function is responsible for identifying, assessing and monitoring the compliance risk to which the Bank might be exposed, which can be defined as the risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.

The compliance function also covers monitoring and reporting on compliance risk, as well as advising and training related to compliance risk management. Compliance also has a supervisory function: in particular, it regularly checks the use of internal control mechanisms introduced by the Bank to ensure compliant management. As part of the Bank's internal control system, the compliance function is one of the interrelated elements of a comprehensive, stable and reliable bank management system.

Compliance Management performs its supervisory function by conducting periodic and ad hoc business reviews, focusing on areas which the risk profile analyses have singled out as those bearing the highest compliance risk. In conducting reviews, the Compliance Management cooperates with the Internal Audit, for example by exchanging information and findings to ensure synergy effects and avoid doubling of operations performed by the two departments.

Notwithstanding the enforcement and implementation of the compliance function, the Management Board retains primary responsibility for compliance risk management and for the compliance of SID Bank's business practices with the relevant regulations. By establishing the independent compliance function, the Management Board has, above all, acted with due care as stipulated by the banking regulations. Under the Bank's internal acts, however, the responsibility to ensure compliance of business practices rests with all SID Bank's employees, with regard to their role and accountability. This means that all staff have to undergo training related to the oversight and management of compliance risk. Additionally, heads of organizational units shall closely monitor the implementation of compliance risk in their respective areas and report to the Management Board and Compliance Management accordingly.

The Compliance Management prepares a half-yearly report and hands it over it to the Management Board, which submits it to the Supervisory Board for consideration. Such a report is made up of a report on the activities conducted in the six-month period, findings on the actual compliance against the required standard, potential recommendations for the management, and comments on the status of compliance recommendations made in the previous periods.

7. APPENDICES

7.1. Management Bodies of SID Bank as at 31 December 2010

Supervisory Board of SID Bank

- Andreja Kert, President
- Samo Hribar Milič, M.Sc., Deputy President
- Aleš Berk Skok, Ph.D.
- Hugo Bosio
- Marko Jaklič, Ph.D.
- Gregor Kastelic, M.Sc.
- Peter Kraljič, Ph.D.

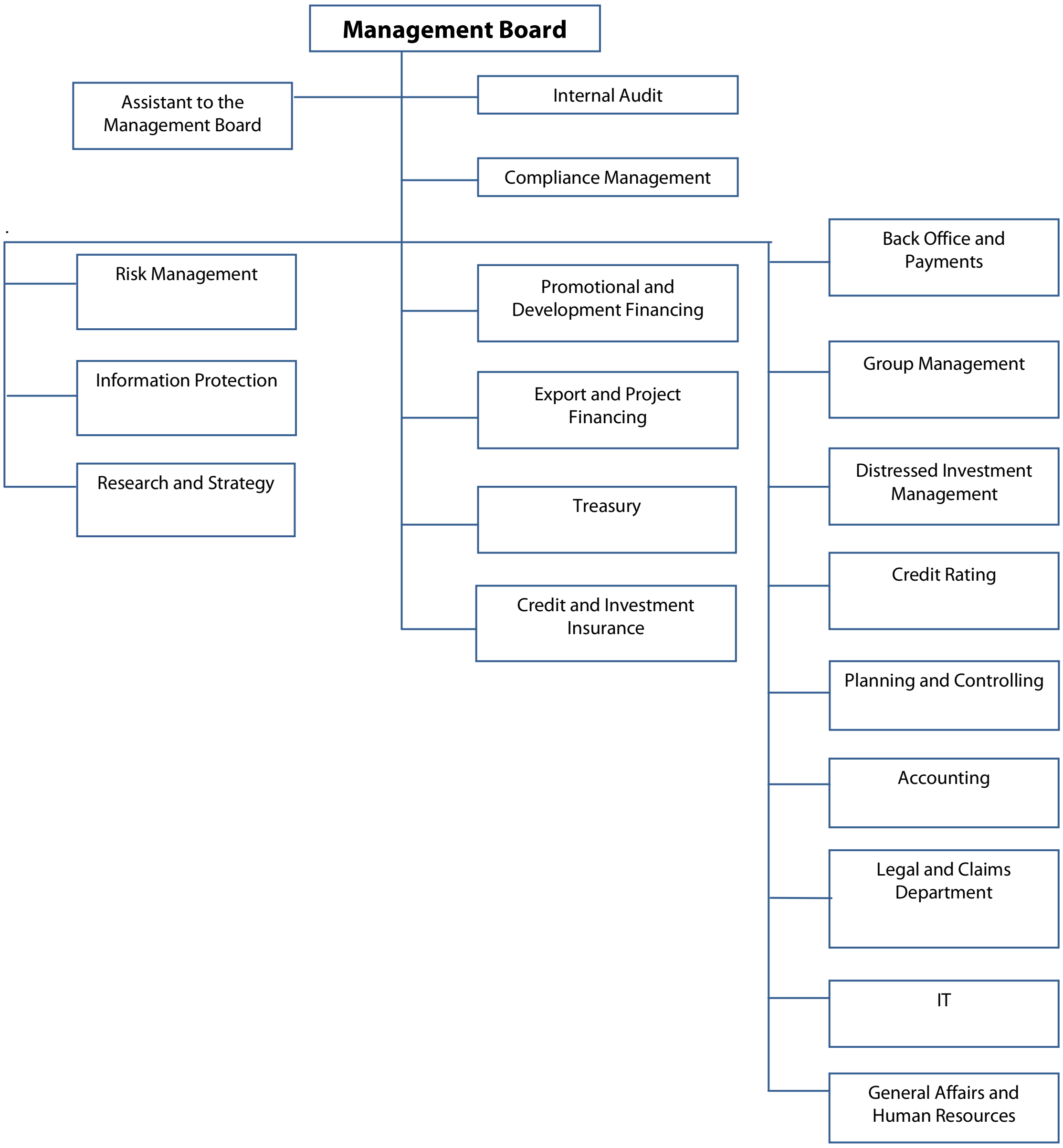
International Trade Promotion Commission

- Alfred Killer, Chairperson, Ministry of the Economy of RS
- Janko Burgar, M.Sc., Deputy President, Ministry of the Economy of RS
- Vladimir Gasparič, Ministry of Foreign Affairs of RS
- Janez Krevs, Bank of Slovenia
- Monika Pintar Mesarič, Ministry of Finance of RS
- Jože Renar, M.Sc., Chamber of Commerce and Industry of Slovenia

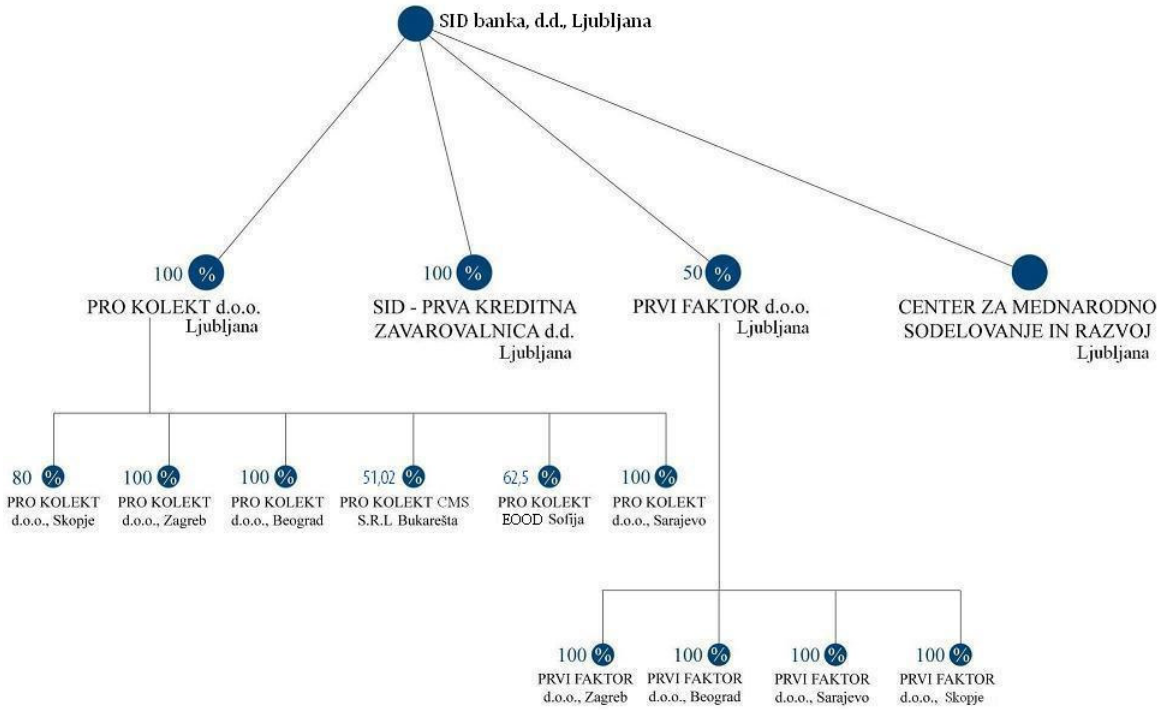
Management Board

- Sibil Svilan, M.Sc., President
- Jožef Bradeško, Member

7.2. Organisation Chart of SID Bank as at 31 December 2010



7.3. Organisation Chart of SID Bank Group as at 31 December 2010



7.4. Statement of Corporate Governance

In the business year 2010 SID Bank as a public company followed the Corporate Governance Code for Joint-Stock Companies (hereinafter the Code), which was jointly phrased and adopted in revised form by the Ljubljana Stock Exchange, Inc., Ljubljana, the Association of Supervisory Board Members of Slovenia, and the Managers' Association of Slovenia on 8 December 2009. The Code is available online at http://www.ljse.si/.

In terms of the corporate governance data which go beyond the requirements of the Companies Act, special emphasis is to be given to the regulations applicable to corporate governance in banks. These are contained in the provisions of the Banking Act (Chapter 2) and the Decision regulating due care of management board and supervisory board members of banks and savings banks, the latter summarizing the relevant recommendations derived from the Code. Another act to be considered is the Slovene Export and Development Bank Act (ZSIRB), which contains several specific corporate management provisions, also regarding the composition of the Supervisory Board. All the above regulations are published in the Official Gazette of the Republic of Slovenia. Corporate governance shall also abide by SID Bank's Statute (also available at SID Bank's website http://www.sid.si), strategy and policies adopted by the Bank's management or supervisory bodies.

Corporate governance of SID Bank does not abide by the following recommendations of the Code:

- Points 1 and 2 (Corporate Governance Framework): Unlike other joint-stock companies, the key objective of SID Bank is not to maximize the company's value but rather to perform promotional and development tasks aiming to retain or increase the value of capital without pursuing the goal of profit maximization (cf. Article 9 of ZSIRB, and SID Bank Statute). Another difference lies in the fact that SID Bank's Corporate Governance Policy as a single document has not yet been drawn up and adopted and is therefore not published on the corporate website, the reason for which lies in the peculiarities of the company (single shareholder) and the specific legal organization as specified in the ZSIRB.

- Points 4 and 5 (Relations with Shareholders): The recommendations are applied mutatis mutandis since the matter is regulated by the law. As it follows, the Republic of Slovenia is the single shareholder of SID Bank (cf. Article 4 of ZSIRB), and the election of members of the supervisory board is stipulated by law (Article 18 of ZSIRB).

- Point 7 (Supervisory Board): The selection procedure for supervisory board members is carried out in accordance with the provisions of ZSIRB and other legal acts which regulate the appointment into supervisory bodies of companies in majority ownership of the state.

- Point 8 (Supervisory Board) and point 17.1 (Independence and Loyalty): Members of the supervisory board sign a special statement disclosing their meeting of the criteria of independence from Appendix C of the Code, but such statements are not posted on the company's website since they also contain confidential data the company requires pursuant to the banking regulations.

- Point 8.4 (Supervisory Board): To distribute materials and convene meetings, the supervisory board makes use of information technology only in case of correspondence sessions, and only under exceptional circumstances for regular meetings.

- Point 20.4 (Transparency of Operations): The financial calendar is not published on the company website.

- Point 21.2 (Transparency of Operations): The company's website does not include the name and contact information of its Investment Relations officer. However, it includes the contact details of heads of organisational units, including Head of Treasury.

- Point 21.2 (Transparency of Operations): The company does not disclose information on the shares of voting rights in the companies which it acquires in the process of managing poor investments for resale, which are not of material consequence.

SID Bank has adopted internal acts regulating accounting reporting procedures and through these put in place various internal controls. The functioning of internal controls and risk management practices is subject to internal audit reviews conducted by a special organisational unit. To enhance the efficiency of its operation, the Supervisory Board has set up an Audit Committee, whose work is mainly concerned with accounting reporting and risk management. As part of the internal control system within the organization, SID Bank has also established a compliance function, performed by a separate organisational unit.

Since September 2008, the Republic of Slovenia has been the single shareholder of SID Bank. The Bank's management and supervisory bodies are appointed in accordance with the regulations, and in consideration of the specific conditions and procedures set forth in Article 18 of ZSIRB. The authority of the General Meeting of Shareholders is exercised by the Government of the Republic of Slovenia or its representative holding a written authorisation.

In adopting decisions, the two-member Board shall endeavor to act by mutual agreement and shall not issue or purchase the Bank's shares within the scope of their authorization.

In 2010 the Management Board was composed of Sibil Svilan, MSc, as President of the Board, and Jožef Bradeško, as Member of the Board.

The members of the Supervisory Board, nominated by a decree from the Government of the Republic of Slovenia on 23 April 2009, as at 31 December 2010 were:

- Andreja Kert, President
- Samo Hribar Milič, M.Sc., Deputy President
- Aleš Berk Skok, Ph.D.
- Marko Jaklič, Ph.D.
- Gregor Kastelic, M.Sc.
- Peter Kraljič, Ph.D.
- Hugo Bosio (appointed on 1 October 2010;up to 1 August 2010, the positon was held by Viljem Pšeničny).

The members of the Audit Committee as at 31 December 2010 were:

- Gregor Kastelic, M.Sc., President,
- Aleš Berk Skok, Ph.D.
- Blanka Vezjak, M.Sc.

Members of the Recruitment Committee as ta 31 December 2010 were:

- Andreja Kert, President
- Samo Hribar Milič, M.Sc.,
- Alenka Stanič, M.Sc.

II. FINANCIAL STATEMENTS OF SID BANK AND SID BANK GROUP

Contents

	Page
Statement of the Management Board on the financial statements of SID Bank and SID Bank Group	59
Statement of the independent auditor on the financial statements of SID Bank and SID Bank Group	60
1. Financial statements of SID Bank and SID Bank Group	61
2. Notes to the financial statements	69
3. Risk management and other disclosures	111
4. Segmented reporting	125
5. Appendices	130

Statement of the Management Board on the financial statements of SID Bank and SID Bank Group

On 31 January 2011 the Management Board confirmed the Financial statements and Annual report of SID Bank and Consolidated financial statements of SID Bank Group for the year ended 31 December 2010. Financial statements have been compiled in line with the International Financial Reporting Standards (IFRS) as adopted by the EU.

The Management Board reasonably believes that SID Bank and SID Bank Group have sufficient business resources to continue their operations.

The management is responsible for the following:

- Appropriate accounting policies which are applied consistently,
- Business estimates and judgements that are reasonable and prudent,
- Any material deviations from the applied accounting standards are appropriately disclosed and explained,
- Financial statements are prepared on a going concern basis for the SID Bank Group, unless there are substantiated reasons to anticipate discontinuation of operation.

The Management Board is responsible for maintaining bookkeeping documents and records which disclose the financial status of SID Bank and SID Bank Group with reasonable accuracy at all times. Furthermore, the Management Board is responsible for the preparation of financial statements in accordance with the legislation and regulations of the Republic of Slovenia. The Management Board must take all necessary steps to protect the assets of SID Bank and SID Bank Group and carry out all the required procedures to prevent or discover potential fraud or violation.

SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana

Jožef Bradeško	Sibil Svilan M.Sc.
Member of Management Board	President of Management Board

DELOITTE REVIZIJA D.O.O.
Davčna ulica 1
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Faks: + 386 (0)1 3072 900
www.deloitte.si

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SID – Slovenska izvozna in razvojna banka d.d., Ljubljana

Report on the Financial Statements

We have audited the accompanying financial statements of the SID – Slovenska izvozna in razvojna banka d.d., Ljubljana and group SID – Slovenska izvozna in razvojna banka d.d., Ljubljana which comprise the statement of the financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of SID – Slovenska izvozna in razvojna banka d.d., Ljubljana and group SID – Slovenska izvozna in razvojna banka d.d., Ljubljana as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report On Other Legal and Regulatory Requirements

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Company's business report. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Andreja Bajuk Mušič
Certified auditor
Andreja Bajuk Mušič

Yuri Sidorovich
President of the board

Ljubljana, 12 April 2011

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

FOR TRANSLATION PURPOSES ONLY – ORIGINAL PREVAILS

1. Financial statements of SID Bank and SID Bank Group

Accounting policies and notes are an integral part of the financial statements and should be consulted together.

1.1. Statement of financial position 31 December 2010

		SID Bank		SID Bank Group	
In EUR thousand	Notes	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Cash and balances with the central bank	2.3.1.	12	1,004	13	1,004
Financial assets held for trading	2.3.2.	0	248	0	248
Financial assets held for hedging	2.3.3.	14,563	2,101	14,563	2,101
Available-for-sale financial assets	2.3.4.	110,956	50,051	132,638	72,390
Loans	2.3.5.	3,752,874	2,955,021	3,889,529	3,094,132
- Loans to banks		*2,955,894*	*2,292,737*	*2,976,328*	*2,309,516*
- Loans to clients other than banks		*796,980*	*662,284*	*913,201*	*784,616*
Property, plant and equipment	2.3.6.	4,135	4,441	4,435	4,845
Investment property		0	0	157	80
Intangible assets	2.3.7.	252	395	882	1,078
Long-term investments in equity of subsidiaries, associates and joint ventures	2.3.8.	8,831	7,712	419	419
Corporate income tax assets	2.3.9.	426	1,019	2,230	2,155
- Assets for corporate income tax		*0*	*656*	*416*	*1,180*
- Assets for deferred taxes		*426*	*363*	*1,814*	*975*
Other assets	2.3.10.	404	2,902	41,213	37,182
- Assets from insurance operations		*0*	*0*	*38,313*	*32,228*
- Other assets		*404*	*2,902*	*2,900*	*4,954*
Non-current assets held for sale		3,088	0	1	0
TOTAL ASSETS		**3,895,541**	**3,024,894**	**4,086,080**	**3,215,633**
Financial liabilities with the central bank	2.3.11.	1,001	0	1,001	0
Financial liabilities held for trading	2.3.12.	29	271	29	271
Derivative financial instruments held for hedging	2.3.13.	0	1,202	0	1,202
Financial liabilities measured at amortized cost	2.3.14.	3,559,862	2,693,134	3,679,742	2,814,538
- Bank deposits		*0*	*155,066*	*0*	*155,066*
- Deposits of clients other than banks		*5*	*91,870*	*5*	*91,870*
- Loans of banks		*2,023,693*	*1,799,948*	*2,143,572*	*1,921,338*
- Loans of clients other than banks		*99,998*	*99,108*	*99,999*	*99,122*
- Debt securities		*1,436,166*	*547,142*	*1,436,166*	*547,142*
Provision	2.3.15.	2,761	4,382	48,426	56,695
- Bank provision		*2,577*	*4,250*	*2,577*	*4,250*
- Liabilities from insurance contracts		*0*	*0*	*43,933*	*50,294*
- Other provision		*184*	*132*	*1,916*	*2,151*
Corporate income tax liabilities	2.3.9.	1,472	138	3,524	138
- Tax liabilities		*1,349*	*0*	*3,401*	*0*
- Non-current deferred tax liabilities		*123*	*138*	*123*	*138*
Other liabilities	2.3.16.	2,600	3,785	8,503	9,063
TOTAL LIABILITIES		3,567,725	2,702,912	3,741,225	2,881,907
Share capital	2.3.17.	300,000	300,000	300,000	300,000
Capital reserves	2.3.18.	1,139	1,139	1,139	1,139
Revaluation surplus	2.3.19.	90	(18)	273	126
Reserves from profit (including retained profit)	2.3.20.	25,191	21,735	39,023	39,667
Treasury shares	2.3.21.	(1,324)	(1,324)	(1,324)	(1,324)
Net profits/losses for the year		2,720	450	5,744	(5,882)
EQUITY		327,816	321,982	344,855	333,726
TOTAL LIABILITIES AND EQUITY		**3,895,541**	**3,024,894**	**4,086,080**	**3,215,633**
CONTINGENCY RESERVES	2.3.23.	**129,400**	**125,428**	**129,400**	**125,428**
INTEREST RATE EQUALIZATION PROGRAMME	2.3.23.	**7,830**	**7,627**	**7,830**	**7,627**

Contingency reserves and the Interest Rate Equalization Programme (IREP) refer to transactions performed by SID Bank on behalf and for the account of the Republic of Slovenia, which are not a part of the assets and the liabilities side of the sources of SID Bank. They are kept in separate accounts, which were defined by the Bank of Slovenia for keeping of transactions pursuant to special authorization. Transactions pursuant to special authorization are presented in Item 2.3.24.

1.2. Statement of comprehensive income for the year 2010

		SID Bank		SID Bank Group	
In EUR thousand	Notes	2010	2009	2010	2009
Interest income and similar income		106,283	82,256	117,436	95,779
Interest expense and similar expense		(66,134)	(60,754)	(72,561)	(67,308)
Net interest	2.4.1.	40,149	21,502	44,875	28,471
Dividend income	2.4.2.	0	2,474	0	0
Fees and commissions received		2,256	2,006	6,314	6,456
Fees and commissions paid		(796)	(437)	(1,686)	(1,233)
Net fees and commissions	2.4.3.	1,460	1,569	4,628	5,223
Realized profits/losses from financial assets and liabilities not measured at fair value through profit or loss	2.4.4.	439	330	444	605
Net profits/losses from financial assets and liabilities held for trading	2.4.5.	(47)	24	(47)	24
Changes in fair value when calculating risk insurance	2.4.6.	(449)	(40)	(449)	(40)
Net foreign exchange gains/losses	2.4.7.	6	44	958	1,073
Net profits/losses from derecognition of assets, excluding non-current assets held for sale		(6)	(4)	8	(2)
Other net operating profits/losses	2.4.8.	2,919	2,542	6,083	4,129
- Net income from non-banking services		*2,919*	*2,542*	*2,529*	*2,051*
-Net revenues from insurance operations		*0*	*0*	*11,962*	*7,876*
- Net expenses for insurance operations		*0*	*0*	*(8,408)*	*(5,798)*
Administrative costs	2.4.9.	(6,101)	(5,729)	(11,582)	(10,971)
Depreciation, amortization	2.4.10.	(616)	(643)	(848)	(881)
Provision	2.4.11.	1,616	(1,985)	9,339	(10,556)
- Bank provision		*1,667*	*(2,085)*	*1,667*	*(2,085)*
- Liabilities from insurance contracts		*0*	*0*	*7,465*	*(8,618)*
- Other provision		*(51)*	*100*	*207*	*147*
Impairments	2.4.12.	(32,192)	(18,906)	(38,988)	(23,596)
Profits/losses on ordinary activities		**7,178**	**1,178**	**14,421**	**(6,521)**
Corporate income tax on ordinary activities	2.4.13.	(1,557)	(231)	(4,163)	(755)
Deferred taxes		105	1	891	1,892
Net profits/losses for the year		**5,726**	**948**	**11,149**	**(5,384)**
Net profits/losses for the year		**5,726**	**948**	**11,149**	**(5,384)**
Net profits/losses derecognized from revaluation surplus from available-for-sale financial assets		135	347	183	1,206
Corporate income tax on other comprehensive income		(27)	(70)	(202)	(287)
Post-tax comprehensive income for the year		**5,834**	**1,225**	**11,130**	**(4,465)**
Of owners of the parent company				11,130	(4,465)

1.3. Cash flow statement for the financial year 2010

	SID Bank		SID Bank Group	
In EUR thousand	2010	2009	2010	2009
A. CASH FLOWS FROM OPERATING ACTIVITIES				
a) Net profit or loss before tax	7,178	1,178	14,421	(6,521)
Depreciation, amortization	616	643	848	881
Impairments of tangible fixed assets, investment property, intangible long-term assets and other assets	32,171	18,905	38,988	23,596
Net foreign exchange (gains)/losses	(6)	(44)	(958)	(1,073)
Net (profits)-losses due to sales of tangible fixed assets and investment real estate	6	4	(8)	4
Other (profits)/losses from investment activities	0	(2,474)	0	0
Other net profit and loss adjustments before tax	4,108	3,735	5,724	10,572
Cash flows from operating activities before changes in operating assets and liabilities	44,073	21,947	59,015	27,459
b) (Increase)/decrease in operating assets	(879,719)	(973,655)	(883,832)	(959,791)
Net (increase)/decrease in financial assets recognized at fair value through profit and loss	2,349	(2,101)	2,349	(2,101)
Net increase/(reduction) in available-for-sale financial assets	(61,176)	11,628	(60,609)	8,304
Net (increase)/reduction in assets held for hedging	(8,823)	0	(8,823)	0
Net (increase)/reduction in loans	(811,479)	(980,531)	(812,718)	(951,924)
Net (increase)/reduction in deferred costs	134	(383)	120	(427)
Net (increase)/reduction in other assets	2,364	(2,268)	(4,150)	(13,643)
Net (increase)/reduction in assets held for sale and discontinued operations	(3,088)	0	(1)	0
c) Increase/(decrease) in operating liabilities	852,521	774,137	843,670	752,370
Net increase/reduction in assets with the central bank	1,001	0	1,001	0
Net increase/(reduction) in financial liabilities held for trading	(489)	295	(490)	295
Net increase/(decrease) in deposits and loans measured at amortized cost	860,291	770,838	859,076	736,199
Net increase/reduction in derivative financial liabilities held for hedging	(7,096)	0	(7,096)	0
Net increase/(reduction) in deferred income	(2,002)	1,801	1,443	1,300
Net increase/(reduction) in other liabilities	816	1,203	(10,264)	14,576
d) Cash flows from operating activities (a+b+c)	16,875	(177,571)	18,853	(179,962)
e) (Paid)/refunded corporate income tax	348	(2,793)	39	(3,967)
f) Net cash flows from operating activities (d+e)	17,223	(180,364)	18,892	(183,929)
B. CASH FLOWS FROM INVESTING ACTIVITIES				
a) Inflows from investing activities	52	2,476	66	2
Proceeds from the sale of property, plant and equipment and investment property	52	2	66	2
Proceeds from the sale of intangible long-term assets	0	0	0	0
Other inflows from investment activities	0	2,474	0	0
b) Outflows from investing activities	(1,344)	(168)	(377)	(354)
(Outflows for the acquisition of tangible fixed assets and investment property)	(194)	(157)	(316)	(317)
(Outflows for the acquisition of intangible long-term assets)	(31)	(11)	(61)	(37)
Outflows for the acquisition of equity investments in subsidiaries, associates and joint ventures	(1,119)	0	0	0
c) Net cash flows from investing activities (a-b)	(1,292)	2,308	(311)	(352)
C. CASH FLOWS FROM FINANCING ACTIVITIES				
a) Inflows from financing activities	0	160,000	0	160,000
Inflows from the issue of shares and other capital instruments	0	160,000	0	160,000
b) Net cash flows from financing activities (a)	0	160,000	0	160,000
D. Effect of exchange rate fluctuations on cash and cash equivalents	2	2	2	2
E. Net increase in cash assets and cash equivalents (Af+Bc+Cb)	15,931	(18,056)	18,581	(24,281)
F. Cash and cash equivalents at the beginning of the period	22,075	40,129	34,105	58,384
G. Cash and cash equivalents at the end of period (D+E+F)*	38,008	22,075	52,688	34,105

* The item includes cash in hand, cash on settlement accounts with Bank of Slovenia, cash on business account and bank deposits up to 90 days.

1.3.1. Cash equivalents

	SID Bank		SID Bank Group	
In EUR thousand	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Cash in hand and balances on settlement account with the central bank	12	0	13	0
Cash in business accounts	52	69	2,355	2,632
Bank deposits, of which:	37,944	22,006	50,320	31,473
- Gorenjska banka d.d.	*9,992*	*0*	*11,626*	*0*
- Banka Koper d.d.	*8,282*	*0*	*8,282*	*0*
- Banka Celje d.d.	*7,075*	*0*	*10,039*	*0*
- Unicredit banka Slovenija d.d.	*3,987*	*12,821*	*3,987*	*12,820*
- Sparkasse d.d.	*0*	*6,855*	*602*	*6,855*
- Adria Bank A.G.	*1,999*	*2,000*	*1,999*	*2,000*
- Probanka d.d.	*1,998*	*0*	*3,663*	*0*
- Factor banka d.d.	*1,279*	*330*	*3,288*	*2,242*
- NLB d.d.	*1,813*	*0*	*4,168*	*2,484*
- Abanka d.d.	*989*	*0*	*1,493*	*0*
- Banka Volksbank d.d.	*530*	*0*	*530*	*0*
- Probanka d.d.	*0*	*0*	*0*	*1,881*
- NLB LHB banka a.d. Beograd	*0*	*0*	*368*	*1,161*
- Gorenjska banka d.d.	*0*	*0*	*0*	*2,030*
- NLB Tuzlanska banka d.d.	*0*	*0*	*275*	*0*
Total	38,008	22,075	52,688	34,105

1.4. Statement of changes in equity

1.4.1. SID Bank

For the 2010 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Reserves from profit	Retained earnings (including net profit of fin. year)	Treasury shares	Equity
OPENING BALANCE FOR THE PERIOD (1 January 2010)	**300,000**	**1,139**	**(18)**	**21,735**	**450**	**(1,324)**	**321,982**
Post-tax comprehensive income for the year	**0**	**0**	**108**	**0**	**5,726**	**0**	**5,834**
Allocation of net profit to profit reserves in accordance with a decision of the Supervisory Board and the General Meeting of Shareholders	0	0	0	450	(450)	0	0
Allocation of net profit to statutory reserves	0	0	0	286	(286)	0	0
Allocation of net profit to reserves under articles of association	0	0	0	2,720	(2,720)	0	0
CLOSING BALANCE FOR THE PERIOD (31 December 2010)	**300,000**	**1,139**	**90**	**25,191**	**2,720**	**(1,324)**	**327,816**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR					**2,720**		

For the 2009 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Reserves from profit	Retained earnings (including net profit of fin. year)	Treasury shares	Equity
OPENING BALANCE FOR THE PERIOD (1 January 2009)	**140,000**	**1,139**	**(295)**	**19,923**	**1,314**	**(1,324)**	**160,757**
Post-tax comprehensive income for the year	**0**	**0**	**277**	**0**	**948**	**0**	**1,225**
New share capital subscribed (paid)	160,000	0	0	0	0	0	160,000
Allocation of net profit to profit reserves in accordance with a decision of the Supervisory Board and the General Meeting of Shareholders	0	0	0	1,314	(1,314)	0	0
Allocation of net profit to statutory reserves	0	0	0	47	(47)	0	0
Allocation of net profit to reserves under articles of association	0	0	0	451	(451)	0	0
CLOSING BALANCE FOR THE PERIOD (31 December 2009)	**300,000**	**1,139**	**(18)**	**21,735**	**450**	**(1,324)**	**321,982**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR					**450**		

1.4.2. SID Bank Group

For the 2010 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplusl	Reserves from profit	Retained earnings (including net profit of fin. year)	Treasury shares	Equity
OPENING BALANCE FOR THE PERIOD (1 January 2010)	**300,000**	**1,139**	**126**	**36,739**	**(2,954)**	**(1,324)**	**333,726**
Post-tax comprehensive income for the year	**0**	**0**	**(19)**	**0**	**11,149**	**0**	**11,130**
Allocation of net profit to profit reserves in accordance with a decision of the Supervisory Board and the General Meeting of Shareholders	0	0	0	(2,955)	2,955	0	0
Allocation of net profit to statutory reserves	0	0	0	582	(582)	0	0
Allocation of net profit to reserves under articles of association	0	0	0	4,823	(4,823)	0	0
Currency changes in the consolidation	0	0	166	(166)	(1)	0	(1)
CLOSING BALANCE FOR THE PERIOD (31 December 2010)	**300,000**	**1,139**	**273**	**39,023**	**5,744**	**(1,324)**	**344,855**

For the 2009 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Reserves from profit	Retained earnings (including net profit of fin. year)	Treasury shares	Equity
OPENING BALANCE FOR THE PERIOD (1 January 2009)	**140,000**	**1,139**	**(838)**	**34,850**	**6,101**	**(1,324)**	**179,928**
Post-tax comprehensive income for the year	**0**	**0**	**964**	**0**	**(5,384)**	**0**	**(4,420)**
New share capital subscribed (paid)	160,000	0	0	0	0	0	160,000
Allocation of net profit to profit reserves in accordance with a decision of the Supervisory Board and the General Meeting of Shareholders	0	0	0	1,314	(1,314)	0	0
Allocation of net profit to statutory reserves	0	0	0	47	(47)	0	0
Allocation of net profit to reserves under articles of association	0	0	0	451	(451)	0	0
Other changes of net profit*	0	0	0	77	(1,859)	0	(1,782)
CLOSING BALANCE FOR THE PERIOD (31 December 2009)	**300,000**	**1,139**	**126**	**36,739**	**(2,954)**	**(1,324)**	**333,726**

* Other changes of profit reserves include changes in profit reserves and retained earnings due to consolidation entry in accounts. The largest portion of the amount EUR 1,736 thousand is due to changes of equalization provisions. EUR 45 thousand is due to currency differences which occurred in the course of consolidation and EUR 77 thousand is the result of harmonization of profit reserves and net profit for the year in the consolidation process.

Distributable profit

In EUR thousand	2010	2009
Net profit for the year	5,726	948
Portion of net profit allocated to statutory reserves	(286)	(47)
Portion of net profit allocated to reserves under articles of association	(2,720)	(451)
Distributable profit	2,720	450

In accordance with Article 60 of The Companies Act (ZGD-1) the proposal for the use of distributable profit has to be annexed to the annual report.

Distributable profit of SID Bank may not be distributed to shareholders. In accordance with Act Amending the Slovene Export and Development Bank Act (ZSIRB–A), distributable profit shall be allocated to other profit reserves.

When compiling the annual report, the Management Board formed statutory reserves in the amount of EUR 5,726 thousand from net profit totalling EUR 286 thousand pursuant to the 3rd and 4th paragraph of Article 64 or 2. item of the 1st paragraph of Article 230 of the Companies Act (ZGD-1). In accordance with the 4th item of the 1st paragraph of Article 230 of the Companies Act (ZGD-1), the Management Board formed reserves under articles of association in the amount of 50 percent or EUR 2,720 thousand.

As at 31 December 2010, distributable profit amounted to EUR 2,720 thousand, including the unused profit for the year 2010.

In accordance with paragraph 3 of the Article 4 of Slovene Export and Development Bank Act (ZSIRB) and Article 28 of the Articles of Association, Management Board and Supervisory Board propose that the General Meeting of SID Bank allocates the distributable profit for 2010 in the total amount of EUR 2,720 thousand to other profit reserves.

2. Notes to the financial statements

Items 1.1. to 1.4. of this report present the statement of financial position as at 31 December 2010, the statement of comprehensive income for the year 2010, the cash flow statement for the year 2010 and the statement of changes in equity for the year 2010 of SID Bank (separate statements) and SID Bank Group (consolidated statements). Statements also include comparable data as at 31 December 2009 or for the 2009 financial year.

All the amounts in the financial statements and their notes are expressed in thousands of EUR, unless otherwise indicated. Assets and liabilities, denominated in foreign currencies, are translated into EUR at the mean exchange rate of the European Central Bank as at the date of the statement of financial position. Revenues and expenses, denominated in foreign currencies, are translated into EUR at the mean exchange rate of the European Central Bank as at the day they occur or are recorded.

Consolidated financial statements are financial statements of the group, presented as statements of a uniform corporation.

2.1. Basic information

2.1.1. SID Bank

SID - Slovenska izvozna in razvojna banka d.d., Ljubljana (hereinafter: SID Bank or the bank) with registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia.

SID Bank's share capital stood at EUR 300,000,090.70 divided into 3,121,741 ordinary registered no-par value shares issued in several issues. The Republic of Slovenia is the sole shareholder of the bank.

Financial services performed by SID Bank for own account pursuant to the acquired authorization, are mainly:

- granting of loans, financing of business transactions,
- issuing of bonds and other guarantees,
- dealing for its own account or for the account of clients with foreign currencies, including exchange transactions, futures contracts and options, currency and interest financial instruments, transferable securities,
- dealing for its own account with money market instruments,
- credit rating services: collection, analysis and provision of information on credit status of legal entities.

In accordance with Slovene Export and Development Bank Act (ZSIRB) and after its applicability, SID Bank used the above indicated services and financial instruments for the promotion of economic, structural, social and other policies in the areas defined in the 1st item of Article 11 of this act; for example:

- international business transactions and international business cooperation
- business incentives with a special emphasis on small and medium enterprises, entrepreneurship and risk capital,
- research and development,
- education and employment,
- environmental protection and energy efficiency,
- regional development,
- commercial and public infrastructure.

Pursuant to a statutory authorization (Slovene Export and Development Bank Act - ZSIRB), SID Bank has a status of authorized institution in accordance with Act Governing Insurance and Financing of International Commercial Transactions (ZZFMGP). For the account of the Republic of Slovenia SID Bank carries out the following activities:

- short-term export credit insurance and reinsurance 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 Equalization Programme (IREP).
- Companies guarantee scheme pursuant to the Republic of Slovenia Guarantee Scheme Act,
- Guarantee scheme for individuals pursuant to the Act on the Guarantee Scheme for Individuals of the Republic of Slovenia and
- Guarantee scheme for financing investments of enterprises pursuant to the Act on Guarantees of the Republic of Slovenia for financing investments of enterprises

Notes on operations due to realization of guarantee schemes are presented in the business report, in Items 6.2.7. to 6.2.9.

In view of the above, the financial statements of SID Bank comprise the assets and liabilities and the results of operations for its own account. Transactions carried out by SID Bank on behalf of the Republic of Slovenia are recorded in separate accounts, which were defined by the Bank of Slovenia for keeping of transactions pursuant to special authorization.

As at 31 December 2010, SID Bank had 94 employees (as at 31 December 2009 there were 87).

SID Bank is a large company pursuant to Article 55 of The Companies Act (ZGD-1).

2.1.2. SID Bank Group

Parent company

- SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (SID Bank, Inc., Ljubljana)

Subsidiary companies:

- SID - Prva kreditna zavarovalnica d.d., Ljubljana (SID - First Credit Insurance Company Inc., Ljubljana; hereinafter: PKZ), registered at Josipine Turnograjske 6, 1000 Ljubljana, Slovenia, in which SID Bank holds a 100 percent ownership share,
- PRO KOLEKT, družba za izterjavo, d.o.o. , Ljubljana, registered at Josipine Turnograjske 6, 1000 Ljubljana, Slovenia (hereinafter: PRO KOLEKT Ljubljana or PK Ljubljana) in which SID Bank holds a 100 percent ownership share and which has six affiliated companies:
  - PRO KOLEKT d.o.o. Zagreb, registered at Rapska 46B, 10000 Zagreb, Croatia (hereinafter: PRO KOLEKT Zagreb or PK Zagreb),
  - PRO KOLEKT d.o.o. Skopje, registered at Bulevar Goce Delčev 11, 91000 Skopje, Macedonia (hereinafter: PRO KOLEKT Skopje or PK Skopje),
  - PRO KOLEKT, društvo za naplatu duga, d.o.o. Beograd, registered at Bulevar Mihajla Pupina 10ž, 11070 New Belgrade, Serbia (hereinafter: PRO KOLEKT Belgrade or PK Belgrade),
  - S.C. PRO KOLEKT Credit Management Services Bucuresti s.r.l., Bukarešta, registered at Prof. George Murgoci Str.2, District 4, 040526 Bucharest, Romania (hereinafter: PRO KOLEKT Bucharest or PK Bucharest),
  - PRO KOLEKT SOFIA EOOD, Sofia, registered at 65, Shipchenski prohod Blvd.,1574 Sofia, Bulgaria (hereinafter: PRO KOLEKT Sofia or PK Sofia),
  - PRO KOLEKT d.o.o., Sarajevo, registered at Ulica Hamdije Čemerlića 2, 71000 Sarajevo, Bosnia and Herzegovina (hereinafter: PRO KOLEKT Sarajevo or PK Sarajevo).

Joint ventures:

- PRVI FAKTOR, faktoring družba, d.o.o., Ljubljana, Slovenija, registered at Slovenska cesta 17, 1000 Ljubljana, Slovenia (hereinafter: PRVI FAKTOR Ljubljana or PF Ljubljana), in which SID Bank holds a 50 percent ownership share and which has four affiliated companies:
  - PRVI FAKTOR, faktoring društvo, d.o.o., Zagreb, registered at Hektorovićeva 2/V, 10000 Zagreb, Croatia hereinafter: PRVI FAKTOR Zagreb or PF Zagreb),
  - PRVI FAKTOR - faktoring d.o.o., Beograd, registered at Bulevar Mihajla Pupina 165/v, 11070 New Belgrade, Serbia (hereinafter: PRVI FAKTOR Belgrade or PF Belgrade),
  - PPRVI FAKTOR d.o.o., finansijski inžinjering, d.o.o., Sarajevo, registered at Džemala Bijedića bb, 71000 Sarajevo, Bosnia and Herzegovina (hereinafter: PRVI FAKTOR Sarajevo or PF Sarajevo),
  - PRVI FAKTOR d.o.o. Skopje, registered at Mito Hasivasilev-Jasmin 20, 91000 Skopje, Macedonia (hereinafter: PRVI FAKTOR Skopje or PF Skopje).

Basic data on companies in SID Bank Group as at 31 December 2010

In EUR thousand	Ownership share of SID Bank (in percent)	Voting rights (in percent)	Nominal value of investment	Capital	Assets	Liabilities	Sales revenues *	Net profit/loss	No. of employees
SID Bank				327,816	3,895,541	3,567,725	108,539	5,726	94
SID-PKZ	100	100	8,413	20,256	72,551	52,295	12,624	6,844	53
PK Ljubljana	100	100	419	268	496	228	675	79	7
PK Zagreb	100	100	24	58	3,660	3,602	431	1	6
PK Skopje	80	80	8	8	13	5	29	3	1
PK Belgrade	100	100	25	7	41	34	96	1	2
PK Bucharest	51.02	51.02	20	110	153	43	283	38	4
PK Sofia	62.5	62.5	26	80	93	13	101	24	2
PK Sarajevo	100	100	36	(22)	51	73	52	(42)	2

PF Ljubljana	50	50	3,087	3,246	129,918	126,672	3,462	(3,924)	36
PF Zagreb	50	50	2,651	5,710	158,050	152,340	5,224	1,364	43
PF Belgrade	50	50	1,250	2,069	95,478	93,409	4,893	3	30
PF Sarajevo	50	50	225	(963)	12,929	13,892	827	(1,508)	13
PF Skopje	50	50	5	5	5	0	0	0	0

Basic data on companies in SID Bank Group as at 31 December 2010

In EUR thousand	Ownership share of SID Bank (in percent)	Voting rights (in percent)	Nominal value of investment	Capital	Assets	Liabilities	Sales revenues *	Net profit/loss	No. of employees
SID Bank				321,982	3,024,894	2,702,912	84,262	948	87
SID-PKZ	100	100	4,206	9,168	62,741	53,572	9,364	(6,529)	52
PK Ljubljana	100	100	419	189	495	192	702	44	7
PK Zagreb	100	100	24	95	3,760	3,667	520	60	6
PK Skopje	80	80	8	4	6	2	19	2	2
PK Belgrade	100	100	25	7	25	18	66	0	2
PK Bucharest	51.02	51.02	20	124	202	78	284	111	4
PK Sofia	62.5	62.5	26	59	73	14	82	38	1
PK Sarajevo	100	100	26	19	45	22	114	12	3
PF Ljubljana	50	50	3,087	7,171	134,015	126,844	4,867	1,837	38
PF Zagreb	50	50	2,651	5,534	157,478	151,944	10,024	1,403	45
PF Belgrade	50	50	1,250	2,336	94,332	91,996	4,212	43	34
PF Sarajevo	50	50	451	545	10,643	10,098	584	(273)	14
PF Skopje	50	50	5	5	5	0	0	0	0

* Revenues of SID Bank include income from interest and commissions as its principal activity.

Co-foundation:
Centre for International Cooperation and Development, Ljubljana, registered at Kardeljeva ploščad 1, 1000 Ljubljana, Slovenia (hereinafter: CICD), a public institute for business and entrepreneurial consulting.

Basic data on other companies in SID Bank Group as at 31 December 2010

In EUR thousand	Ownership share of SID Bank (in percent)	Voting rights (in percent)	Nominal value of investment	Capital	Assets	Liabilities	Sales revenues	Net profit/loss	No. of employees
CICD	0	29	0	97	2,934	2,837	459	3	11

Basic data on other companies in SID Bank Group as at 31 December 2009

In EUR thousand	Ownership share of SID Bank (in percent)	Voting rights (in percent)	Nominal value of investment	Capital	Assets	Liabilities	Sales revenues	Net profit/loss	No. of employees
CICD	0	29	0	97	2,861	2,764	371	0	11

2.1.3. Consolidation

Companies included in consolidation

Consolidated financial statements include the following companies:
- By the method of full consolidation:
  - Parent company - SID Bank,
  - Subsidiary – PKZ, in which SID Bank holds a 100 percent stake,

- By the proportional consolidation method the PRVI FAKTOR Group. SID Bank holds a 50 percent stake (joint venture) in PRVI FAKTOR Ljubljana, the parent company of the PRVI FAKTOR Group. PRVI FAKTOR Ljubljana compiles consolidated financial statements for the PRVI FAKTOR Group. The PRVI FAKTOR Group consists of:
    - PRVI FAKTOR Ljubljana,
    - PRVI FAKTOR Zagreb,
    - PRVI FAKTOR Belgrade,
    - PRVI FAKTOR Sarajevo.

In the consolidation process, all mutual receivables and liabilities between the companies of the SID Bank Group were excluded, as well as revenues and expenses generated within the SID Bank Group. There were no unrealized profits or losses arising from mutual transactions.

In the case of the PRVI FAKTOR Group, all accounting relationships are included and mutual relationships are excluded, accounting for 50 percent. There is no minority stake.

Companies excluded from consolidation

Due to immateriality for the true and fair representation of its financial position, profit or loss, cash flows and changes in equity, SID Bank excluded from consolidation the CIDC institute and PRO KOLEKT Group, which consists of:
- PRO KOLEKT Ljubljana,
- PRO KOLEKT Zagreb,
- PRO KOLEKT Skopje,
- PRO KOLEKT Belgrade,
- PRO KOLEKT Bucharest,
- PRO KOLEKT Sofia,
- PRO KOLEKT Sarajevo.

The total assets the CIDC institute and of all companies of the PRO KOLEKT Group account for less than 1 percent of the total assets of SID Bank. Consolidated income of the CIDC institute and of all companies of the PRO KOLEKT Group also account for less than 1 percent of the income of SID Bank. Pursuant to the indicated key figures the CIDC institute and PRO KOLEKT Group are immaterial in SID Bank Group; therefore they are not included in the consolidation. The CIDC institute and companies of PRO KOLEKT GROUP are excluded from consolidation also in accordance with provisions of the Decree on Supervision of Banks and Savings Banks on Consolidated Basis.

SID Bank has a majority stake (100 percent) in the parent company PRO KOLEKT Ljubljana. The investment in the subsidiary PRO KOLEKT Ljubljana was included in the consolidated financial statements using the cost method.

SID Bank is a co-founder of the CIDC institute with the Republic of Slovenia, but has no investments in it.

2.2. Accounting policies

The financial statements of SID Bank (separate statements), of SID Bank Group (consolidated statements) are compiled in accordance with the International Standards of Financial Reporting, as adopted by the European Union (hereinafter: the IFRS), also taking into account regulations of the Bank of Slovenia.

In compiling these financial statements the basic accounting assumptions were taken into account:

- Accrual basis,
- Going concern and
- Consistent constancy.

Accounting policies shall only change if the change:

- Is required by a standard or an interpretation; or
- Results in the financial statements providing more reliable and relevant information.

SID Bank or SID Bank Group also made use of estimations and assessments when compiling financial statement. Estimations were used for impairments of loans to clients, provisions for off-balance-sheet risks, deprecation period of plant, property and equipment and intangible assets, potential tax items, provisions for liabilities to employees and for legal actions. Estimations were used for classification of financial assets.

Although the estimations used are based on the best knowledge of current events and activities, actual results may differ from the estimations. SID Bank or SID Bank Group regularly update the estimations and suppositions; their adjustments are recognized in the period of change.

The most important accounting policies which serve as the measurement basis used for the compilation of financial statements of SID Bank and SID Bank Group and other accounting policies that are relevant to the understanding of the financial statements, are indicated bellow.

2.2.1. Cash and cash equivalents

Cash assets consist of cash and cash equivalents. Cash comprises cash in hand, statutory deposits with central bank, balances on settlement account with the central bank, cash in bank accounts at banks and cash in transit. Cash assets are disclosed separately for the local and foreign currencies.

Cash in hand, settlement account with the central bank and mandatory reserve are a constituent part of the item Cash and balances with the central bank.

In the cash flow statement, all cash items and deposits with banks with original maturity of less than 90 days after acquisition are disclosed as cash and cash equivalents. This item comprises all cash assets, bank deposits and loans, as well as available-for-sale securities.

All items of cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash.

2.2.2. Financial assets held for trading

Financial assets and liabilities held for trading are measured at fair value through the statement of comprehensive income. This item comprises derivative financial instruments, for which hedging against risk is not applied. This group also comprises equities and debt securities, which the bank earmarked for active trading and makes use of short-term fluctuations in the price.

SID Bank concludes derivatives contracts which represent a small initial contribution compared to the nominal value of the contract. Derivative financial instruments are currency forwards and interest swaps, used primarily for hedging against currency and interest risks encountered daily during operations on financial markets.

Derivative financial instruments, including forward contracts and interest rate swaps, are initially recognized at fair value in the statement of financial position. As a rule, the fair value is determined on the basis of published market prices. In the case when market prices of financial instruments are not published, the fair value is calculated based on discounted cash flows prepared by the bank for the evaluation of each financial instrument. When using the mentioned model, data from active market on the statement of financial position date are used.

Apart from derivative financial instruments the bank has no equities or debt securities, for active trading.

In the statement of financial position, fair values are denominated in assets in the case of positive valuation or in liabilities in the case of negative valuation.

2.2.3. Derivative financial instruments held for hedging

This item comprises those derivative financial instruments, which fulfil all the criteria for the application of accounting treatment of hedging against risk.

The term hedge accounting is understood as bookkeeping of the hedging relationship of the hedging instrument (in most cases derivative financial instrument) and the hedged item (an asset, a liability, a group of assets or a group of liabilities with similar risk characteristics) with the aim of mutual neutralization of the effects of measurement of both instruments in the statement of comprehensive income, which would not be recognized simultaneously in the profit or loss in the opposite case (IAS 39.85). The hedging relationship has to be formally denoted and appropriately documented.

When the bank introduced hedging against risk, it compiled a formal document which describes the relation between the hedged item and the hedging instrument, the purpose of risk management, methodology of valuation and the hedging strategy. Estimation of effectiveness of the hedging instruments, when facing exposure to changes in fair value of the hedged item, is also recorded. The bank estimates the effectiveness of hedging when concluding the transaction and then in the period of continuation of hedging relation; effectiveness of hedging always moving in the span of 80 to 125 percent.

SID Bank actively manages interest rate risk with the concluded hedging operations. The purpose of hedging is to limit the risks pursuant to possible loss due to changes in market interest rate, since the bank sourced funds at fixed interest rate, but it places loans at floating interest rate. With the instrument of interest rate swap the bank changed the interest rate of the sourced funds into a floating rate. This way it minimized interest rate risk, which arises due to inconsistency between interest sensitive receivables and interest sensitive liabilities of the bank.

The bank uses derivative financial instruments for hedge of fair value of recognized assets and liabilities.

Changes in fair value of derivative financial instruments for hedge of fair value against risk are recognized in the statement of comprehensive income together with the change of fair value with the hedged item, which might be the result of hedged risk. In the case of successful hedging the changes of fair values of the hedging instruments and items connected to it in the statement of comprehensive income are disclosed under the item "Fair value adjustments in hedge accounting".

2.2.4. Available-for-sale financial assets

This item discloses debt securities and equity instruments. They are classified under this item with the aim of possession for an indefinite period, since they are purchased with the aim of balancing the current liquidity.

Securities are initially recognized at fair value, which usually equals the purchase price. Purchases and sales of the mentioned assets are recognized on the date of transaction (trade date). The purchase cost includes additional costs directly attributable to the acquisition, and increase the purchase value. Purchase price is divided to "net" purchase price and the interest paid (accrued).

The usual dates of purchase/sale of securities are set at T + 3 days for foreign securities and T + 2 days for treasury bills. Domestic securities are usually settled on the date of the contract on the purchase/sale of securities. In all securities, interest is paid until the day the contractual amount is settled.

The amortized cost of debt instruments (bonds) is calculated upon initial recognition according to the effective interest rate method which equally distributes the revenues over the entire period for which the debt instrument is held, i.e. from the purchase until maturity – the calculation is based on yield until maturity.

After the initial recognition, debt and equity securities are disclosed on the basis of quoted market prices. The differences between the market price and the amortized cost (unrealized profits/losses) of debt instruments and the differences between the fair value and the acquisition cost in capital instruments are recognized in revaluation surplus from available-for-sale financial assets and in deferred taxes. Upon elimination of recognition the above mentioned items are closed, while their effects are transferred to the item Realized profits/losses from financial assets and liabilities not measured at fair value through profit or loss.

In case there is objective proof of impairment due to an event or events which occurred after the initial recognition, debt and equity instruments have to be permanently impaired. It is assumed that objective evidence of impairment occurs when the fair value falls by more than 40 percent below the original cost or when fair value is lower than the purchase value for more than 9 months.

In case the criteria of impairment assessment are not fulfilled, but enough information reporting conclusive and objective proof of impairment of equities and debt instruments exist according to the opinion of the Credit Committee, an impairment according to individual assessment of individual financial assets is implemented.

Conclusive and objective proof of impairment comprise: failure to pay interest or principal, material financial difficulties of the issuer, probability of bankruptcy or financial reorganization of the issuer, disappearance of an active market due to financial difficulties and other important information showing a measurable decrease in estimated future cash flows including economic situation in the country or local environment of the issuer.

Losses due to impairment recognized in comprehensive income for equity instruments cannot be cancelled through the comprehensive income.

In case the fair value of a debt instrument increases in the next period and the increase can be impartially connected to an event occurring after recognizing the loss due to impairment in the statement of comprehensive income, the loss due to the impairment has to be cancelled, and the amount of cancellation be recorded in the statement of comprehensive income.

Exchange rate differences from principal and interest of debt instruments are recognized in the statement of comprehensive income, while exchange rate differences arising from evaluation (the effect of change of the market price in foreign currency) to fair value are recognized in the revaluation surplus.

Exchange rate differences arising from capital instruments are recognized together with the effects of revaluation to the market value.

2.2.5. Loans

The item includes loans to banks, loans to clients other than banks, bank deposits and factoring receivables. They are initially measured at fair value plus the cost of approval.

Loans and deposits are recognized when cash is transferred to the client. In the statement of financial position they are disclosed at amortized cost comprising the initial value of the principal reduced by eventual repayments and increased by accrued interest for the period and charged loan approval fees.

Revenues from charged loan approval fees are evenly distributed over the entire period of loan repayment. The Management Board believes that the even distribution of revenues arising from these commissions over the loan repayment period is a good approximation for the recognition of these revenues using the effective interest rate method.

Factoring receivables are receivables with fixed or determinable payments and are not quoted on an active market. Financing of receivables is possible with or without the right to return the receivable back if not paid. Factoring receivables are measured at amortized cost using the effective interest rate method reduced potential value adjustments due to impairment. Factoring receivables are derecognized when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all the risks and rewards of ownership.

In this item, financial assets include loans to banks, loans to clients other than banks, banks deposits and factoring receivables.

2.2.6. Impairment of loans, guarantees and factoring receivables

SID Bank and SID Bank Group regularly, at least per statement of financial position date, check for the existence of objective proof of eventual impairment of loans, guarantees and factoring receivables.

Assets are impaired when events occur, which affect the decrease of estimated future cash flows, and if the decrease can be reliably estimated. Objective proofs of the impairment of financial assets are: important information concerning the financial difficulties of the principal, breach of contract, i.e. a breach or violation in paying interest and principal, the likelihood of bankruptcy or financial reorganization of the principal, adverse economic conditions in the local environment.

We also take into account major changes with unfavourable effect, which occurred in technological, market, economic or legal environment of operation of the associated subject, and which indicate that the value of given financial assets will not be reimbursed.

Impairment of loans and guarantees
Financial assets from loans and guarantees are classified into assets impaired on individual or group basis. Individually impaired balance-sheet and off-balance-sheet items comprise:

- Individually significant items, of which joint exposure for classification to one client exceeds EUR 200 thousand,
- Balance-sheet items which represent minimal risk.

If during the individual assessment of financial assets objective proof of impairment exists, the recoverable amount of the financial asset must be estimated. Impairment is measured for each individually significant financial asset. Impairment of financial assets that are not individually significant may be measured collectively.

The estimate of losses for group impairment is based on a three year average of estimated losses from financial assets in individual groups, adjusted to current economic situation.

Total exposures which are not individually impaired are classified into groups on the basis of the type of financial asset and the debtor's credit rating.

In the calculation of losses from credit risk of an individually significant financial asset, prime and adequate security are taken into account as well as other collateral which fully meets the conditions stipulated under Item 9 of the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks.

If financial assets are assessed individually but impairment is not necessary and consequently not recognized, these assets are subject to collective assessment in the full amount.

Impairment of factoring receivables
Impairments for financial assets arising from factoring (factored receivables, bills of exchange, supplier factoring receivables – hereinafter: factoring receivables) are created whenever it is assessed that it will not be possible to realize certain receivables in accordance with contractual provisions and that losses will be incurred.

The amount of loss is the difference between the carrying amount of the loan and its recoverable value which consists of expected future payments, including the amounts of payments from guarantees and collateral, discounted by the interest rate applicable upon the raising of the loan.

The basis for the impairment of loans is the borrower's creditworthiness and performance, taking into account the value of received third-party collateral and guarantees.

The amount of adjustment or impairment is assessed on the basis individual assessment of individual debtor.

Restructured loans
Loans, which for the purposes of assessing impairment losses are individually assessed and for which due to deterioration of the debtor's solvency, the terms of payment were renegotiated, are no longer considered as overdue receivables, but are treated as new loans and are impaired in accordance withthe Regulations on the assessment of credit risk losses.

2.2.7. Property, plant and equipment

Property, plant and equipment include real estate, equipment, and small tools.

Property, plant and equipment are initially recognized at purchase value. The purchase value consists of the purchase price, import duties and non-refundable purchase taxes as well as directly attributable costs of bringing the asset to the condition necessary for the intended use. Subsequent costs incurred in connection with a component of property, plant and equipment may be disclosed as maintenance costs or an increase in the purchase cost of the asset.

After initial recognition an item of property, plant and equipment is carried at its purchase cost reduced by any accumulated depreciation and any accumulated impairment losses.

Land and buildings are accounted for separately, even when they are acquired together.

Depreciation of an item of property, plant and equipment begins when the item has become available for use. Depreciation is calculated individually on a straight-line basis. The following depreciation rates are used:

	SID Bank Group in percent
Buildings	Up to 5.0
Computer equipment	Up to 50.0
Passenger cars	12.5-20.0
Other equipment	Up to 25.0
Furniture	11.0-25.0
Small tools	25.0-100.0

Tangible fixed assets are impaired, when their carrying amount exceeds their recoverable amount. The value of impairment loss is recognized as expenses in the statement of comprehensive income. At the balance sheet cut-off, at the end of each financial year, it is assessed whether there are any signs of impairment of an asset. If such signs exist, the recoverable value of the asset is estimated, equalling:
- Fair value reduced by costs of sale or
- Value in use, whichever is higher.

The carrying amount of an item of tangible fixed assets is derecognized upon disposal or when no future economic benefits are expected from its future use or disposal.

2.2.8. Intangible assets

Intangible assets with a definite useful life
The item includes investments in software and other property rights. If the useful life is definite, the asset is amortized at amortization rate which is 20 to 25 percent for software and 12 to 20 percent for other property rights. Depreciation is calculated individually on a straight-line basis.

Intangible assets with a definite useful life are impaired when their carrying amount exceeds their recoverable amount. The value of impairment loss is recognized as expenses in the statement of comprehensive income. At the balance sheet cut-off, at the end of each financial year, it is assessed whether there are any signs of impairment of an intangible asset. If such signs exist, the recoverable value of the asset is estimated, equalling:
- Fair value reduced by costs of sale or
- Value in use, whichever is higher.

After initial recognition an intangible asset with a definite useful life is carried at its purchase cost reduced by any accumulated depreciation and any accumulated impairment losses.

Amortization shall cease at the earlier of: the date that the asset is classified as held for sale or the date that the asset is derecognized.

<u>Intangible assets with indefinite useful life</u>
The item includes goodwill.

At the end of each financial year, at the balance sheet cut-off date, the impairment of goodwill is tested by comparing the total carrying amount of the asset consisting of equity interest and goodwill with the recoverable value – value in use. The value in use is the present value of future cash flows calculated by using the discounted rate which reflects the required rate of return on investment. Future cash flows are expected dividends.

2.2.9. Long-term investments in equity of subsidiaries, associates and joint ventures

An investment in the equity of a subsidiary or an associated company is disclosed at purchase value in the statement of financial position of the parent company.

Subsidiaries are those companies in which SID Bank directly or indirectly holds more than one half of the voting rights or in any other way controls their operations.

Associated companies are companies in which the parent company directly or indirectly holds between 20 percent and 50 percent of the voting rights. SID Bank holds a 50 percent stake in the parent company of the PRVI FAKTOR Group; therefore PRVI FAKTOR Group is consolidated proportionally. Please consult chapter 2.2.11.

If there is evidence which indicates the need for impairment of an investment in a subsidiary or associated company, the recoverable value is assessed for each individual investment. It is assumed that objective proof of impairment occurs when the amount of of total equity of the subsidiary falls for more than 40 percent below the purchase value of the investment, or when the fair value of the subsidiary calculated on the basis of discounted cash flows is less than the purchase value of the investment. The planned financial statements for the next five year period are the input data for the calculation.

Dividends received are disclosed among the income from dividends in the separate statement of comprehensive income. Income is also booked in case dividends have not been paid out, but there is the appropriate decree of supervisory bodies of the company, which substantiates that their remittance will be realized in the near future.

In the consolidated financial statements an investment in the equity of a subsidiary not included in consolidation is disclosed at purchase value.

2.2.10. Other assets

Assets from insurance operations

The item includes share of reinsurers in unearned premiums, share of reinsurers in reserves for outstanding claims, share of reinsurers in reserves for bonuses and discounts, share of reinsurers in reserves for unexpired risks and other receivables.

Concluded reinsurance contracts transfer significant insurance risk to reinsurance companies and meet the conditions from the IFRS for classification among insurance contracts; therefore they are valued, recorded and disclosed as such in the relevant statements.

The reinsurers' assets (shares of technical provisions) are calculated on the basis of the reinsurance contract and disclosed under the reinsurance assets. On the balance sheet date the insurer verifies if the reinsurance assets are impaired. If the impairment is confirmed, the carrying amount of reinsurance assets is reduced and loss disclosed in relation to impairment in the income statement. Impairment is established individually for each reinsurer on the contract, taking into account credit rating, monitoring of financial situation of reinsurers and their general situation, particularly on the specialized market of credit insurance/reinsurance.

The reinsurance contract contains a provision on the reinsurance commission which depends on the claims ratio. In the quarterly statements, the reinsurers pay fees accounting for 33 percent. In revenues, the lowest commission from the sliding scale (24.5 percent) is recognized, which is in accordance with the assessed claims ratio for the current year in the provisions for outstanding claims. The difference between the commission according to reinsurance statements and the commission recognized in revenues is deferred until the first settlement to the provisions for deferred revenues.

Other assets

Receivables are recognized as an asset in the amounts arising from the relevant documents under the assumption that they will be repaid. The fair, i.e. realizable value is checked on the balance sheet date for various types of receivables according to different methods. If there is objective proof that an impairment loss has been incurred on an item of receivables carried at amortized cost, the amount of the impairment loss is disclosed under revaluation operating expenses related to receivables; the carrying amount of the receivable is decreased through the allowance account.

<u>Receivables due from policyholders arising from insurance premiums and benefits, and other receivables</u>
Fair, i.e. realizable value of these receivables and their adjustments are assessed on the basis of individual assessment of the insurer's solvency, taking into account also the financial position of the insurer and its fulfilment of insurer's obligations in the previous periods. Receivables due from policyholders are not secured, and thus not taken into account in the assessment of value adjustments.

<u>Recourse receivables</u>
Recourse receivables are recorded as exercised upon the payment of the insurance premium in the amount when it is reasonable to expect that they will lead to cash receipts. The difference between this amount and the paid insurance premium is disclosed in the off-balance-sheet record until the closing of the recourse case. Adjustments of the value of recourse receivables are formed on the basis of individual assessment of realizable value.

Recourse receivables are divided into three groups based on the cause of damage: liquidation procedures, rehabilitation procedures and payment of insurance premium due to extended non-payment. In the case of bankruptcy, the estimate of realizable value of a recourse receivable can be up to 1 percent, in the case of other insolvency procedures specific written information is material. If there is no such information, the estimate of the realizable value may not exceed 5 percent.

In rehabilitation procedures also the information is material; if there is none, the estimate of the realizable value may not exceed 20 percent.

In the payment of insurance premium in the event of extended non-payment, the important factors are debtor/guarantor credit rating, age of receivables, estimated recoverability of receivables submitted by authorized outside bodies. As a rule, the estimate of a recourse receivable may not exceed 50 percent.

2.2.11. Non-current assets held for sale

Non-current assets held for sale are those, whose book value will be settled primarily by sale and not by further use. This condition is fulfilled only when the sale is very likely to happen and the asset is available for immediate sale in its present condition. Non-current asset is reallocated into the mentioned group when a written intention of the owner to sell the assets exists and the timeline of the progress of sales is attached. The sale has to be realized in one year from the reallocation of the asset.

Non-current assets held for sale are carried at book value before allocation or at fair value decreased by the costs of sale; whichever is lower. Effects of sale in the statement of comprehensive income are presented in the net gains/losses on non-current assets held for sale and related liabilities.

2.2.12. Financial liabilities

This item includes liabilities to central bank and financial liabilities measured at amortized cost.

Financial liabilities measured at amortised cost are liabilities for deposits and loans from banks and clients other than banks, as well as debts for the issued debt securities.

Financial liabilities measured at amortized cost are recognized in the amount of the cash received, decreased by the direct transaction costs.

After the initial recognition, the financial liabilities are measured by amortized cost; the difference between the initially recognized amount and the amount at maturity is recognized in the comprehensive income statement using the effective interest rate method.

Expenses for fees related to the raising of loans are equally distributed over the loan repayment period. The Management Board of SID Bank believes that even distribution of expenses over the loan repayment period is a good approximation for the recognition of expenses using the effective interest rate method.

Derecognition is made when the liability is discharged, cancelled or expired. The difference between the carrying amount of the financial liability and the paid compensation is recognized in the statement of comprehensive income.

2.2.13. Provision

Provisions are established for potential losses related to risks arising from off-balance-sheet items (guarantees, approved undrawn credit facilities and credit lines), provisions for loyalty bonuses, provisions for retirement severance pay and liabilities arising from insurance contracts.

Bank provision
This item includes impairments for issued guarantees, approved undrawn credit facilities and credit lines, calculated according to procedures shown in the item 2.2.6. of the financial section of the annual report.

Liabilities from insurance contracts
- Unearned premiums

Provisions for unearned premiums are the unearned amounts of premiums written. Gross provisions for unearned premiums are calculated for each invoice separately (i.e. invoice issued by the policyholder to the buyer). The calculation of unearned premiums takes into account the assessed distribution of the probability of occurrence of a loss event, which is even for the risk of non-payment due to the buyer's permanent insolvency or bankruptcy and uneven for the risk of extended non-payment (upon invoice maturity). The provisions for unearned premiums also foresee that operating costs are evenly distributed during the insurance period.

The reinsurance part of the unearned premium is formed on the basis of a quota and facultative reinsurance protection. For the part of the premium estimated (sold in December, for which the insurer is already covered, but not yet reported), the unearned premium is calculated on the basis of the flat rate method in proportion to the premium written by individual levels of reinsurance classes and in view of the past statistical data; the reinsurance portions for this part of unearned premium were calculated taking into account the adequate shares of individual classes.

- Provisions for outstanding claims

Provisions for claims outstanding are formed in the amount of estimated liabilities that the insurer is obliged to pay out on the basis of insurance contracts on which an insurance event arises before the end of the accounting period, irrespective of whether the insurance event has already been reported, including all the costs borne on the basis of these contracts.

Provisions for claims reported and not yet settled as at the balance sheet date are inventoried separately for each loss event on the basis of foreseen costs arising from the liquidation of such losses.

Provisions for claims incurred and not yet reported as at the balance sheet date are determined on the basis of past experience using the Chain Ladder method. The method is adjusted according to particularity of each financial year. Insurer has not discounted gross provisions for outstanding claims as at the balance sheet date.

Provisions for appraisal costs have also been formed.

- Provisions for bonuses

Provisions for bonuses are calculated for contracts signed with those insurers which include a clause on refunding part of the premium in the case of low claims ratio or in if the insurers do not incur loss events within the deadline defined by the contract.

Provisions for bonuses are calculated independently and the calculation comprises all contracts containing the clause on the bonus; for each of the contracts, the fulfilment of contractual provisions for obtaining the right to bonuses is checked before the balance sheet date. When calculating provisions for bonuses, the insurer took into account the premium written for an individual calendar year, the claims paid in individual years, reported claims and potential claims as at the balance sheet date.

Reinsurance part of provisions for bonuses is calculated as part of gross provisions for bonuses by shares arising from reinsurance contracts from the relevant years.

- Provisions for unexpired risks

Provisions are formed for risks which will be realized in future, for coverage of losses and costs related to the existing insurance contracts. The amount of these provisions represents the difference between the amount needed for coverage of unexpired risks and provisions for unearned premiums.

Other provisions

- Long-term accrued expenses and deferred revenue arising from reinsurance commissions

The reinsurance contract defines the sliding scale of commission levels. The minimum rate is 24.5 percent, reinsurers pay temporary commission at the rate of 33 percent, which shall be charged in the period stated by the contract and disclosed in the statements when the reinsurers confirm it. The difference between the calculations at the two rates is temporarily deferred until the accounts are compiled, and posted under long-term provisions for deferred revenues.

- Provisions for loyalty bonuses

These provisions were calculated on the basis of the amounts of bonuses specified by the relevant collective agreement as at the balance sheet day. The calculation takes into account the difference between the period, for which the bonus was earned, and the period that has yet to pass in order to meet the conditions for receiving the jubilee bonus.

- Provisions for retirement severance pay

These provisions were calculated on the basis of the provisions of collective agreement, the contribution rates paid by the employers and the conditions for retirement applicable as at the balance sheet day, assuming that all current employees will meet the conditions for retirement in SID Bank or SID Bank Group and that they will meet and exercise the age related retirement condition.

In accordance with Slovene legislation, social security and pension insurance contributions for their employees, which are accounted on the basis of gross salaries and recognized in profit or loss under labour costs for the period, are being paid. Compensations for short-term absences (paid annual leave) are included in the costs of the period.

2.2.14. Other liabilities

Liabilities are initially recognized at the amounts stated in the relevant documents concerning their origin, which usually prove, in the scope of operating debt, the acceptance of goods or services or the work performed or the charged costs, expenses or share in the statement of comprehensive income. Liabilities may subsequently be increased directly or may, irrespective of amounts paid or potential other settlements, also be decreased on the basis of a contract concluded to that effect with the creditors.

Liabilities arising from insurance transactions are settled in accordance with the reinsurance contracts, as a rule by the end of the first or second quarter after the quarter in which the statement was issued. According to the provisions of the reinsurance contract, only the balance arising from the reinsurance contract is paid so that the receivables and liabilities to individual reinsurer are mutually offset.

Through concluding contracts for short-term credit insurance the company assumes important insurance risks, which fulfil the conditions of the IFRS 4 for classification under insurance contracts. All the contracts for short-term credit insurance are valued, recorded and disclosed as insurance contracts in the relevant statements.

No interest is accrued on other liabilities.

2.2.15. Capital

Capital includes share capital, capital reserves, profit reserves, revaluation surplus from financial assets, capital revaluation – own shares and net profit for the year.

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

In accordance with legislation, capital reserves may be used for the coverage of losses and for increase in capital. Profit reserves are recognized when determined by the body preparing the annual report and/or by a resolution adopted by the competent body and used in accordance with the Articles of Association and applicable law. Reserves under articles of association may be used for covering net losses for the financial year, for covering the losses brought forward from previous years, for increasing the share capital, for establishing reserves for own interests and for the rehabilitation of major losses arising from the operations or extraordinary business events. Other profit reserves are intended for the strengthening of capital adequacy.

Acquired own shares are disclosed in the amount of the paid purchase price debited against share capital.

Revaluation surplus includes the revaluation of available-for-sale financial assets.

Profit reserves in the consolidated financial statements also include credit risk equalization provisions (equalization provisions).

In accordance with the Insurance Act, equalization provisions and their changes are disclosed in a separate item credit risk equalization provisions.

If the credit insurance technical result is positive, equalization provisions are created in the amount of 75 percent of the former, but may not exceed 12 percent of the written net premium for the year.

2.2.16. Off-balance-sheet items

Off-balance-sheet records discloses in separate financial statements the issued guarantees, undrawn approved loans and credit lines, undrawn raised loans, nominal value of derivative financial instruments and guarantees received. The consolidated financial statements also disclose contingent liabilities, which comprise unclaimed recourse receivables.

Assumed financial liabilities for issued guarantees, both financial and service, represent SID Bank's irrevocable payment liability, if a client fails to meet its liabilities to a third person.

The principal aim of assumed and irrevocable liabilities arising from approved undrawn credit facilities and credit lines is to provide assets for SID Bank's client in accordance with the concluded contract.

Guarantees received for approved loans represent the value of insurances and guarantees received from creditors and third persons for the insurance of receivables in case of non-payment of contractual obligations.

Risks related to contingent liabilities and assumed financial liabilities are estimated on the basis of applicable accounting policies and internal provisions concerning risk control.

2.2.17. Operations under Special Authorization

Operations carried out on behalf of the Republic of Slovenia are kept in separate accounts, which were defined by the Bank of Slovenia for keeping of transactions pursuant to special authorization.

2.2.18. Interest income and expense

Interest income and expenses comprise interest income and expenses arising from granted or received loans, interest from available-for-sale financial assets and other interest.

In the statement of comprehensive income, the income and expenses arising from granted and received loans and other interest are recognized in the relevant period using the effective interest method.

In available-for-sale financial assets, interest income is evenly distributed over the period for which the security is held, on the basis of the calculation of amortized cost according to the effective interest rate method.

2.2.19. Fees and commissions received and paid

Revenues from fees and commissions comprise commissions from granted loans and guarantees. The recognition method is presented in Item 2.2.5.

Expenses for fees and commissions mainly comprise commissions for raised loans. Expenses for fees and commissions are also evenly distributed over the loan repayment period.

2.2.20. Other net operating profits/losses

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

Income from non-banking services include revenues for preparation of credit rating, commission charged for operation on special authorization, rents charged and other services.

Insurance premiums are recognized under revenues upon the issue of invoices to third parties and have already been reduced by insurance contract tax. Premiums also include an estimate of uncharged premium for assumed risks (sales carried out by the insurers in December, which were reported in January). Part of the gross unearned premiums written is transferred to the reinsurers with the aim of spreading and managing risks. The reinsurers' share of gross premiums written reduces gross premiums written. Revenues from insurance premiums also include fees for credit rating charged to policyholders.

Expenses for insurance operations include settled claims, recourse receivables and bonuses. Settled claims include insurance premiums paid to the insured, which arise from the occurrence of loss event. Amounts of net claims settled are reduced by enforced recourse receivables. Settled bonuses represent the payment of bonuses to the insured in the current year.

2.2.21. Taxation

Corporate income tax is calculated based on the revenues and expenses reported in the statement of comprehensive income in accordance with all relevant legislation. Corporate income tax on ordinary activities is calculated according to applicable tax rate of the taxable base.

Deferred corporate income taxes are fully disclosed using the method of a liability on the statement of financial position for the temporary differences arising between the tax values of assets and liabilities and their book values in the financial statements. Deferred corporate income taxes are determined based on the tax rates that are applicable as at the statement of financial position date and that are expected to be in use when the deferred tax asset is realized or the deferred tax liability is settled.

The most important temporary differences arise from valuation of available-for-sale financial assets and from provisions. Deferred tax assets are recognized for all deduction temporary differences, if it is probable that available taxable profit might arise, to which deduction temporary differences may be charged.

Deferred tax, related to valuation of available-for-sale financial instruments at fair value, is recorded directly in capital.

2.2.22. Effect of changes in foreign exchange rates

The functional currency used in presenting these separate financial statements is the Euro (EUR).

All foreign currency assets and liabilities are recorded, on initial recognition in the functional currency, by applying to the foreign currency amount at spot exchange rate between the functional currency and the foreign currency on the date of the transaction (the mean exchange rate of the European Central Bank.

At each statement of financial position date:

- Foreign currency cash items are translated using the closing rate;
- Non-cash items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- Non-cash items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of cash items or when translating cash items at rates different from those at which they were translated on initial recognition or in the previous financial statements are recognized in the statement of comprehensive income for the period in which they arise. They are disclosed under the item gains/losses from exchange rate differences.

2.2.23. Significant amounts

Significant items in the separate statement of financial position are those which exceed 1 percent of the total assets of the separate statement of financial position on the balance sheet date, i.e. EUR 38,955 thousand as at 31 December 2010. Significant items in the separate statement of comprehensive income are those, which exceed 0.5 percent of the total assets of the separate balance sheet on the balancing date, i.e. EUR 19,478 thousand in the separate statement of comprehensiveincomefor 2010.

Significant items in the consolidated statement of financial position are those which exceed 1 percent of the total assets of the consolidated statement of financial position on the balance sheet date, i.e. EUR 40,861 thousand as at 31 December 2010. Significant items in the consolidated statement of comprehensive income are those, which exceed 0.5 percent of the total assets of the separate balance sheet on the balancing date, i.e. EUR 20,430 thousand in the consolidated statement of comprehensive income for 2010.

2.2.24. Cash flow statement

The separate cash flow statement was compiled on the basis of the indirect method or Version II.

Pursuant to this method, cash flows from operations are first calculated on the basis of broken down data from the separate statement of financial position and separate statement of comprehensive income. All effects related to financing, i.e. property, plant and equipment, investment property, intangible assets, investments in the capital of associates, joint ventures and subsidiaries, fixed assets or liabilities held for sale, financial assets held to maturity, subordinated liabilities, issued capital instruments and own shares are deducted from the net profit for the financial year. All unrealized exchange rate differences and unrealized effects from the change in the fair value, which are transferred to cash equivalents are also deducted, while the effects of the change in the fair value of financial instruments from the revaluation surplus before tax, related to the operating items, i.e. available-for-sale financial assets and derivatives held for hedging cash flows are added. The resulting amount of the effects of the separate statement of comprehensive income and the revaluation surplus needs to be further adjusted for net increase or decrease in operating assets and liabilities and paid or refunded corporate income tax. The result is net cash flows from operating activities.

In the section relating to cash flows from financing, the direct method is used, based on inflows and outflows. Cash assets are taken into account in line with the definition stated in Item 2.2.1.

2.2.25. Statement of changes in equity

Statement of changes in equity discloses the changes in individual equity components during the accounting period. The form is based on the requirements of IAS 1.96. The change in each equity item, as disclosed in the statement of financial position, is presented in the form.

The statement of changes in equity is compiled by entering in the relevant items the balances of individual equity components from the previous financial year, the amounts of changes in individual equity components during the accounting period, including the utilization of net profit and the coverage of loss during the accounting period, and the balances of individual equity components at the end of the accounting period. In a separate row, amounts are disclosed by equity components which comprise net distributable profit or balance sheet loss for the accounting period, for which a change in equity statement is compiled.

The consolidated statement of changes in equity also includes the alignment of differences, consolidation entries and elimination in separate financial years.

2.2.26. Calculation of net profit per share

It is calculated as the ratio of net profit recorded in the bank's statement of comprehensive income per the number of shares that comprise the share capital of the bank. Treasury shares are not included in this calculation.

2.2.27. The newly applicable standards and interpretations in the reporting period and not as yet applicable but already issued/adopted standards and interpretations

In the reporting year the following standard and interpretations issued by the International Accounting Standards Committee and adopted by the EU have changed: IFRS 1 First time Adoption of International Financial Reporting Standards; IFRS 3 Business Combinations; IFRS 2 Share-based Payment. Cash-settled Share-based Payment Transactions; IAS 39 Financial Instruments: Recognition and Measurement (items that qualify for hedging); IFRIC 12 Service Concession Arrangements; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 16 Hedges of a Net Investment in a Foreign Operation; IFRIC 17 Distributions of Non-cash Assets; IFRIC 18 Transfers of Assets from Customers.

The adoption of these interpretations did not result in a change of accounting policies applied by the bank.

As at the date of approval of these statements, the following standards and interpretations had been issued by the International Accounting Standards Board and which had been adopted by the EU, but not yet applicable: IAS 24 Related

Party Disclosures (simplification of disclosure requirements for stake related companies and explanation of the definition of related party); IAS 32 Financial Instruments: Presentation; IFRS 1 First time Adoption of International Financial Reporting Standards (limited exemption from comparative IFRS 7 disclosures for first-time adopters of IFRS); IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; IFRS 2 Share-based Payment (share transactions in the group paid in cash);IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (payments in advance of the requirements concerning minimal financing); IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

Standards and interpretations issued by the International Accounting Standards Board, which are not yet adopted in the EU, are the following: IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1.1.2013), IFRS 7 Financial Instruments: Disclosures (effective for annual periods of 2011 and later).

The IFRS 24 from the field of disclosure of related party transactions, that are in direct and indirect ownership of the Republic of Slovenia were implemented early by the bank. Other not yet applicable standards, interpretations and amendments will not be used by the bank until they become applicable.

The bank anticipates that the beginning of applicability of other standards, amendments and interpretations will have no fundamental impact on its financial statements.

2.3. Notes to the Statement of financial position

(In EUR thousand)

2.3.1. Cash and balances with the central bank

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Cash in hand	0	0	1	0
Settlement account	12	0	12	0
Mandatory reserves	0	1,004	0	1,004
Total	12	1,004	13	1,004

By opening a settlement account with the Bank of Slovenia and the inclusion in the pan-European payment system TARGET2 (gross settlement in real time, payments in Euros) from 1 January 2010, the bank carried out through business accounts with commercial banks only retail payments (accounts payable, etc.).

As at 31 December 2010 the bank was not required to provide the mandatory reserves. Given the structure and scope of applications, which are the basis for the calculation of mandatory reserves, the bank does not meet the criteria for their formation.

2.3.2. Financial assets held for trading

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Derivative financial instruments held for trading under currency forward	0	248	0	248
Total	0	248	0	248

2.3.3. Financial assets held for hedging

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Derivative financial instruments held for hedging under interest rate swaps	14,563	2,101	14,563	2,101
Total	14,563	2,101	14,563	2,101

In December 2009 the bank already concluded two interest rate swaps in the amount of EUR 58 million (a bond issue and a loan raise), and three more in April 2010, totalling EUR 675 million. As at 31 December 2010 the total amount of interest rate swaps intended fixed interest rate hedging amounted to EUR 733 million; they are recorded in the off-balance-sheet item derivative financial instruments.

The item in the amount of EUR 14,563 thousand includes accrued interest balance in the amount of EUR 9,730 thousand recorded in the net way, which means that on 31 December 2010 the bank has larger claims than liabilities due to interest, and the fair value of derivative financial instruments in the amount of EUR 4,833 thousand.

The effects of interest rate hedging in 2010 were negative in the amount of EUR 449 thousand (due to the fair value of interest rate swaps a profit in the amount of EUR 5,740 thousand was realized; due to the fair value of hedged items - issued bonds, loans raised: a loss in the amount of EUR 6,189 thousand) and are fully recognized in the statement of comprehensive income (see Chapter 2.4.6. of the financial section of the annual report).

2.3.4. Available-for-sale financial assets

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Short-term debt securities	10,030	0	10,030	3,733
Long-term debt securities	100,788	49,921	122,246	68,341
Equity instruments	138	130	362	316
Total	110,956	50,051	132,638	72,390

Debt securities by type of issuer

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Government bonds of the Republic of Slovenia	36,047	22,205	42,782	31,625
Bonds of foreign countries	13,444	33	14,466	1,055
- Central government bonds	*13,418*	*0*	*14,440*	*1,022*
- Local government bonds	*26*	*33*	*26*	*33*
Bank bonds	44,165	23,718	53,619	30,748
- Domestic banks	*24,946*	*12,920*	*31,821*	*17,811*
- Domestic banks- subordinate bonds	*1,837*	*1,714*	*2,282*	*2,711*
- Foreign banks	*4,086*	*4,027*	*4,218*	*5,169*
- Multilateral and development banks	*5,024*	*5,057*	*7,025*	*5,057*
- First-rate foreign banks	*8,272*	*0*	*8,272*	*0*
Bonds of other foreign financial organizations	0	190	0	964
Domestic unit central government bonds	2,879	304	2,879	304
Bonds of other domestic financial organizations	0	0	1,251	1,282
Bonds of non-financial companies	4,253	3,471	7,250	6,096
- Domestic non-financial companies	*1,655*	*1,704*	*2,084*	*2,133*
- Foreign non-financial companies	*2,598*	*1,767*	*5,166*	*3,963*
Certificates of deposit	10,030	0	10,030	0
- Domestic financial institutions	*3,029*	*0*	*3,029*	*0*
- Foreign financial institutions	*7,001*	*0*	*7,001*	*0*
Capital investment	138	130	362	316
Total	110,956	50,051	132,638	72,390

Debt securities by interest accrual method

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
At fixed interest rate	96,145	38,353	107,830	53,722
At variable interest rate	12,674	11,538	22,447	18,322
Interest free	2,137	160	2,360	346
Total	110,956	50,051	132,638	72,390

Breakdown of securities by issuer rating

	SID Bank		SID Bank Group	
Rating	Fair value as at 31 December 2010	Structure in percent	Fair value as at 31 December 2010	Structure in percent
Rating according to S&P				
AAA	22,861	20.6	24,863	18.8
AA+	259	0.2	746	0.6
AA	37,110	33.5	49,393	37.2
AA-	2,014	1.8	2,014	1.5
A+	4,825	4.4	4,825	3.6
A	0	0.0	1,656	1.3
A-	8,784	7.9	10,652	8.0
BBB+	8,654	7.8	9,705	7.3
BBB	2,458	2.2	2,705	2.0
BBB-	1,010	0.9	1,010	0.8
D	0	0.0	41	0.0
No rating	22,981	20.7	25,029	18.9
Total	110,956	100.0	132,638	100.0

Changes in debt securities and equity instruments

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Balance as at 1 January	50,051	61,332	72,390	79,450
Purchases	88,872	53,237	92,956	71,507
Foreign exchange differences	0	0	0	37
Sale, realization	(27,461)	(64,518)	(32,250)	(79,454)
Change in fair value – impairment	(506)	0	(458)	850
Balance as at 31 December	110,956	50,051	132,638	72,390

In the year 2010 SID Bank permanently impaired two securities in total amount of EUR 506 thousand. Debt securities of SID Bank include EUR 1,837 thousand in subordinated securities. Exposure to interest rate risk is presented in Items 2.4.1. and 3.3.1. of the financial section of the annual report.

Of the total portfolio of SID Bank as at 31 December 2010, debt securities in total amount of EUR 2,198 thousand were not listed on the stock exchange. Total value of securities not listed on the stock exchange in SID Bank Group was EUR 2,420 thousand.

In 2010, SID Bank Group in addition to the impairment of securities of SID Bank has not further impaired or abolished impairment of any securities.

SID Bank Group has subordinated securities in total amount of EUR 2,826 thousand. Exposure to interest rate risk is presented in Items 2.4.1. and 3.3.2., while exposure to foreign exchange risk is presented in Item 3.2.2. of the financial section of the annual report.

2.3.5. Loans

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Loans to banks	2,955,894	2,292,737	2,976,328	2,309,516
Loans to clients other than banks	796,980	662,284	913,201	784,616
Total	3,752,874	2,955,021	3,889,529	3,094,132

Loans to banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Short-term loans	0	0	5,020	4,747
Long-term loans	2,917,458	2,260,130	2,917,458	2,260,130
Deposits	38,384	32,538	50,832	42,007
Sight	52	69	3,018	2,632
Total	2,955,894	2,292,737	2,976,328	2,309,516

In 2010 commercial banks remained the most important clients of SID Bank, with their share in SID Bank loan portfolio amounting to 78.8 percent. Majority of investments are thus represented by loans to Slovene commercial banks and to banks of foreign buyers of Slovene goods and services. The remaining 21.2 percent share in SID Bank loan portfolio is represented by loans to Slovene companies and their foreign buyers.

The maturity structure of SID Bank's loan portfolio confirms the orientation of SID Bank towards operations in accordance with Slovene Export and Development Bank Act (ZSIRB) and the Act Governing Insurance and Financing of International Business Transactions (ZZFMGP), with the share of long-term loans amounting to 98.7 percent at the end of 2010.

Loans to banks represent a 76.5 percent share in SID Bank Group. The majority of assets are placed as long-term loans. Direct financing of companies represents the minor share of the loan potential of SID Bank Group. Factoring services are mainly aimed at financing of companies.

A part of deposits in commercial banks, are allocated by SID Bank Group to coverage of liabilities from insurance contracts and liquidity control.

Short-term loans to banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Loans in EUR	0	0	4,467	2,009
Loans with currency clause	0	0	542	2,738
Loans in foreign currency	0	0	11	0
Total	0	0	5,020	4,747

Short-term loans to banks issued by SID Bank Group in foreign currency amount to HRK 166 thousand.

Long-term loans to banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Loans in EUR	2,908,400	2,249,743	2,908,400	2,249,743
Loans in foreign currency	12,639	13,535	12,639	13,535
Value adjustments of loans	(3,581)	(3,148)	(3,581)	(3,148)
Total	2,917,458	2,260,130	2,917,458	2,260,130

Long-term loans to banks issued by SID Bank or SID Bank Group in foreign currency amount to USD 16,784 thousand.

Deposits to banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Short-term in EUR	36,419	32,298	48,867	41,767
Short-term in foreign currency	2,003	272	2,003	272
Value adjustments of deposits	(38)	(32)	(38)	(32)
Total	38,384	32,538	50,832	42,007

Short-term deposits to banks issued by SID Bank or SID Bank Group in foreign currency amount to USD 2,660 thousand.

Changes in loans – gross exposure

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Balance as at 1 January	2,295,848	1,513,488	2,310,063	1,535,738
New loans and deposits	3,877,085	3,529,276	4,544,169	4,326,197
Repayments	(3,213,420)	(2,746,916)	(3,874,285)	(3,551,872)
Balance as at 31 December	2,959,513	2,295,848	2,979,947	2,310,063

Changes in adjustments (impairments) of loans of banks

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Balance as at 1 January	3,180	1,133	3,180	1,133
Value adjustments of loans	2,597	2,716	2,597	2,716
Elimination of value adjustments of loans	(2,158)	(669)	(2,158)	(669)
Balance as at 31 December	3,619	3,180	3,619	3,180

Additional notes regarding the method for forming impairments are presented in Item 6.4. of the business section of the annual report, notes to expenditure for impairments and income from impairment elimination are presented in Item 2.4.12. of the financial section of the annual report.

Interest rate for loans and deposits to banks in domestic currency, attained by SID Bank, consisted of 1, 2, 3, 4 or 6-month EURIBOR and the margin of between 0.18 percent p.a. and 3.75 percent p.a. The fixed interest rate moves between 0.13 percent p.a. and 6.85 percent p.a. Fixed interest rate in SID Bank Group also moves between 0.13 percent p.a. and 6.85 percent p.a.

Interest rate for loans and deposits to banks in foreign currency, attained by SID Bank, consisted of 2, 3, 4, 5 or 6-month LIBOR and the margin of between 0.425 percent p.a. and 3.00 percent p.a. Fixed interest rate moves between 0.10 percent p.a. and 0.80 percent p.a. Fixed interest rate in SID Bank Group moves between 0.10 percent p.a. and 6.50 percent p.a.

Exposure of SID Bank to interest rate risk is presented in Items 2.4.1. and 3.3.1., while exposure to foreign exchange risk is presented in Item 3.2.1. of the financial section of the annual report.

Exposure of SID Bank Group to interest rate risk is presented in Items 2.4.1. and 3.3.2., while exposure to foreign exchange risk is presented in Item 3.2.2. of the financial section of the annual report.

Exposure of SID Bank and SID Bank Group to credit risk is presented in Item 3.4. of the financial section of the annual report.

Loans to clients other than banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Short-term loans	9,171	80,695	30,473	71,811
Long-term loans	784,076	574,695	748,832	573,721
Claims arising from guarantees	3,733	6,894	3,733	6,894
Factoring	0	0	130,163	132,190
Total	796,980	662,284	913,201	784,616

Short-term loans to clients other than banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Foreign currency loans to non-financial companies	0	0	0	77
Domestic currency loans to non-financial companies	6,182	13,602	6,425	13,738
Domestic currency loans to other financial organizations	60	44,825	22	22,413
Domestic currency loans to foreign entities	5,052	26,790	2,526	14,891
Foreign currency loans to foreign entities	0	0	23,410	22,289
Value adjustments of short-term loans	(2,123)	(4,522)	(1,910)	(1,597)
Total	9,171	80,695	30,473	71,811

Long-term loans to clients other than banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Foreign currency loans to non-financial organizations	700	834	700	3,028
Domestic currency loans to non-financial organizations	581,400	415,971	581,400	415,971
Domestic currency loans to other financial organizations	94,617	54,190	72,241	54,190
Domestic currency loans to central level state units	9,995	0	9,995	0
Domestic currency loans to local level state units	13,472	13,967	13,472	13,967
Domestic currency loans to subordinate clients	0	25	0	25
Domestic currency loans to foreign entities	143,978	121,333	126,850	118,805
Value adjustments of long-term loans	(60,086)	(31,625)	(55,826)	(32,265)
Total	784,076	574,695	748,832	573,721

Long-term loans to clients other than banks issued by SID Bank in foreign currency amount to USD 929 thousand.

Claims arising from guarantees

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Claims arising from realized guarantees	12,632	10,609	12,632	10,609
Value adjustments of realized guarantees	(8,899)	(3,715)	(8,899)	(3,715)
Total	3,733	6,894	3,733	6,894

Claims arising from factoring operations

	SID Bank Group	
	31.12.2010	31.12.2009
Domestic factoring	111,349	101,919
Export factoring	6,370	5,630
Import factoring	6,007	5,502
Domestic factoring - loan	23,997	27,894
Export factoring - loan	157	169
Value adjustments of short-term receivables - factoring	(17,717)	(8,924)
Total	130,163	132,190

A predominant part of export factoring and a part of domestic and import factoring are insured against non-payment.

Changes in loans to clients other than banks - gross exposure

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Balance as at 1 January	702,146	523,177	831,117	679,898
New loans and deposits	399,679	425,696	802,830	818,856
Repayment	(233,737)	(246,727)	(636,636)	(667,637)
Balance as at 31 December	868,088	702,146	997,311	831,117

Changes in adjustments (impairments) of loans of clients other than banks

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Balance as at 1 January	39,862	22,994	46,501	26,824
Value adjustments of loans (impairments)	45,743	25,787	50,536	27,907
Elimination of value adjustments of loans (elimination of impairments)	(14,497)	(8,919)	(12,927)	(8,230)
Balance as at 31 December	71,108	39,862	84,110	46,501

Notes to impairments are presented in Item 6.4. in the business section of the annual report, notes to expenditure for impairments and income from impairment elimination are presented in Item 2.4.12. of the financial section of the annual report.

Floating rates of SID Bank for clients, other than banks in domestic currency for direct financing of legal entities consisted of 1, 3, or 6-month EURIBOR and the margin of between 0.48 percent p.a. and 6.79 percent p.a. The fixed interest rate moves between 1.60 percent p.a. and 8.06 percent p.a.

Floating rates of SID Bank Group for clients, other than banks in domestic currency consisted of 1, 3, or 6-month EURIBOR and the margin of between 0.48 percent p.a. and 6.79 percent p.a., as well as 3-month LIBOR and the margin of 7.00 percent p.a. Fixed interest rates of SID Bank Group for loans to clients, other than banks in domestic currency ranged between 1.60 percent p.a. and 11.0 percent p.a.

Floating rates of SID Bank and SID Bank Group for clients, other than banks in foreign currency for direct financing of legal entities consisted of 6-month LIBOR and the margin of between 1.20 percent p.a. As at 31 December 2010 the bank has no loans in foreign currency at fixed interest rate.

SID Bank Group operates on various markets; therefore the range of interest rates is large, particularly in factoring activities.

Exposure of SID Bank to interest rate risk is presented in Items 2.4.1. and 3.3.1., while exposure to foreign exchange risk is presented in Item 3.2.1. of the financial section of the annual report. Exposure of SID Bank Group to interest rate risk is presented in Items 2.4.1. and 3.3.2., while exposure to foreign exchange risk is presented in Item 3.2.2. of the financial section of the annual report. Exposure of SID Bank and SID Bank Group to credit risk is presented in Item 3.4. of the financial section of the annual report.

2.3.6. Property, plant and equipment

Changes in property, plant and equipment in 2010

	SID Bank				SID Bank Group			
	Equipment in acquisition	Real estate	Equipment	Total	Equipment in acquisition	Real estate	Equipment	Total
Purchase value								
Balance as at 1 January 2010	0	6,589	1,586	8,175	0	6,589	2,601	9,190
Other changes	0	0	0	0	0	0	(18)	(18)
Transfer	(166)	0	166	0	(166)	0	166	0
Increase	194	0	0	194	222	0	97	319
Decrease	0	0	(289)	(289)	(16)	0	(406)	(422)
Balance as at 31 December 2010	28	6,589	1,463	8,080	41	6,589	2,439	9,068
Value adjustments								
Balance as at 1 January 2010	0	(2,484)	(1,250)	(3,734)	0	(2,484)	(1,861)	(4,345)
Other changes	0	0	0	0	0	0	16	16
Transfer	0	0	0	0	0	0	(7)	(7)
Depreciation, amortization	0	(316)	(125)	(441)	0	(316)	(274)	(590)
Decrease	0	0	230	230	0	0	293	293
Balance as at 31 December 2010	0	(2,800)	(1,145)	(3,945)	0	(2,800)	(1,833)	(4,633)
Net book value as at 1 January 2010	0	4,105	336	4,441	0	4,105	740	4,845
Net book value as at 31 December 2010	28	3,789	318	4,135	41	3,789	606	4,435

Changes in property, plant and equipment in 2009

	SID Bank			SID Bank Group		
	Real estate	Equipment	Total	Real estate	Equipment	Total
Purchase value						
Balance as at 1 January 2009	6,588	1,484	8,072	6,588	2,460	9,048
Opening-balance adjustment	0	0	0	0	17	17
Transfer	0	0	0	0	(51)	(51)
Increase	0	158	158	0	288	288
Decrease	0	(55)	(55)	0	(113)	(113)
Balance as at 31 December 2009	6,588	1,587	8,175	6,588	2,601	9,189
Value adjustments						
Balance as at 1 January 2009	(2,168)	(1,155)	(3,323)	(2,168)	(1,650)	(3,818)
Opening-balance adjustment	0	0	0	0	(16)	(16)
Transfer	0	0	0	0	21	21
Depreciation, amortization	(315)	(143)	(458)	(315)	(296)	(611)
Increase	0	0	0	0	(1)	(1)
Decrease	0	47	47	0	81	81
Balance as at 31 December 2009	(2,483)	(1,251)	(3,734)	(2,483)	(1,861)	(4,344)
Net book value as at 1 January 2009	4,420	329	4,749	4,420	810	5,230
Net book value as at 31 December 2009	4,105	336	4,441	4,105	740	4,845

SID Bank and SID Bank Group have no pledged property, plant and equipment.

2.3.7. Intangible assets

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Property rights	252	395	394	590
Goodwill	0	0	488	488
Total	252	395	882	1,078

Property rights are represented by investments in software used in the course of operation by SID Bank and SID Bank Group.

Goodwill in SID Bank Group occurred as a result of purchase of a share in capital of PRVI FAKTOR, Ljubljana. Pursuant to a test of impairments performed as at 31 December 2010, it was established that an impairment of goodwill is not necessary.

Changes in intangible assets in 2010

	SID Bank			SID Bank Group		
	In acquisition	In use	Total	In acquisition	In use	Total
Purchase value						
Balance as at 1 January 2010	0	1,005	1,005	0	1,441	1,441
Other changes	0	0	0	0	(6)	(6)
Transfer	(23)	23	0	(23)	23	0
Increase	31	0	31	31	29	60
Decrease	0	0	0	0	(1)	(1)
Balance as at 31 December 2010	8	1,028	1,036	8	1,486	1,494
Value adjustments						
Balance as at 1 January 2010	0	(610)	(610)	0	(851)	(851)
Other changes	0	0	0	0	(1)	(1)
Transfer	0	0	0	0	7	7
Depreciation, amortization	0	(174)	(174)	0	(256)	(256)
Decrease	0	0	0	0	1	1
Balance as at 31 December 2010	0	(784)	(784)	0	(1,100)	(1,100)
Net book value as at 1 January 2010	0	395	395	0	590	590
Net book value as at 31 December 2010	8	244	252	8	386	394

Changes in intangible assets in 2009

	SID Bank			SID Bank Group		
	In acquisition	In use	Total	In acquisition	In use	Total
Purchase value						
Balance as at 1 January 2009	0	996	996	0	1,408	1,408
Adjustments	0	0	0	0	(42)	(42)
Transfer	(11)	11	0	(11)	62	51
Increase	11	0	11	11	16	27
Decrease	0	0	0	0	0	0
Balance as at 31 December 2009	0	1,007	1,007	0	1,444	1,444
Value adjustments						
Balance as at 1 January 2009	0	(428)	(428)	0	(590)	(590)
Opening-balance adjustment	0	0	0	0	25	25
Transfer	0	0	0	0	(21)	(21)
Depreciation, amortization	0	(184)	(184)	0	(268)	(268)
Decrease	0	0	0	0	0	0
Balance as at 31 December 2009	0	(612)	(612)	0	(854)	(854)
Net book value as at 1 January 2009	0	568	568	0	818	818
Net book value as at 31 December 2009	0	395	395	0	590	590

SID Bank and SID Bank Group have no pledged intangible assets.

2.3.8. Long-term investments in equity of subsidiaries, associates and joint ventures

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Investment in PKZ Ljubljana	8,412	4,206	0	0
Investment in PRO KOLEKT Ljubljana	419	419	419	419
Investment in PRVI FAKTOR Ljubljana	0	3,087	0	0
Total	8,831	7,712	419	419

SID Bank increased the capital in subsidiary PKZ Ljubljana in the amount of EUR 4,206 thousand; the increase in capital was entered in registry on 18 February 2010.

Data on companies in SID Bank Group

	PRVI FAKTOR Group		SID-PKZ	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Participating interest of the group in capital in percent	50	50	100	100
Portion of voting rights in percent	50	50	100	100
Assets	166,373	168,154	72,551	62,741
Liabilities	163,295	162,540	52,295	53,572
Capital	3,078	5,614	20,256	9,168
Income	16,478	18,112	12,624	9,364
Profit/loss	(2,371)	587	6,844	(6,529)

2.3.9. Corporate income tax assets and liabilities

Tax assets

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Receivables for prepaid corporate income tax	0	656	416	1,180
Long-term deferred tax assets	426	363	1,814	975
Total	426	1,019	2,230	2,155

As at 31 December 2010, SID Bank had long-term deferred receivables for taxes arising from the provisions for severance pay upon retirement and loyalty bonuses of bank employees, and from the impairment of available-for-sale financial assets.

As at 31 December 2010, SID Bank Group had long-term deferred receivables for taxes arising from impairment of available-for-sale financial assets, the provisions for severance pay upon retirement and loyalty bonuses of bank employees, for impaired operating receivables and tax loss.

Tax liability

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Income tax liabilities	1,349	0	3,401	0
Long-term deferred tax liabilities	123	138	123	138
Total	1,472	138	3,524	138

The long-term deferred tax liability represents a liability arising from the revaluation adjustment of available-for-sale financial assets.

Deferred taxes

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Deferred tax liability				
- Value adjustments of receivables	0	0	1,293	385
- Provisions for fees and loyalty bonuses	30	27	61	53
- Revaluation expense due to impairments, available-for-sale financial assets	295	194	295	304
- Revaluation surplus, available-for-sale financial assets	101	142	55	106
- Expenses for deferred taxes from tax loss	0	0	0	36
- Delimited costs or income	0	0	110	91
Total deferred tax liability	426	363	1,814	975
Deferred tax liability				
- Available-for-sale financial assets	123	138	123	138
Total deferred tax liability	123	138	123	138
Included in the statement of comprehensive income	105	1	891	1,892
Included in capital	(27)	(70)	(202)	(287)

2.3.10. Other assets

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Insurers assets	0	0	38,313	32,228
Other assets	404	2,902	2,900	4,954
Total	404	2,902	41,214	37,182

Insurers' assets

	SID Bank Group	
	31.12.2010	31.12.2009
Reinsurers' assets in unearned premiums	2,230	839
Reinsurers' assets in claims provisions	25,376	24,513
Reinsurers' assets in bonuses and discounts	1,465	1,016
Reinsurers' assets in provision for unexpired risks	0	1,599
Receivables from premiums	3,671	2,096
Value adjustments of receivables from premiums	(578)	(170)
Grant receivables	7,598	2,677
Value adjustments of receivables from premiums	(1,900)	(1,430)
Receivables from credit ratings	154	135
Other value adjustments	(94)	(14)
Receivables arising from reinsurance	391	967
Total	38,313	32,228

Other assets

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Inventories	0	0	3	4
Fees and commissions receivables	37	35	985	1,032
Advances to suppliers for operating assets	3	5	15	277
Trade receivables	56	69	1,331	1,047
Other receivables	11	2,340	561	2,379
Value adjustments of other receivables	(24)	(2)	(427)	(336)
Deferred costs and accrued revenues	321	455	432	551
- Deferred costs and accrued revenues	*321*	*455*	*377*	*499*
- Other short-term deferred costs	*0*	*0*	*7*	*10*
- Other accrued revenues and deferred expenses	*0*	*0*	*48*	*42*
Total	404	2,902	2,900	4,954

2.3.11. Financial liabilities with the central bank

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Short-term debt from the primary emission credits at the pledge of securities	1,001	0	1,001	0
Total	1,001	0	1,001	0

By entering the TARGET2 payment system, the bank may use monetary policy instruments of the Bank of Slovenia and the European Central Bank. On 31 December 2010 the bank has used the credit from the primary emission at the pledge of securities.

2.3.12. Financial liabilities held for trading

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Derivative financial instruments held for trading, valuation of interest rate swaps/currency forwards	29	271	29	271
Total	29	271	29	271

The item discloses fair value of interest rate swaps, the contract value of which as at of 31 December 2010 amounted to EUR 3,056 thousand and are disclosed in Item 2.3.23. of the financial section of the annual report.

2.3.13. Derivative financial instruments held for hedging

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Derivative financial instruments held for interest rate changes hedging	0	1,202	0	1,202
Total	0	1,202	0	1,202

2.3.14. Financial liabilities measured at amortized cost

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Bank deposits	0	155,066	0	155,066
Deposits of clients other than banks	5	91,870	5	91,870
Loans of banks	2,023,693	1,799,948	2,143,572	1,921,338
Loans of clients other than banks	99,998	99,108	99,999	99,122
Debt securities	1,436,166	547,142	1,436,166	547,142
Total	3,559,862	2,693,134	3,679,742	2,814,538

Bank deposits

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Deposits	0	155,066	0	155,066
Total	0	155,066	0	155,066

Deposits of clients other than banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Deposits	5	91,870	5	91,870
Total	5	91,870	5	91,870

Loans of banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Short-term in EUR	19,948	19,966	151,537	133,571
Short-term in foreign currency	0	0	3,872	0
Long-term in EUR	1,988,682	1,766,031	1,973,100	1,773,816
Long-term in foreign currency	15,063	13,951	15,063	13,951
Total	2,023,693	1,799,948	2,143,572	1,921,338

Loans of clients other than banks

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Short-term in EUR	0	0	1	14
Long-term in EUR	99,998	99,108	99,998	99,108
Total	99,998	99,108	99,999	99,122

Debt securities

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Debt securities	1,436,166	547,142	1,436,166	547,142
Total	1,436,166	547,142	1,436,166	547,142

In April 2010, SID Bank successfully sold on international capital markets the first issue of Eurobond. The bond was issued at par of EUR 750 million with a fixed coupon rate of 3 percent per year.

In November 2010 SID Bank realized its third consecutive issue of the SI01 bond on the domestic capital market. The bond was issued at par of EUR 69 million with a coupon of 6-month EURIBOR + 1 percentage point per year.

A private issue of bonds in the amount of EUR 50 million was also realized in November.

Changes in financial liabilities measured at amortized cost

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Balance as at 1 January	2,693,134	1,921,672	2,814,538	2,079,910
New loans and deposits	1,496,381	1,169,551	1,630,128	1,400,586
Repayment	(629,653)	(398,089)	(764,925)	(665,958)
Balance as at 31 December	3,559,862	2,693,134	3,679,741	2,814,538

Float rates of SID Bank for received long-term loans from foreign banks range between 3 or 6-month EURIBOR/LIBOR + 0.01 percent p.a. and 3 or 6-month EURIBOR/LIBOR + 1.85 percent p.a.

Float rates of SID Bank Group for received loans range between 3 or 6-month EURIBOR/LIBOR + 0.01 percent p.a. and 3 or 6-month EURIBOR/LIBOR + 5.50 percent p.a. Interest rates for loans in foreign currency for SID Bank Group range between 3-month ZIBOR + 3.50 percent p.a. and 3-month ZIBOR + 5.50 percent p.a. and 1-month BELIBOR + 3.15 percent p.a.

2.3.15. Provision

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Bank provision	2,577	4,250	2,577	4,250
Liabilities from insurance contracts	0	0	43,933	50,294
Other provisions	184	132	1,916	2,151
Total	2,761	4,382	48,426	56,695

Bank provisions include provisions for covering contingent losses arising from issued guarantees and undrawn credit facilities and credit lines.

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Provisions for guarantees	1,420	2,044	1,420	2,044
Provisions for undrawn credit facilities and credit lines	1,157	2,206	1,157	2,206
Total	2,577	4,250	2,577	4,250

Changes in bank provisions

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Balance as at 1 January	4,250	2,165	4,250	2,165
Provisions formed	9,468	8,502	9,468	8,502
Provisions released	(11,141)	(6,417)	(11,141)	(6,417)
Balance as at 31 December	2,577	4,250	2,577	4,250

Liabilities from insurance contracts

	SID Bank Group	
	31.12.2010	31.12.2009
Unearned premiums	3,278	1,445
Provisions for outstanding claims	37,719	43,855
Provisions for bonuses and discounts	2,752	1,853
Provisions for unexpired risks	184	3,141
Total	43,933	50,294

Liabilities from insurance contracts show gross technical reserves including reinsurers' share.

Provisions for outstanding claims

	SID Bank Group	
	31.12.2010	31.12.2009
Provisions for incurred and reported loss events	13,689	14,482
Provisions for incurred and unreported loss events	23,399	28,522
Provisions for appraisal costs	631	851
Total	37,719	43,855

Changes in liabilities from insurance contracts

	SID Bank Group	
	2010	2009
Balance as at 1 January	50,294	30,896
Changes	(6,361)	19,398
Balance as at 31 December	43,933	50,294

Other provisions

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Long-term provisions to employees	184	132	333	283
Deferred income from reinsurance premiums	0	0	1,583	1,868
Total	184	132	1,916	2,151

Provisions to employees

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Long-term provisions for loyalty bonuses	24	17	58	49
Long-term provisions for retirement severance pay	160	115	275	234
Total	184	132	333	283

Changes in provisions for pensions and similar liabilities to employees

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Balance as at 1 January	132	124	283	285
Provisions formed	52	22	101	63
Provisions released	0	(14)	(48)	(62)
Foreign exchange differences	0	0	(3)	(3)
Balance as at 31 December	184	132	333	283

The calculation for loyalty bonuses was based on the assumption that all beneficiaries are still the employees of SID Bank when the conditions are established for the payment of this bonus. The amounts of bonuses were discounted to the present value, taking into account the time schedule of the payment of loyalty bonuses and the average interest rate of government debt securities published by the Ministry of Finance for the purpose of calculating the returns of voluntary supplementary pension insurance. For the calculation an interest rate of 3.325 percent was taken into account. The following input parameters were used: loyalty bonuses for 10 years EUR 400; for 20 years EUR 600; for 30 or 40 years EUR 800.

The calculation of severance pay takes into account the difference between the period, for which the severance pay was earned, and the period that has yet to pass in order to meet the conditions for retirement. The amounts of severance pay were discounted to the present value, taking into account the time schedule of the payment of bonuses and the average interest rate of government debt securities published by the Ministry of Finance for the purpose of calculating the returns of voluntary supplementary pension insurance. For the calculation an interest rate of 3.325 percent was taken into account. The following input parameters were used: amount based on the Employment Relationship Act (two average monthly salaries of the employee for the past three months), increased by the achieved growth in salaries in the banking sector in the last five years, a length of service upon retirement for men 40 years and for women 38 years.

SID Bank Group has a unified methodology of calculating provision for severance pay and loyalty bonuses. Some of companies in SID Bank Group calculate provisions based on actuarial calculation. The calculation takes into account suppositions included in the calculations of other companies in SID Bank Group.

Changes in deferred revenues from reinsurance commissions

	SID Bank Group	
	2010	2009
Balance as at 1 January	1,868	1,919
Provisions formed	399	537
Provisions released	(684)	(588)
Balance as at 31 December	1,583	1,868

Receivables and liabilities due to deferred taxes are presented in detail in Item 2.4.11. of the financial section of the annual report.

2.3.16. Other liabilities

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Liabilities for salaries and other liabilities to employees	369	378	651	634
Liabilities to suppliers	231	184	427	368
Liabilities from insurance operations	0	0	58	19
Other liabilities	1,634	984	2,427	4,674
Accrued costs and deferred income	365	2,239	4,940	3,368
- Accrued costs	*256*	*170*	*431*	*341*
- Accrued costs of reinsurers for recourses	*0*	*0*	*4.390*	*948*
- Short-term deferred revenues	*109*	*317*	*119*	*327*
- Deferred income	*0*	*1,752*	*0*	*1,752*
Total	2,599	3,785	8,503	9,063

2.3.17. Share capital

All of the entered capital, which amounts to EUR 300,000,090.70 and is divided into 3,121,741 ordinary registered no-par value shares, is deposited. All the shares are ordinary registered shares of the same class; each ordinary registered no-par value share has a corresponding amount in share capital.

2.3.18. Capital reserves

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Payments exceeding nominal amounts of paid-up shares	1,139	1,139	1,139	1,139
Total	1,139	1,139	1,139	1,139

2.3.19. Revaluation surplus

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Revaluation surplus from available-for-sale financial assets	90	(18)	273	126
Total	90	(18)	273	126

Revaluation surplus from available-for-sale financial assets

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Balance as at 1 January	(18)	(295)	126	(838)
Revaluation	135	347	183	1,206
Deferred taxes	(27)	(70)	(36)	(242)
Balance as at 31 December	90	(18)	273	126

2.3.20. Reserves from profit (including retained profit)

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Reserves from profit	25,191	21,735	35,671	36,739
- Statutory reserves	*8,366*	*8,080*	*9,021*	*8,439*
- Reserves for treasury shares	*1,324*	*1,324*	*1,324*	*1,324*
- Reserves under articles of association	*11,620*	*8,900*	*15,826*	*11,003*
- Other reserves from profit	*3,881*	*3,431*	*8,737*	*15,210*
- Credit risk equalization provisions	*0*	*0*	*763*	*763*
Retained earnings	0	0	3,352	2,928
Total	25,191	21,735	39,023	39,667

In accordance with a decree of the General Meeting of Shareholders of SID Bank dated 27 August 2010, the net distributable profit of the year 2009 in the amount of EUR 450 thousand was allocated to other profit reserves.

When compiling the annual report, from net profit in the amount of EUR 5,726 thousand the Management Board formed statutory reserves totalling EUR 286 thousand and reserves under articles of association in the amount of EUR 2,720 thousand.

Capital (revenues and expenses recognized directly in capital) is directly influenced by revaluations of available-for-sale financial assets and changes in credit risk equalization provisions.

Due to positive underwriting outcome, credit risk equalization provisions of SID Bank Group were formed again in the year 2010, in the amount of EUR 917 thousand.

2.3.21. Treasury shares

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Repurchased treasury shares	(1,324)	(1,324)	(1,324)	(1,324)
Total	(1,324)	(1,324)	(1,324)	(1,324)

2.3.22. Off-balance-sheet items

Off-balance-sheet items

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Off-balance-sheet receivables	1,955,822	1,047,805	1,994,875	1,068,394
- Raised undrawn loans	*170,000*	*235,000*	*170,000*	*235,000*
Derivative financial instruments (interest rate swap, currency forward)	*736,056*	*58,678*	*736,056*	*58,678*
- Agent transactions (interest rate swaps)	*11,949*	*0*	*11,949*	*0*
- Securities account for insurance with the Bank of Slovenia (undrawn)	*29,168*	*0*	*29,168*	*0*
- Financial assets for hedging with the Bank of Slovenia	*1,001*	*0*	*1,001*	*0*
- Guarantees received	*1,007,648*	*754,127*	*1,007,648*	*754,127*
- Unclaimed recourse receivables	*0*	*0*	*39,053*	*20,589*
Off-balance-sheet liabilities assumed	66,417	222,022	67,742	237,280
- Guarantees	*31,852*	*38,804*	*33,177*	*39,686*
- Approved undrawn loans	*34,565*	*182,521*	*34,565*	*195,021*
- Derivative financial instruments (currency forward)	*0*	*697*	*0*	*697*
- Guarantees given	*0*	*0*	*0*	*34*
-Other financial liabilities assumed	*0*	*0*	*0*	*1,842*
Total	2,022,239	1,269,827	2,062,617	1,305,674

Off-balance-sheet receivables - raised undrawn loans

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Raised undrawn loans	170,000	235,000	170,000	235,000
Total	170,000	235,000	170,000	235,000

As at 31 December 2010 SID Bank has not drawn loans granted by: Kreditanstalt fur Wiederaubau Germany in the amount of EUR 80 million, European Investment Bank Luxembourg in the amount of EUR 50 million, Erste Group Bank AG Austria in the amount of EUR 20 million and Hypo Alpe - Adria Bank International AG Austria in the amount of EUR 20 million.

Off-balance-sheet receivables - derivative financial instruments

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Interest rate swaps	736,056	58,000	736,056	58,000
Currency forward	0	678	0	678
Total	736,056	58,678	736,056	58,678

As at 31 December 2010, SID Bank had concluded currency forwards in total amount of EUR 736 million. The value of interest rate swaps that meet the criteria of the accounting treatment of hedge amounts to EUR 733 million and is used to hedge interest rate risk. The difference in the amount of EUR 3 million is represented by the market interest rate swaps.

Notes on interest rate risk management are presented in the business report, in Item 6.4.

The fair values of derivative financial instruments are disclosed in Items 2.3.3. and 2.3.12. of the financial section of the annual report.

Off-balance-sheet receivables - Guarantees received

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Guarantees received	1,007,648	754,127	1,007,648	754,127
Total	1,007,648	754,127	1,007,648	754,127

Majority portion is represented by the following types of insurance: pledge of commercial real estate (cession of claims, pledge of ownership share, insurance policy of SID bank for the account of the Republic of Slovenia, fiduciary transfer of real estate ownership rights, pledge of receivables for insurance, bills and other insurances).

Unclaimed recourse receivables

	SID Bank Group	
	31.12.2010	31.12.2009
Unclaimed recourse receivables	*39,053*	*20,589*
Total	*39,053*	*20,589*

Off-balance-sheet liabilities - guarantees

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Short-term	684	114	2,009	996
Long-term	31,168	38,690	31,168	38,690
Total	31,852	38,804	33,177	39,686

The breakdown of guarantees by type

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Guarantees	25,536	24,144	31,852	25,026
- Waste export	*0*	*11,281*	*0*	*11,281*
- Advance repayment	*1,397*	*2,096*	*1,397*	*2,096*
- Performance	*2,387*	*6,308*	*2,387*	*6,308*
- Payment bonds	*20,756*	*2,858*	*22,081*	*3,740*
- Warranty	*996*	*1,601*	*996*	*1,601*
Assumed risk	6,316	14,660	6,316	14,660
Total	31,852	38,804	33,177	39,686

The breakdown of guarantees by currency

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
EUR	20,606	37,806	21,931	38,688
CHF	10,416	0	10,416	0
HRK	806	976	806	976
EGP	24	22	24	22
Total	31,852	38,804	33,177	39,686

Off-balance-sheet liabilities assumed - approved undrawn loans

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Approved undrawn loans	34,565	182,521	34,565	195,021
Total	34,565	182,521	34,565	195,021

In this item SID bank or SID Bank Group discloses the value of undrawn loans granted to domestic banks and companies as at 31 December 2010. Drawing date is in 2011.

2.3.23. Operations under Special Authorization

The operations, which SID Bank as the national export credit agency performs on behalf and for the account of the Republic of Slovenia, are in terms of accounting clearly separated from the operations performed for SID Bank's own account.

In accordance with the Act Governing Insurance and Financing of International Business Transactions (ZZFMGP) and on behalf and for the account of the Republic of Slovenia, SID Bank implements the Interest Rate Equalization Programme (IREP) for export credits in Euros and American dollars falling within the scope of the OECD Arrangement on Officially Supported Export Credits.

Operations carried out on behalf and for the account of the Republic of Slovenia are kept in separate accounts, which were defined by the Bank of Slovenia for keeping of transactions pursuant to special authorization.

Transactions pursuant to special authorization are presented in detail in the business report, in Items 6.2.5. and 6.2.6.

Investments of contingency reserves

	SID Bank	
	31.12.2010	31.12.2009
Cash in business accounts	32	43
Loans to banks	99,095	101,859
Available-for-sale financial assets	25,288	18,258
Other assets	4,985	5,268
Total	129,400	125,428

In other assets, receivable on PRO KOLEKT Zagreb in the amount of EUR 3,726 thousand is disclosed.

Liabilities for contingency reserves

	SID Bank	
	31.12.2010	31.12.2009
Contingency reserves	124,219	120,039
Revaluation surplus from available-for-sale financial assets	286	208
Accrued (costs) and deferred income	4,895	5,181
Total	129,400	125,428

Changes in contingency reserves

	SID Bank	
	2010	2009
Balance as at 1 January	120,039	109,896
Surplus of income over expenses	4,180	143
Remittance	0	10,000
Balance as at 31 December	124,219	120,039

Contingency reserves in 2010 increased by EUR 4.180 thousand, which equalled the surplus of income over operating expenses on behalf and for the account of the state.

Investments from the interest rate equalization programme

	SID Bank	
	31.12.2010	31.12.2009
Cash in business accounts	2	1
Loans	3,481	2,843
Available-for-sale financial assets	4,286	4,782
Other assets	1	1
Total	7,830	7,627

Liabilities from the interest rate equalization programme

	SID Bank	
	31.12.2010	31.12.2009
Financial liabilities held for trading	60	0
Liabilities from the interest rate equalization programme	7,732	7,585
Revaluation surplus from available-for-sale financial assets	37	42
Other liabilities	1	0
Total	7,830	7,627

Changes in liabilities from the interest rate equalization programme

	SID Bank	
	2010	2009
Balance as at 1 January	7,585	6,907
Surplus of income over expenses	147	178
Remittance	0	500
Balance as at 31 December	7,732	7,585

The assets of the interest rate equalization programme in 2010 increased by EUR 147 thousand, which equalled the surplus of income over operating expenses on behalf and for the account of the state.

2.4. Notes to the Statement of comprehensive income

(In EUR thousand)

2.4.1. Net interest

	SID Bank			
	2010		2009	
	Income	Expenses	Income	Expenses
Interest from financial assets held for hedging	13,406	(5,505)	97	(27)
Interest from financial assets held for trading	28	(64)	0	0
Interest from available-for-sale assets	2,258	0	1,760	0
Interest from loans and deposits	90,557	(31,765)	80,391	(44,371)
Interest for issued securities	0	(28,800)	0	(16,356)
Interest from other financial assets	34	0	8	0
Total	106,283	(66,134)	82,256	(60,754)
Net interest	40,149		21,502	

Income from overdue interest amounts to EUR 1,065 thousand. Expense for overdue interest amounts to EUR 1,300 thousand. Expenditure for interest on late payments is due to revenue recognized in 2009, of which the likelihood of liquidity has become uncertain in 2010.

	SID Bank Group			
	2010		2009	
	Income	Expenses	Income	Expenses
Interest from financial assets held for hedging	13,406	(5,505)	97	(27)
Interest from financial assets held for trading	28	(64)	0	0
Interest from available-for-sale assets	2,827	0	2,493	0
Interest from loans and deposits	101,141	(38,192)	93,181	(50,925)
Interest for issued securities	0	(28,800)	0	(16,356)
Interest from other financial assets	34	0	8	0
Total	117,436	(72,561)	95,779	(67,308)
Net interest	44,875		28,471	

2.4.2. Dividend income

	SID Bank	
	2010	2009
Dividend income	0	2,474
Total	0	2,474

2.4.3. Net fees

	SID Bank			
	2010		2009	
	Income	Expenses	Income	Expenses
Fees and commissions on banking services	0	(17)	0	(20)
Fees and commissions from loans	1,855	(486)	1,337	(192)
Fees and commissions for guarantee transactions	401	(9)	528	(4)
Fees and commissions for stock and other securities transactions	0	(123)	0	(92)
Other fees and commissions	0	(161)	141	(129)
Total	2,256	(796)	2,006	(437)
Net fees	1,460		1,569	

	SID Bank Group			
	2010		2009	
	Income	Expenses	Income	Expenses
Fees and commissions on banking services	0	(147)	0	(77)
Commissions for payment transactions	8	(87)	16	(77)
Fees and commissions from loans	5,901	(791)	5,523	(497)
Fees and commissions for guarantee transactions	401	(351)	528	(345)
Fees and commissions for stock and other securities transactions	0	(123)	0	(92)
Other fees and commissions	4	(187)	389	(145)
Total	6,314	(1,686)	6,456	(1,233)
Net fees	4,628		5,223	

2.4.4. Realized profits/losses from financial assets and liabilities not measured at fair value through profit or loss

	SID Bank			
	2010		2009	
	Income	Expenses	Income	Expenses
Available-for-sale financial assets	459	(20)	680	(350)
Total	459	(20)	680	(350)
Realized profits/losses from financial assets and liabilities not measured at fair value through profit or loss	439		330	

	SID Bank Group			
	2010		2009	
	Income	Expenses	Income	Expenses
Available-for-sale financial assets	470	(26)	960	(355)
Total	470	(26)	960	(355)
Realized profits/losses from financial assets and liabilities not measured at fair value through profit or loss	444		605	

2.4.5. Net profits/losses from financial assets and liabilities held for trading

	SID Bank			
	2010		2009	
	Income	Expenses	Income	Expenses
Derivative financial instruments under currency forward	0	(19)	123	(99)
Derivative financial instruments under interest rate swaps	0	(28)	0	0
Total	0	(47)	123	(99)
Net profits/losses from financial assets and liabilities held for trading		(47)	24	

	SID Bank Group			
	2010		2009	
	Income	Expenses	Income	Expenses
Derivative financial instruments under currency forward	0	(19)	123	(99)
Derivative financial instruments under interest rate swaps	0	(28)	0	0
Total	0	(47)	123	(99)
Net profits/losses from financial assets and liabilities held for trading		(47)	24	

2.4.6. Change in fair value when calculating hedging against risk

	SID Bank			
	2010		2009	
	Income	Expenses	Income	Expenses
Change in fair value when calculating hedging against risk	5,740	(6,189)	867	(907)
Total	5,740	(6,189)	867	(907)
Net profit/loss from financial assets held for hedging		(449)		(40)

	SID Bank Group			
	2010		2009	
	Income	Expenses	Income	Expenses
Change in fair value when calculating hedging against risk	5,740	(6,189)	867	(907)
Total	5,740	(6,189)	867	(907)
Net profit/loss from financial assets held for hedging		(449)		(40)

2.4.7. Net foreign exchange profits/losses

	SID Bank			
	2010		2009	
	Income	Expenses	Income	Expenses
Foreign exchange differences	6,380	(6,374)	5,091	(5,047)
Total	6,380	(6,374)	5,091	(5,047)
Net foreign exchange profits/losses	6		44	

	SID Bank Group			
	2010		2009	
	Income	Expenses	Income	Expenses
Foreign exchange differences	14,343	(13,385)	12,862	(11,789)
Total	14,343	(13,385)	12,862	(11,789)
Net foreign exchange profits/losses	958		1,073	

2.4.8. Other net operating profits/losses

Net income from non-banking services

	SID Bank			
	2010		2009	
	Income	Expenses	Income	Expenses
Income from non-banking services	3,076	0	2,709	0
Subscriptions	0	(122)	0	(108)
Other operating expenses	0	(35)	0	(59)
Total	3,076	(157)	2,709	(167)
Other net operating profits/losses	2,919		2,542	

The majority of income from non-banking services is accounted for by the service fee according to the Act Governing Insurance and Financing of International Commercial Transactions pursuant to the agreement concluded with the Ministry of Finance regulating mutual relations associated with the implementation of Chapter II of the said Act dated 1 December 2004 in the amount of EUR 2,075 thousand (2009: EUR 2,075 thousand). In 2010 the bank earned revenues of EUR 88 thousand for transactions pursuant to special authorization - the Interest Rate Equalization Programme. In 2010, the bank earned revenues of EUR 528 thousand for transactions pursuant to special authorization for implementation of legislation concerning guarantee schemes of the Republic of Slovenia. The remainder consists of revenues from rents and services provided to subsidiaries in the amount of EUR 203 thousand, as well as income from the credit information service in the amount of EUR 182 thousand.

	SID Bank Group			
	2010		2009	
	Income	Expenses	Income	Expenses
Income from non-banking services	2,828	0	2,382	0
Other operating profits/losses	80	0	166	0
Subscriptions	0	(217)	0	(158)
Other operating expenses	0	(161)	0	(339)
Total	2,908	(379)	2,548	(497)
Other net operating profits/losses	2,529		2,051	

Net revenues from insurance operations

	SID Bank Group			
	2010		2009	
	Income	Expenses	Income	Expenses
Gross insurance premiums written	19,716	0	10,884	0
Reinsurance commissions	3,495	0	2,283	0
Reinsurance premiums written	0	(12,237)	0	(6,238)
Credit rating information written	988	0	947	0
Total	24,199	(12,237)	14,114	(6,238)
Net insurance premiums written	11,962		7,876	

Net expenses for insurance operations

	SID Bank Group			
	2010		2009	
	Income	Expenses	Income	Expenses
Gross claims settled	0	(24,833)	0	(11,414)
Settled bonuses	0	(345)	0	(341)
Credit rating information expenses	0	(840)	0	(1,080)
Settled gross recourses	6,025	0	1,642	0
Reinsurance share in claims and recourses	11,400	0	5,193	0
Reinsurance share in bonuses	185	0	202	0
Total	17,610	(26,018)	7,037	(12,835)
Net expenses for insurance operations		(8,408)		(5,798)

2.4.9. Administrative costs

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Labour costs	(4,342)	(3,901)	(8,357)	(7,829)
General and administrative costs	(1,759)	(1,828)	(3,225)	(3,142)
Total	(6,101)	(5,729)	(11,582)	(10,971)

Labour costs

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Gross salaries	(3,151)	(2,781)	(6,177)	(5,747)
Costs of pension insurance	(280)	(250)	(465)	(410)
Social security costs	(230)	(205)	(657)	(520)
Payroll tax	0	0	(9)	(134)
Other labour costs	(681)	(665)	(1,049)	(1,018)
Total	(4,342)	(3,901)	(8,357)	(7,829)

In 2010, SID Bank had 91 employees on average; as at 31 December 2010, there were 94 employees, of which 17.0 percent had finished secondary school, 9.5 percent had finished post-secondary vocational studies (level VI), 66.0 percent had finished higher education (level VII), 6.4 percent had a master’s and 1.1 percent a doctor’s degree.

In SID Bank the costs of pension insurance (EUR 280 thousand) together with the costs of voluntary supplementary pension insurance (EUR 138 thousand) totalled EUR 418 thousand in 2010.

As at 31 December 2010, SID Bank Group (including PRO KOLEKT Group and the CIDC institute) had 303 employees. 21.1 percent of the employees in SID Bank Group had finished secondary school, 12.5 percent had finished post-secondary vocational studies (level VI), 62,7 percent had finished higher education (level VII), 3.0 percent had a master’s and 0.7 percent a doctor’s degree.

In SID Bank Group the costs of pension insurance totalled EUR 641 thousand and the costs of voluntary supplementary pension insurance EUR 271 thousand in 2010.

The General Meeting of Shareholders of SID Bank has not set a policy on the remuneration of the management employees, since the said policy in majority state-owned companies is already largely determined by the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities (ZPPODG; OJ. RS, No 21/10) and the regulation issued pursuant to the ZPPODG. In this context, the Supervisory Board within the prescribed period, in accordance with the rules and practices and in accordance with its powers, adopted Rules for the Employment Contracts of Members of Management Board (the Rules) and in accordance with Article No 6 of the ZPPODG introduced the Rules to the General Meeting of Shareholders. After discussing the Rules, the Government adopted directives for the Supervisory Board regarding the content of the Rules, which were confirmed by a notarial record of the General Meeting of Shareholders of SID Bank. The Supervisory Board took notice of these directives in the revision of the Rules.

Members of managements in the companies of SID Bank Group realized the following revenues in 2010: President of Management Board of SID Bank Mr. Sibil Svilan M.Sc. EUR 166 thousand, Member of Management Board of SID Bank Mr. Jožef Bradeško EUR 150 thousand, President of Management Board of PKZ Mr. Ladislav Artnik EUR 113 thousand, Member of Management Board of PKZ Dr. Rasto Hartman EUR 96 thousand, Director of PRVI FAKTOR Ljubljana Mr. Ernest Ribič EUR 114 thousand, Director of PRVI FAKTOR Sarajevo Mr. Nedim Rizvanović EUR 6 thousand, Directors of PRVI FAKTOR Beograd Mr. Dmitar Polovina EUR 8 thousand and Ms Jelena Tanasković EUR 56 thousand, Director of PRVI FAKTOR Zagreb Mr. Tomaž Kačar EUR 130 thousand.

In 2010 the representatives of SID Bank in Supervisory Boards of affiliated companies received no bonuses or other revenues (attendance fees) from performing supervisory functions in the companies of SID Bank Group. The revenues of independent member of the Audit Committee, Ms Blanka Vezjak, M.Sc, for attendance fee amounted to EUR 0.7 thousand.

Revenues pursuant to attendance fees and travel reimbursement of members of Supervisory Board and Audit Committee of SID Bank in 2010 amounted to: Dr. Aleš Berk Skok: EUR 6.1 thousand (of which travel reimbursement in the amount of EUR 0.1 thousand); Mr. Samo Hribar Milič, M.Sc.: EUR 4.7 thousand; Dr. Marko Jaklič: EUR 3.6 thousand; Mr. Gregor Kastelic, M.Sc.: EUR 9.6 thousand (of which travel reimbursement in the amount of EUR 4.1 thousand); Ms. Andreja Kert: EUR 6,5 thousand; Dr. Peter Kraljič: EUR 5.0 thousand (of which travel reimbursement in the amount of EUR 1.4 thousand); Dr. Viljem Pšeničny: EUR 2.0 thousand; Ms. Blanka Vezjak, M.Sc.: EUR 4.5 thousand (of which travel reimbursement in the amount of EUR 0.6 thousand); Ms. Alenka Stanič, M.Sc.: EUR 0.7 thousand and Mr. Hugo Bosio: EUR 0.9 thousand.

In SID Bank in 2010, the earnings of other employees with service contracts amounted EUR 534 thousand; in SID Bank Group they amounted to EUR 1,479 thousand.

General and administrative costs

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Material costs	(149)	(143)	(287)	(263)
Service costs	(1,610)	(1,685)	(2,938)	(2,879)
Total	(1,759)	(1,828)	(3,225)	(3,142)

Costs of payments to auditors (part of the service costs item - in net amount)

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Auditing of the annual report	(64)	(46)	(117)	(112)
Other auditing services	(11)	(1)	(12)	(1)
Total	(75)	(47)	(129)	(113)

2.4.10. Depreciation, amortization

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Depreciation of tangible fixed assets	(442)	(459)	(591)	(614)
Amortization of intangible assets	(174)	(184)	(257)	(267)
Total	(616)	(643)	(848)	(881)

2.4.11. Dividend income/expenses

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Income/Expenses for banking operations	1,667	(2,085)	1,667	(2,085)
Income/expenses for liabilities from insurance contracts	0	0	7,465	(8,618)
Income/Expenses for other operations	(51)	100	207	147
Total	1,616	(1,985)	9,339	(10,556)

Income/Expenses for banking operations

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Net changes in provisions for guarantees	634	(685)	634	(685)
- Provision expenses	(5,322)	(3,623)	(5,322)	(3,623)
- Revenues from the release of provisions	5,956	2,938	5,956	2,938
Net change in provisions for undrawn loans	1,033	(1,400)	1,033	(1,400)
- Provision expenses	(4,144)	(4,877)	(4,144)	(4,877)
- Revenues from the release of provisions	5,177	3,477	5,177	3,477
Total	1,667	(2,085)	1,667	(2,085)

Income/expenses for liabilities from insurance contracts

	SID Bank Group	
	2010	2009
Changes in gross unearned premiums	(1,833)	133
Changes in unearned premiums - reinsurers' share	1,391	(172)
Changes in gross provisions for outstanding claims	6,137	(17,777)
Change in provisions for outstanding claims – reinsurers' share	862	10,127
Changes in gross provision for bonuses and rebates	(899)	25
Reinsurers' share in expenses for bonuses and rebates	449	(44)
Changes in provisions for unexpired risks	2,957	(1,779)
Change in provisions for outstanding claims – reinsurers' share	(1,599)	869
Total	7,465	(8,618)

Income/Expenses for other operations

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Net changes in provisions for legal issues	0	108	0	108
- Provision expenses	0	108	0	108
Net change in provisions for pensions and similar liabilities	(51)	(8)	(75)	(12)
- Provision expenses	(51)	(136)	(78)	(140)
- Revenues from the release of provisions	0	128	3	128
Net deferred revenues from reinsurance commissions	0	0	286	51
- Provision expenses	0	0	(399)	(537)
- Revenues from the release of provisions	0	0	685	588
Net changes in provisions for factoring	0	0	(4)	0
Total	(51)	100	207	147

Provision balance is presented in detail in Item 2.3.13. of the financial section of the annual report.

2.4.12. Impairments

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Impairment of loans, guarantees and receivables measured at amortized cost	(49,228)	(28,457)	(57,648)	(36,478)
Impairment of available-for-sale financial assets	(506)	0	(506)	(10)
Impairments of other assets	(94)	(4)	(749)	(328)
Adjustment to impairments of loans granted to companies of the group	0	0	948	2,084
Income from loans, guarantees and receivables measured at amortized cost	17,563	9,552	18,894	11,096
Income from the elimination of impairments of available-for-sale financial assets	0	0	0	37
Income from the elimination of impairments of other assets	73	3	73	3
Total	(32,192)	(18,906)	(38,988)	(23,596)

Notes to impairments are presented in Item 6.4. in the business section of the annual report, while changes in impairments are presented in Item 2.3.4. of the financial section of the annual report.

2.4.13. Corporate income tax on ordinary activities

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Income tax	(1,557)	(231)	(4,163)	(755)
Deferred taxes	105	1	891	1,892
Total	1,452	(230)	(3,272)	1,137

Receivables and liabilities due to deferred taxes are presented in detail in Item 2.3.9. of the financial section of the annual report.

Income tax and tax calculated according to applicable tax rates (difference between accounting profit and tax profit) differ as shown bellow.

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Profit/loss	7,178	1,178	14,421	(6,521)
Tax profit (according to applicable tax rates in respective countries)	(1,436)	(247)	(3,398)	(647)
Tax base increasing revenues	5	31	1,504	620
Expenditures not recognized in tax	(157)	(50)	(7,417)	(786)
Expenditures recognized in tax	0	0	5,076	26
Increase in tax base	(9)	(3)	(38)	(13)
Tax reliefs	40	38	110	45
Tax	(1,557)	(231)	(4,163)	(755)

Current tax represents the tax amount which has to be paid according to the Corporate Income Tax Act at the prescribed tax rate. Statutory tax rate for 2010 was 20 percent; effective tax rate was 21.7 percent.

In SID Bank Group the statutory tax rate for the companies in Slovenia and Croatia amounted to 20 percent; for the companies in Serbia and Bosnia and Herzegovina it amounted to 10 percent. The effective tax rate for SID Bank Group for 2010 was 28.9 percent.

The largest part of non-deductible expenditures refer to unrecognized expenditure due to permanent impairment of two securities in the amount of EUR 506 thousand, provisions for retirement severance pay and loyalty bonuses, which in the amount of 50 percent of formed are non-deductible, and to 50 percent of expenses for Supervisory Board, representation and unrecognized expenses for donations.

Deferred tax income or expense results from the change of carrying amounts of deferred tax assets or deferred tax liabilities. SID Bank had EUR 303 thousand due to deferred taxes as at 31 December 2010.

SID Bank had no outstanding tax liabilities as at 31 December 2010.

In SID Bank Group corporate income tax liability for 2010 amounted to EUR 4,163 thousand. The liability in income statement was reduced by deferred tax for tax from unused tax losses, impairment of debt securities, from receivables adjustments formed and from the demarcation of expenses and revenues in total amount of EUR 891 thousand.

Deferred tax income or expense results from the change of carrying amounts of deferred tax assets or deferred tax liabilities. SID Bank Group had net receivables in the amount of EUR 1,691 thousand due to deferred taxes as at 31 December 2010.

SID Bank Group had no outstanding tax liabilities on 31 December 2010.

2.4.14 Net profit per share

	SID Bank	
	2010	2009
Number of ordinary registered no-par value shares	3,121,741	3,121,741
Treasury shares	18,445	18,445
Net profit for the period	5,726	948
Net profit per share	1.85	0.31

2.5. Geographical structure

Revenues and long-term assets in Slovenia and abroad are disclosed in detail in Chapter 4. of the financial section of the annual report.

2.6. Relations with subsidiaries
(In EUR thousand)

2.6.1. Loans given

	SID Bank			
	Subsidiary companies		Total associated companies and subsidiaries	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Loans given	0	25	88,308	81,116
Value adjustments	0	(1)	(5,036)	(4,314)
Total	0	24	83,272	76,802

2.6.2. Other receivables

	SID Bank			
	Subsidiary companies		Total associated companies and subsidiaries	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Other receivables - receivables for services	0	39	0	0

2.6.3. Net interest

	SID Bank			
	Subsidiary companies		Total associated companies and subsidiaries	
	2010	2009	2010	2009
Income	0	5	4,120	2,467
Total	0	5	4,120	2,467

Interest rate risk - realized interest rates in percent

	SID Bank			
	Subsidiary companies		Total associated companies and subsidiaries	
	2010	2009	2010	2009
Assets: Interest rate risk - realized interest rates in percent	/	5.00	2.077-5.453	4.00 - 6.31

2.6.4. Dividend income

	SID Bank			
	Subsidiary companies		Total associated companies and subsidiaries	
	2010	2009	2010	2009
Dividend income	0	138	0	2,336

2.6.5. Net fees

	SID Bank			
	Subsidiary companies		Total associated companies and subsidiaries	
	2010	2009	2010	2009
Income	0	0	101	81
Total	0	0	101	81

2.6.6. Other net operating profits/losses

	SID Bank			
	Subsidiary companies		Total associated companies and subsidiaries	
	2010	2009	2010	2009
Income	276	319	0	0
Expenses	(3)	(11)	0	0
Total	273	308	0	0

2.6.7. Guarantees

	SID Bank			
	Subsidiary companies		Total associated companies and subsidiaries	
	2010	2009	2010	2009
Guarantees issued by the parent company to subsidiaries	0	0	0	950
Total	0	0	0	950

By the end of 2010, the parent company issued to the subsidiary non-binding comfort letters in the amount of EUR 64.9 million.

The majority of revenues from non-banking services relates to rents charged for business premises, services provided for the compilation of credit rating information, information support services, treasury, accounting and human resources services.

All legal transactions in the group were conducted in such manner, that under circumstances known to contract partners at the time of transaction, no deprivation among the companies occurred.

All the transactions were carried out at market conditions and in accordance with the arms length principal.

Transactions with the employees (members of the management, employees and representatives of the supervisory bodies) are recorded in Item 2.4.9. of the financial section of the business report.

2.7. Events after the statement of financial position date

There were no business events after the statement of financial position date that would influence the separate and consolidated financial statements of SID Bank and SID Bank Group.

However, the following business event was important for SID Bank:

In March 2011 an increase in the amount of EUR 350 million of the Eurobond issue in the international capital market was realized in SID Bank.

3. Risk management and other disclosures

(In EUR thousand)

Risk management for SID Bank and SID Bank Group is also presented in section 6.4. of business section of the annual report.

3.1. Liquidity Risk

Managing liquidity risk means maintaining sufficient liquidity sources to settling current liabilities. The companies of the SID Bank Group manage liquidity risk by planning inflows and outflows and by ensuring an appropriate balance of highly liquid financial investments. Therefore, part of the investments of the SID Bank Group is short-term, which reduces the liquidity risk.

3.1.1. SID Bank - Assets and liabilities items according to residual maturity as at 31 December 2010

	Sight	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Cash and balances with the central bank	12	0	0	0	0	0	12
Financial assets held for hedging	0	0	0	9,730	3,625	1,208	14,563
Available-for-sale financial assets	169	2,088	0	14,093	83,064	11,542	110,956
Loans	5,127	33,470	21,115	525,852	1,597,597	1,569,713	3,752,874
Property, plant and equipment	0	0	0	0	0	4,135	4,135
Intangible assets	0	0	0	0	0	252	252
Long-term investments in equity of subsidiaries, associates and joint ventures	0	0	0	0	0	8,831	8,831
Corporate income tax assets	0	1	3	0	71	351	426
Other assets	0	295	55	54	0	0	404
Non-current assets held for sale	0	0	0	3,088	0	0	3,088
TOTAL ASSETS	**5,308**	**35,854**	**21,173**	**552,817**	**1,684,357**	**1,596,032**	**3,895,541**
Financial liabilities with the central bank	0	0	1,001	0	0	0	1,001
Financial liabilities held for trading	0	0	0	0	29	0	29
Financial liabilities measured at amortized cost	0	5	40,195	591,736	1,382,362	1,545,564	3,559,862
Provision	1	604	344	713	255	844	2,761
Corporate income tax liabilities	0	0	0	1,357	79	36	1,472
Other liabilities	0	131	721	1,712	36	0	2,600
Share capital	0	0	0	0	0	300,000	300,000
Capital reserves	0	0	0	0	0	1,139	1,139
Revaluation surplus	0	(2)	0	21	34	37	90
Reserves from profit (including retained profit)	0	0	0	0	0	25,191	25,191
Treasury shares	0	0	0	0	0	(1,324)	(1,324)
Net profit for the year	0	0	0	0	0	2,720	2,720
TOTAL LIABILITIES	**1**	**738**	**42,261**	**595,539**	**1,382,795**	**1,874,207**	**3,895,541**
INCONSISTENCY IN FINANCIAL ASSETS AND FINANCIAL LIABILITIES	**5,307**	**35,116**	**(21,088)**	**(42,722)**	**301,561**	**(278,174)**	**0**

3.1.2. SID Bank Group - Assets and liabilities items according to residual maturity as at 31 December 2010

	Sight	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Cash and balances of transaction accounts with the state and the central bank	13	0	0	0	0	0	13
Financial assets held for hedging	0	0	0	9,730	3,625	1,208	14,563
Available-for-sale financial assets	392	2,088	683	16,364	95,763	17,348	132,638
Loans	32,160	77,311	85,417	561,525	1,563,403	1,569,713	3,889,529
Property, plant and equipment	0	0	0	0	0	4,435	4,435
Investment property	0	0	0	0	0	157	157
Intangible assets	0	0	0	0	0	882	882
Long-term investments in equity of subsidiaries, associates and joint ventures	0	0	0	0	0	419	419
Corporate income tax assets	0	1	418	0	1,458	353	2,230
Other assets	6,783	11,505	7,178	6,319	9,428	0	41,213
Non-current assets held for sale	0	0	0	1	0	0	1
TOTAL ASSETS	**39,348**	**90,905**	**93,696**	**593,939**	**1,673,677**	**1,594,515**	**4,086,080**
Financial liabilities with the central bank	0	0	1,001	0	0	0	1,001
Financial liabilities held for trading	0	0	0	0	29	0	29
Financial liabilities measured at amortized cost	0	1,166	78,724	687,083	1,367,205	1,545,564	3,679,742
Provision	1	8,400	10,987	9,320	18,807	911	48,426
Corporate income tax liabilities	0	0	2,052	1,357	79	36	3,524
Other liabilities	0	1,371	5,318	1,778	36	0	8,503
Share capital	0	0	0	0	0	300,000	300,000
Capital reserves	0	0	0	0	0	1,139	1,139
Revaluation surplus	0	0	68	23	34	148	273
Reserves from profit (including retained profit)	0	0	0	0	0	39,023	39,023
Treasury shares	0	0	0	0	0	(1,324)	(1,324)
Net profit for the year	0	0	0	0	0	5,744	5,744
TOTAL LIABILITIES	**1**	**10,937**	**98,150**	**699,561**	**1,386,190**	**1,891,241**	**4,086,080**
INCONSISTENCY IN FINANCIAL ASSETS AND FINANCIAL LIABILITIES	**39,347**	**79,968**	**(4,454)**	**(105,622)**	**287,487**	**(296,726)**	**0**

Internal procedures for liquidity management of SID Bank Group portfolios proceed in accordance with the Policy of Liquidity Risk Management, which defines manners of management of assets and funds on a daily level, as well as on a long-term level.

These procedures ensure regular daily fulfilment of all the monetary liabilities of the bank and the whole group, as well as quality management of operational and structural liquidity. For the purpose of monitoring and measuring of liquidity risk, the bank calculates liquidity ration in the manner stipulated by a Bank of Slovenia decree. Due to precautionary principle, there is an internally determined liquidity ratio, which must be fulfilled by SID Bank, and which is higher than the one stipulated by the Bank of Slovenia, thus ensuring additional safety measure against liquidity risk.

Treasury in cooperation with other organizational units of SID Bank plans weekly and monthly liquidity flows, as well as simulates in advance the first class liquidity ratio. In case of need for improvement of operational or structural liquidity, Treasury proposes to Liquidity Committee adoption of certain measures for control of these risks (extension of maturity of passive transactions, shortening of maturity of active transactions, hiring of deposits and monetary market lines, reduction of guarantee and credit potential etc.).

3.2. Foreign exchange risk

In order to neutralise as much as possible the effects of exchange rate differences on loans in EUR, SID Bank Group terms advances of transferors of receivables to EUR. In the insurer sector SID Bank Group harmonizes as much as possible the currency structure of assets covering technical provisions with currency structure of exposure.

3.2.1. SID Bank - Assets and liabilities items according to foreign currencies as at 31 December 2010

	EUR	USD	Other currencies	Total
Cash and balances with the central bank	12	0	0	12
Financial assets held for hedging	14,563	0	0	14,563
Available-for-sale financial assets	110,956	0	0	110,956
Loans	3,737,677	15,197	0	3,752,874
Property, plant and equipment	4,135	0	0	4,135
Intangible assets	252	0	0	252
Long-term investments in equity of subsidiaries, associates and joint ventures	8,831	0	0	8,831
Corporate income tax assets	426	0	0	426
Other assets	404	0	0	404
Non-current assets held for sale	3,088	0	0	3,088
TOTAL ASSETS	**3,880,344**	**15,197**	**0**	**3,895,541**
Financial liabilities with the central bank	1,001	0	0	1,001
Derivative financial instruments held for trading	29	0	0	29
Financial liabilities measured at amortized cost	3,544,799	15,063	0	3,559,862
Provision	2,723	0	38	2,761
Corporate income tax liabilities	1,472	0	0	1,472
Other liabilities	2,600	0	0	2,600
Share capital	300,000	0	0	300,000
Capital reserves	1,139	0	0	1,139
Revaluation surplus	90	0	0	90
Reserves from profit (including retained profit)	25,191	0	0	25,191
Treasury shares	(1,324)	0	0	(1,324)
Net profit for the year	2,720	0	0	2,720
TOTAL LIABILITIES	**3,880,440**	**15,063**	**38**	**3,895,541**
INCONSISTENCY IN FINANCIAL ASSETS AND FINANCIAL LIABILITIES	**(96)**	**134**	**(38)**	**0**

3.2.2. SID Bank Group - Assets and liabilities items according to foreign currencies as at 31 December 2010

	EUR	With currency clause EUR	USD	GBP	Other currencies	Total
Cash and balances with the central bank	13	0	0	0	0	13
Financial assets held for hedging	14,563	0	0	0	0	14,563
Available-for-sale financial assets	132,638	0	0	0	0	132,638
Loans	3,751,457	115,060	15,213	19	7,780	3,889,529
Property, plant and equipment	4,339	0	0	0	96	4,435
Investment property	0	0	0	0	157	157
Intangible assets	845	0	0	0	37	882
Long-term investments in equity of subsidiaries, associates and joint ventures	419	0	0	0	0	419
Corporate income tax assets	1,953	1	0	0	276	2,230
Other assets	38,852	984	0	0	1,377	41,213
Non-current assets held for sale	1	0	0	0	0	1
TOTAL ASSETS	**3,945,080**	**116,045**	**15,213**	**19**	**9,723**	**4,086,080**
Financial liabilities with the central bank	1,001	0	0	0	0	1,001
Financial liabilities held for trading	29	0	0	0	0	29
Financial liabilities measured at amortized cost	3,642,819	17,988	15,063	0	3,872	3,679,742
Provision	48,335	0	0	0	91	48,426
Corporate income tax liabilities	3,313	0	0	0	211	3,524
Other liabilities	8,112	54	3	0	334	8,503
Share capital	300,000	0	0	0	0	300,000
Capital reserves	1,139	0	0	0	0	1,139
Revaluation surplus	273	0	0	0	0	273
Reserves from profit (including retained profit)	37,159	0	0	0	1,864	39,023
Treasury shares	(1,324)	0	0	0	0	(1,324)
Net profit for the year	6,153	0	0	0	(409)	5,744
TOTAL LIABILITIES	**4,047,009**	**18,042**	**15,066**	**0**	**5,963**	**4,086,080**
INCONSISTENCY IN FINANCIAL ASSETS AND FINANCIAL LIABILITIES	**(101,929)**	**98,003**	**147**	**19**	**3,760**	**0**

Other currencies represent the functional currency of subsidiaries where we believe there is no currency risk.

3.3. Interest Rate Risk

In assets, available-for-sale assets, given loans and cash in settlement and business accounts are exposed to interest rate risk. In liabilities, borrowed loans and issued securities are exposed to interest rate risk.

3.3.1. SID Bank - Assets and liabilities items according to exposure to interest rate risk as at 31 December 2010

	Total	Interest free	Total Interest accrued	Sight	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Cash and balances with the central bank	12	0	12	12	0	0	0	0	0
Financial assets held for hedging	14,563	14,563	0	0	0	0	0	0	0
Available-for-sale financial assets	110,956	2,137	108,819	30	5,015	9,822	15,561	68,751	9,640
Loans	3,752,874	17,049	3,735,825	7,525	454,724	678,940	2,522,339	24,082	48,215
Property, plant and equipment	4,135	4,135	0	0	0	0	0	0	0
Intangible assets	252	252	0	0	0	0	0	0	0
Long-term investments in equity of subsidiaries, associates and joint ventures	8,831	8,831	0	0	0	0	0	0	0
Corporate income tax assets	426	426	0	0	0	0	0	0	0
Other assets	404	404	0	0	0	0	0	0	0
Non-current assets held for sale	3,088	3,088	0	0	0	0	0	0	0
TOTAL ASSETS	**3,895,541**	**50,885**	**3,844,656**	**7,567**	**459,739**	**688,762**	**2,537,900**	**92,833**	**57,855**
Financial liabilities with the central bank	1,001	0	1,001	0	0	0	0	0	0
Financial liabilities held for trading	29	29	0	0	0	0	0	0	0
Financial liabilities measured at amortized cost	3,559,862	0	3,559,862	0	511,213	216,712	1,905,351	815,143	111,443
Provision	2,761	2,761	0	0	0	0	0	0	0
Corporate income tax liabilities	1,472	1,472	0	0	0	0	0	0	0
Other liabilities	2,600	2,600	0	0	0	0	0	0	0
Share capital	300,000	300,000	0	0	0	0	0	0	0
Capital reserves	1,139	1,139	0	0	0	0	0	0	0
Revaluation surplus	90	90	0	0	0	0	0	0	0
Reserves from profit (including retained profit)	25,191	25,191	0	0	0	0	0	0	0
Treasury shares	(1,324)	(1,324)	0	0	0	0	0	0	0
Net profit for the year	2,720	2,720	0	0	0	0	0	0	0
TOTAL LIABILITIES	**3,895,541**	**334,678**	**3,560,863**	**0**	**511,213**	**217,713**	**1,905,351**	**815,143**	**111,443**
Net exposure to interest rate risk	**0**	**(283,793)**	**283,792**	**7,567**	**(51,474)**	**471,049**	**632,549**	**(722,310)**	**(53,588)**

3.3.2. SID Bank Group - Assets and liabilities items according to exposure to interest rate risk as at 31 December 2010

	Total	Interest free	Total Interest accrued	Sight	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Cash and balances of transaction accounts with the state and the central bank	13	0	13	13	0	0	0	0	0
Financial assets held for hedging	14,563	14,563	0	0	0	0	0	0	0
Available-for-sale financial assets	132,638	2,401	130,237	30	5,015	10,505	17,832	80,801	16,054
Loans	3,889,529	33,059	3,856,470	20,689	540,764	713,459	2,509,261	24,082	48,215
Property, plant and equipment	4,435	4,435	0	0	0	0	0	0	0
Investment property	157	157	0	0	0	0	0	0	0
Intangible assets	882	882	0	0	0	0	0	0	0
Long-term investments in equity of subsidiaries, associates and joint ventures	419	419	0	0	0	0	0	0	0
Corporate income tax assets	2,230	2,230	0	0	0	0	0	0	0
Other assets	41,213	41,132	81	0	27	54	0	0	0
Non-current assets held for sale	1	1	0	0	0	0	0	0	0
TOTAL ASSETS	**4,086,080**	**99,279**	**3,986,801**	**20,732**	**545,806**	**724,018**	**2,527,093**	**104,883**	**64,269**
Financial liabilities with the central bank	1,001	0	1,001	0	0	1,001	0	0	0
Financial liabilities held for trading	29	29	0	0	0	0	0	0	0
Financial liabilities measured at amortized cost	3,679,742	621	3,679,121	0	593,628	245,139	1,913,768	815,143	111,443
Provision	48,426	48,426	0	0	0	0	0	0	0
Corporate income tax liabilities	3,524	3,524	0	0	0	0	0	0	0
Other liabilities	8,503	8,503	0	0	0	0	0	0	0
Share capital	300,000	300,000	0	0	0	0	0	0	0
Capital reserves	1,139	1,139	0	0	0	0	0	0	0
Revaluation surplus	273	273	0	0	0	0	0	0	0
Reserves from profit (including retained profit)	39,023	39,023	0	0	0	0	0	0	0
Treasury shares	(1,324)	(1,324)	0	0	0	0	0	0	0
Net profit for the year	5,744	5,744	0	0	0	0	0	0	0
TOTAL LIABILITIES	**4,086,080**	**405,958**	**3,679,121**	**0**	**593,628**	**246,140**	**1,913,768**	**815,143**	**111,443**
Net exposure to interest rate risk	**0**	**(306,679)**	**306,679**	**20,732**	**(47,822)**	**477,878**	**613,325**	**(710,260)**	**(47,174)**

3.3.3. Sensitivity analysis

SID Bank and SID Bank Group yearly compile a sensitivity analysis of all assets and liabilities to sources of funds, which pay interest, to the change of interest rate. Separately an analysis of available-for-sale financial assets is compiled.

Sensitivity analysis of all assets and liabilities items sensitive to interest rate is based on the assumption that the market interest rate would change by 100 basis points (1 percent p.a.). The impact on net interest income in the first year of change has also been calculated.

If the market interest rates increased by 100 basis points, net interest income of SID Bank would increase by EUR 3,219 thousand in 2011 (by EUR 1,118 thousand in 2010). The change would be reflected as higher revenues in the statement of comprehensive income. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed. The higher impact is mostly due to the increase in the assets and liabilities items sensitive to interest rate.

If the market interest rates change for less or more, the calculated results are proportional.

If the market interest rates increased by 100 basis points, net interest income of SID Bank Group would increase by EUR 3,481 thousand in 2011 (by EUR 1,500 thousand in 2010). The change would be reflected as higher revenues in the statement of comprehensive income. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed.

If the market interest rates change for less or more, the calculated results are proportional.

Available-for-sale financial assets

The sensitivity analysis of the securities portfolio carried out by SID Bank was based on the change in of the interest rate. The analysis shows how the fair values of securities or future cash flows of financial instruments would fluctuate due to the changes in market interest rates on the reporting date. The analysis does not include deposits given, which are typically of a very short-term nature and placed at a pre-arranged fixed interest rate.

The analysis separately calculates the responsiveness of bonds with variable and those with fixed interest rates in view of the changes in the market interest rate. The analysis is based on the assumption of a change in the market interest rate by 100 basis points (1 percent p.a.).

SID Bank

In EUR thousand	2010 +100 bps	2010 -100 bps	2009 +100 bps	2009 -100 bps
BONDS AT FIXED INTEREST RATE				
Fixed - change of portfolio	-2,048	2,048	-1,200	1,200
Increase or decrease in capital	-2,048	2,048	-1,200	1,200
BONDS AT FLOATING INTEREST RATE				
Floating - change of portfolio	105	-105	106	-106
Impact on the statement of comprehensive income	105	-105	106	-106
TOTAL				
Total - change of portfolio	-1,943	1,943	-1,094	1,094
Increase or decrease in capital	-2,048	2,048	-1,200	1,200
Impact on the statement of comprehensive income	105	-105	106	-106

SID Bank Group

In EUR thousand	2010 +100 bps	2010 -100 bps	2009 +100 bps	2009 -100 bps
BONDS AT FIXED INTEREST RATE				
Fixed - change of portfolio	-2,376	2,376	-1,521	1,521
Increase or decrease in capital	-2,376	2,376	-1,521	1,521
BONDS AT FLOATING INTEREST RATE				
Floating - change of portfolio	166	-166	172	-172
Impact on the statement of comprehensive income	166	-166	172	-172
TOTAL				
Total - change of portfolio	-2,210	2,210	-1,349	1,349
Increase or decrease in capital	-2,376	2,376	-1,521	1,521
Impact on the statement of comprehensive income	166	-166	172	-172

3.4. Credit Risk

SID Bank and SID bank Group have compiled adequate guidelines concerning credit rating classification of clients, determination of transactions' limits and processes of investment approval. The guidelines include all the data, criteria and model of classification of clients and investments.

Items included in credit risk are: loans and deposits given, guarantees and approved undrawn loans.

Total credit exposure

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Gross exposure	3,922,185	3,231,575	4,074,389	3,391,414
Individual impairments	(40,982)	(18,594)	(59,343)	(30,479)
Group impairments	(38,524)	(28,701)	(34,127)	(24,933)
Delimited fees and commissions	(6,275)	(4,939)	(7,096)	(6,732)
Net exposure	3,836,404	3,179,341	3,973,823	3,329,270

	SID Bank			
	31.12.2010		31.12.2009	
	Gross exposure	Impairments	Gross exposure	Impairments
Undue/group impaired	3,761,296	(38,523)	3,193,260	(28,672)
Undue/individually impaired	110,515	(15,978)	16,662	(7,530)
Undue/unimpaired	19,923	0	7,299	0
Due impaired	30,451	(25,005)	14,354	(11,093)
Total	3,922,185	(79,506)	3,231,575	(47,295)

	SID Bank Group			
	31.12.2010		31.12.2009	
	Gross exposure	Impairments	Gross exposure	Impairments
Undue/group impaired	3,822,326	(34,072)	3,156,176	(24,904)
Undue/individually impaired	120,002	(16,806)	25,476	(8,383)
Undue/unimpaired	50,853	0	146,923	0
Due/unimpaired	1,815	0	19,851	0
Due impaired	79,393	(42,593)	42,988	(22,125)
Total	4,074,389	(93,470)	3,391,414	(55,412)

Aging receivables are insured by real estate mortgage, liens on property, assignment of debts, guarantees, bonds and other insurances.

Loan rescheduling

As at 31 December 20010, the carrying amount of rescheduled loans in SID Bank amounted to EUR 22,384 thousand (in 2009: EUR 103,683 thousand). A new agreement on the repayment conditions was reached for 6 Slovene and 1 foreign company.

As at 31 December 2010, the carrying amount of rescheduled loans in SID Bank Group amounted to EUR 26,552 thousand (in 2009: EUR 112.853 thousand). Loan reschedules of significant value in SID Bank Group were concluded with 29 companies. New loan reschedules in SID Bank Group were concluded with 22 Slovene and 7 foreign companies.

SID Bank or SID Bank Group took into account the expected cash flow when establishing of the amount of impairments.

Individually impaired loans

	SID Bank		SID Bank Group	
	2010	2009	2010	2009
Gross exposure	140,932	28,781	190,600	66,230
Individual impairments	(40,982)	(18,594)	(59,343)	(30,479)
Delimited fees and commissions	(350)	(11)	(1,171)	(11)
Net exposure	99,600	10,176	130,086	35,740

Value of collateral for granted and received loans

Total value of loan collateral in SID Bank as at 31 December 2010 was EUR 977,441 thousand (in 2009: EUR 741,215 thousand). Given the type of insurance, the largest volume consists of pledges of commercial real estate, followed by other guarantees of companies without rating or rating of less than A-, cession of claims for insurance, guarantees of companies without credit rating, guarantees of companies categorized as A class, pledging of ownership share in the company, insurance policy of SID bank for the account of the Republic of Slovenia, fiduciary transfer of real estate ownership rights, pledge of receivables for insurance and other insurances.

Total fair value of loan collateral in SID Bank Group as at 31 December 2010 was EUR 1,050,008 thousand (in 2009: EUR 795,525 thousand). Given the type of insurance, the largest volume consists of pledges of commercial real estate, followed by other guarantees of companies without rating or rating of less than A-, cession of claims for insurance, guarantees of companies without credit rating, guarantees of companies categorized as A class, pledge of ownership share in the company, insurance policy of SID bank for the account of the Republic of Slovenia, fiduciary transfer of real estate ownership rights, pledge of receivables for insurance, bills and other insurances.

Debt collection procedures or procedures of collection of receivables and liabilities are laid down in the internal company rules of the bank. Debt collection is carried out case by case in accordance with procedures of the bank.

Each debt collection, irrespective of manner and executor of the recovery, starts with oral and written reminder of the debtor.

Start of debt collection is classified in the group of regular recovery. Regular recovery includes monitoring of claims on debtors, regular monthly written reminders of debtors to overdue unpaid receivables, contacts with debtors in writing and in person, execution of set offs, as well as performance of other necessary actions which may contribute to faster, more effective and successful repayment of overdue receivables.

Subsequently, procedures of extraordinary recovery begin. These include repayment of overdue receivables from insurance instruments, which are realisable with no preceding procedures, as well as concluding agreements with debtors on manners of repayment of debts, which differ from the ones agreed upon in the basic investment contract.

If the dialogue with the debtor is not successful, court collection begins under the direction of Legal and Claims Department. Court recovery begins with the sending of reminders before lawsuit, contacts with debtors, filing of claims and/or propositions for enforcement and carrying out of other activities in court collection, as well as registering claims of the company in the compulsory settlement procedure, bankruptcy, liquidation or other procedures.

Type of recovery or collection depends on duration of overdue, amount of overdue and unpaid receivables and the extent of exposure of the company towards the debtor.

Overdue, unpaid receivables

Gross exposure of overdue, unpaid receivables as at 31 December 2010 in SID Bank amounted to EUR 30,451 thousand; they amounted to EUR 81,208 thousand in SID Bank Group.

SID Bank has overdue, unpaid receivables of 14 Slovene companies.

SID Bank Group discloses most of overdue, unpaid receivables of 46 companies. 18 of these are in Slovenia, 8 in Croatia, 11 in Serbia, 8 in Bosnia and Herzegovina and 1 in the United Kingdom.

Due loans and receivables and impairments

The structure of exposure of loans, guarantees and derivative financial instruments by maturity

Year 2010

	SID Bank					
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	2,955,894	0	0	0	0	2,955,894
Loans to clients other than banks	791,534	37	4,149	404	856	796,980
Approved undrawn loans	33,409	0	0	0	0	33,409
Guarantees	30,442	0	0	0	0	30,442
Derivative financial instruments	19,679	0	0	0	0	19,679
Total	3,830,958	37	4,149	404	856	3,836,404

Year 2009

	SID Bank					
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	2,292,737	0	0	0	0	2,292,737
Loans to clients other than banks	659,023	39	592	2,629	1	662,284
Approved undrawn loans	180,330	0	0	0	0	180,330
Guarantees	36,760	0	0	0	0	36,760
Derivative financial instruments	7,230	0	0	0	0	7,230
Total	3,176,080	39	592	2,629	1	3,179,341

Year 2010

	SID Bank Group					
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	2,975,767	0	0	0	0	2,975,767
Loans to clients other than banks	874,586	13,695	8,587	5,579	10,754	913,201
Approved undrawn loans	33,409	0	0	0	0	33,409
Guarantees	31,767	0	0	0	0	31,767
Derivative financial instruments	19,676	0	0	0	0	19,679
Total	3,935,207	13,695	8,587	5,579	10,754	3,973,823

Year 2009

	SID Bank Group					
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	2,306,952	0	0	0	0	2,306,952
Loans to clients other than banks	743,902	9,910	6,395	22,333	2,076	784,616
Approved undrawn loans	192,830	0	0	0	0	192,830
Guarantees	37,642	0	0	0	0	37,642
Derivative financial instruments	7,230	0	0	0	0	7,230
Total	3,288,556	9,910	6,395	22,333	2,076	3,329,270

Concentration of credit portfolio risks by activity

SID Bank Group assesses concentration of risks by activity

	2010		2009	
	value	in percent	value	in percent
Banks	3,023,555	74.2	2,323,314	68.5
Non-financial organizations	925,108	22.7	956,489	28.2
Other financial institutions	125,727	3.1	111,611	3.3
Total	4,074,389	100.0	3,391,414	100.0

3.5. Other disclosures for the insurance sector of the SID Bank Group

Insurance risk

Short-term receivables from private law buyers (as a rule, these are the claims of suppliers with a maturity of up to 180 days, exceptionally up to 1 year) for commercial and non-commercial risks for sales of goods and/or services at home and/or abroad on deferred payment and usually on an open account. The contracts are renewable and as a rule, the total turnover of policy holders on the foreign and/or domestic markets is insured.

The contracts are usually concluded for the period of one year, exceptionally up to three years. The contracts contain a clause on retention, which is determined by percentage of claim.

The policyholder obtains insurance coverage for an individual buyer when the limit for such coverage is granted. The limits of individual buyers represent an important tool for managing risks, which is used for determining the maximum amount of loss. Furthermore, the insurance company may reduce or cancel the granted limit for any buyer at any time. By cancelling or reducing the limit for a client exposure to such that client is reduced.

Risks can also be managed by limiting exposure by individual activities. The common exposure limits by country can be determined in the same way or by completely excluding coverage for an individual country, which represents an important tool for managing political risks.

The competences and management of insurance risks and tools for managing insurance risks

Insurance contracts can only be signed by the Management Board. The manager authorized to assume risks has the Management Board's authorization to make agreements on credit insurance up to a certain amount of the annual premium, while only the Management Board is authorized to assume risks above the amount of the annual premium. The insurance offers and contracts are prepared according to the "four-eye" principle.

The employees of the Risk Department are authorized, based on their experience, to assess risks on the basis of which the receivables due from individual debtor or the debtors belonging to the same group (companies associated in terms of ownership or management) are insured. Depending on the amount of exposure to the debtor or the group of debtors, signatures of the employees with appropriate authorizations must be provided. Insurance of large exposures to debtors is decided by the Management Board and, when a certain amount is exceeded, also reinsurers. For most of receivables to be insured, the debtor's assessment is required as well as approval of insurance by (at least) two expert colleagues or management with appropriate authorizations (four-eye principle).

Management of parent company requires that the subsidiary, which engages in insurance, regularly reports concerning concluded aggregate-based insurance transactions. At the same time it reports, how insurances change in connection with important events, which affect the risk of operation (industries, country level credit rating information, industry level credit rating information and important market information). The subsidiary discloses exposure in breakdown of separate risks, industries and geographical regions.

Reinsurance

The insurance sector of SID Bank Group protects its portfolio of insured risks by several reinsurance contracts. The majority of operations are secured by means of a quota reinsurance contract, which is multilevel, with a controlling interest of 50 percent. In claims, where the amount of its retention exceeds the maximal own share, SID-PKZ further protected its retention with an excess of loss reinsurance.

The reinsurance contract covers all risks of the insurance portfolio (insurance against commercial and non-commercial risks).

The insurance risks were further protected by a contract between SID Bank as the authorized institution representing the Republic of Slovenia (reinsurer) and SID-PKZ (cedant). This contract represents additional protection of own share in countries where non-commercial risks are also insured (and for which private market reinsurer contract is concluded), and reinsurance coverage for countries where coverage from private market reinsurers cannot be obtained. By means of two special contracts with SID Bank, which implements the program for the Republic of Slovenia, the so-called "Top-up 1 and 2" scheme for risks, which the private market was only willing to reinsure up to a certain amount, was introduced.

Frequency of and scope of losses

The business process of the insurance sector of the SID Bank Group is structured so as to manage the impact of as many factors that affect the scope and frequency of losses as possible. Several factors affect the frequency and scope of losses which otherwise affect credit risks. The economic situation has the strongest impact. The actions of the insured can also have a significant impact on the scope and frequency of losses - on the one hand through the inherent risk related to policy holder's activity and on the other hand by the method of managing risks used by the policy holder.

3.6. Assets carried at fair value and liabilities to fund sources

	SID Bank				SID Bank Group			
	31.12.2010		31.12.2009		31.12.2010		31.12.2009	
In EUR thousand	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Cash and balances with the central bank	12	12	1,004	1,004	13	13	1,004	1,004
Financial assets held for trading	0	0	248	248	0	0	248	248
Financial assets held for hedging	14,563	14,563	2,101	2,101	14,563	14,563	2,101	2,101
Available-for-sale financial assets	110,956	110,956	50,051	50,051	132,638	132,638	72,390	72,390
Loans	3,752,874	3,759,149	2,955,022	2,959,891	3,889,529	3,897,446	3,094,131	3,099,041
- Loans to banks	*2,955,894*	2,960,090	*2,292,738*	*2,296,171*	*2,976,328*	*2,980,524*	*2,309,515*	*2,313,018*
- Loans to clients other than banks	*796,980*	799,059	*662,284*	*663,720*	*913,201*	*916,922*	*784,616*	*786,023*
Property, plant and equipment	4,135	4,525	4,441	4,895	4,435	4,825	4,845	5,299
Investment property	0	0	0	0	157	157	80	80
Intangible assets	252	252	395	395	882	882	1,078	1,078
Long-term investments in equity of subsidiaries, associates and joint ventures	8,831	8,831	7,712	7,712	419	419	419	419
Corporate income tax assets	426	426	1,019	1,019	2,230	2,230	2,155	2,155
- Assets for corporate income tax	*0*	*0*	*656*	*656*	*416*	*416*	*1,180*	*1,180*
- Assets for deferred taxes	*426*	*426*	*363*	*363*	*1,814*	*1,814*	*975*	*975*
Other assets	404	404	2,902	2,902	41,213	41,213	37,182	37,182
Non-current assets held for sale and discontinued operations	3,088	3,088	0	0	1	0	0	0
TOTAL ASSETS	**3,895,541**	**3,902,206**	**3,024,895**	**3,030,218**	**4,086,080**	**4,094,386**	**3,215,633**	**3,220,997**
Financial liabilities with the central bank	1,001	1,001	0	0	1,001	1,001	0	0
Financial liabilities held for trading	29	29	271	271	29	29	271	271
Derivative financial instruments held for hedging	0	0	1,202	1,202	0	0	1,202	1,202
Financial liabilities measured at amortized cost	3,559,862	3,561,779	2,693,134	2,694,289	3,679,742	3,682,069	2,814,538	2,815,664
- Bank deposits	*0*	*0*	*155,066*	*155,066*	*0*	*0*	*155,066*	*155,066*
- Deposits of clients other than banks	*5*	*5*	*91,870*	*91,870*	*5*	*5*	*91,870*	*91,870*
- Loans of banks	*2,023,693*	*2,025,361*	*1,799,948*	*1,800,827*	*2,143,572*	*2,145,240*	*1,921,338*	*1,922,188*
- Loans to clients other than banks	*99,998*	*100,247*	*99,108*	*99,384*	*99,999*	*100,658*	*99,122*	*99,398*
- Debt securities	*1,436,166*	*1,436,166*	*547,142*	*547,142*	*1,436,166*	*1,436,166*	*547,142*	*547,142*
Provision	2,761	2,761	4,382	4,382	48,426	48,426	56,695	56,695
Corporate income tax liabilities	1,505	1,505	138	138	3,524	3,524	138	138
- Tax liabilities	*1,382*	*1,382*	*0*	*0*	*3,401*	*3,401*	*0*	*0*
- Non-current deferred tax liabilities	*123*	*123*	*138*	*138*	*123*	*123*	*138*	*138*
Other liabilities	2,478	2,478	3,785	3,785	8,503	8,503	9,063	9,063
TOTAL LIABILITIES	3,566,635	*3,568,552*	2,702,912	2,704,067	3,741,225	3,742,551	2,881,907	2,883,033
EQUITY	327,946		321,982		344,855		333,726	
TOTAL LIABILITIES AND EQUITY	**3,894,541**	***3,568,552***	**3,024,894**	**2,704,067**	**4,086,080**	**3,742,551**	**3,215,633**	**2,883,033**

The financial instruments in SID Bank's statement of financial position disclosed at fair value include financial assets and liabilities held for trading, financial assets held for hedging and available-for-sale financial assets.

The fair values of loans, property, plant and equipment and financial liabilities measured at amortized cost differ from their book values disclosed in the statement of financial position.

All listed financial instruments are initially recognized at fair value. Upon initial recognition, the fair value of a financial instrument is typically the cost of transaction. In any subsequent measurement of financial instruments, the market price of the financial instrument is used (purchase or offer price).

The fair value of loans given to banks and clients other than banks, and raised loans is the principal as at 31 December 2010 and the accrued interest for the period.

The fair value of property, plant and equipment as at 31 December 2010 was only calculated for the construction facility. The assessment was prepared on the basis of inquiries for the purchase of similar facilities comparable by size, activity and location.

The material bases for all other items of property, plant and equipment and intangible assets that would justify the reasons for the deviation of the carrying amount from the fair value are checked at least once a year. It was assessed that the carrying amount is a good approximation of the fair value. The same applies for investment property. However, they are subject to an evaluation by an independent valuer every second year.

3.7. Capital

Pursuant to the Banking Act, SID Bank calculates its capital and capital adequacy for transactions carried out on its own behalf and for its own account from its own resources.

SID Bank Equity

	31.12.2010	31.12.2009
Share capital	300,000	300,000
Treasury shares	(1,324)	(1,324)
Capital reserves	1,139	1,139
Profit reserves and retained earnings	27,911	21,735
Core capital deduction items	(252)	(396)
Core capital	327,474	321,154
Tier I additional capital	56	63
Deduction items from core capital and Tier I additional capital	(11,500)	(7,294)
Tier II additional capital	0	0
Equity	**316,029**	**313,923**
Capital adequacy ratio (in percent)	**13.53**	**16.65**

SID Bank Group

	31.12.2010	31.12.2009
Share capital	300,000	300,000
Treasury shares	(1,324)	(1,324)
Capital reserves	1,139	1,139
Profit reserves and retained earnings	33,106	28,183
Core capital deduction items	(825)	(992)
Core capital	332,096	327,006
Tier I additional capital	56	63
Deduction items from core capital and Tier I additional capital	(8,412)	(4,206)
Tier II additional capital	0	0
Equity	323,740	322,863

a) Core capital deduction items

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Intangible assets	(252)	(396)	(825)	(992)

b) Deduction items from core capital and additional capital

	SID Bank		SID Bank Group	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Investments in other financial institutions that individually exceed 10 percent of the institution's capital	(3,088)	(3,088)	-	-
Share in insurance companies	(8,412)	(4,206)	(8,412)	(4,206)
Total	(11,500)	(7,294)	(8,412)	(4,206)

In accordance with Slovene Export and Development Bank Act, the lowest amount of share capital of SID Bank is EUR 300,000 thousand, while the requisite capital adequacy ratio is 4 percent.

Capital management policy is presented in Item 6.4. of the business section of the annual report.

4. Segmented reporting

(In EUR thousand)

Distribution and segmented disclosures is done based on business characteristics of separate activities of SID Bank Group. When disclosing information in segments, we have taken into consideration supervisory approach and contents of reports used by the management of the bank for the management of SID Bank Group. It is based on the system of internal financial reporting of SID Bank Group to members of representatives of SID Bank in supervisory bodies of the companies in SID Bank Group. Business operation in segments of operation is monitored on the basis of accounting policies as presented in Item 2.2. of the financial section of the annual report. Reports are compiled in compliance with the IFRS.

Activities of the SID Bank Group can be divided into three separate segments:

- Banking,
- Credit insurance,
- Factoring.

Each segment is organized into a legal entity in the form of independent business company. In SID Bank Group the banking activity is conducted in the parent company - SID Bank, credit insurance activity is conducted in SID-PKZ and factoring is conducted in PRVI FAKTOR Group. Separate business segments include products and services, which differ from other segments in their risk and profitability.

Transactions between the segments are conducted under usual business conditions.

The majority portion of assets is bound to the geographic area of Slovenia. Also, the majority portion of income is realized on Slovenian market. Consequently the geographical segments are prepared accordingly.

Geographical structure of long-term assets, interest income and income from fees

	SID Bank			
	2010		2009	
	Slovenia	Abroad	Slovenia	Abroad
Balance of long-term assets as at 31 December	3,074,924	205,466	2,648,413	85,319
Interest income and income from fees	89,125	19,414	83,488	774

	SID Bank Group			
	2010		2009	
	Slovenia	Abroad	Slovenia	Abroad
Balance of long-term assets as at 31 December	3,070,241	197,949	2,680,305	87,426
Interest income and income from fees	91,782	31,969	86,698	15,537

Statement of financial position by segments as at 31 December 2010

	31.12.2010				
	SID Bank	SID-PKZ	PF Group	Eliminations	SID Bank Group
Cash and balances with the central bank	12	0	1	0	13
Financial assets held for hedging	14,563	0	0	0	14,563
Available-for-sale financial assets	110,956	21,681	1	0	132,638
Loans	3,752,874	12,273	161,734	(37,352)	3,889,529
Property, plant and equipment	4,135	96	204	0	4,435
Investment property	0	0	157	0	157
Intangible assets	252	58	84	488	882
Long-term investments in equity of subsidiaries, associates and joint ventures	8,831	0	0	(8,412)	419
Corporate income tax assets	426	80	1,724	0	2,230
Other assets	404	38,363	2,468	(22)	41,213
- Assets from insurance operations	*0*	*38,313*	*0*	*0*	*38,313*
- Other assets	*404*	*50*	*2,468*	*(22)*	*2,900*
Non-current assets held for sale	3,088	0	0	(3,087)	1
TOTAL ASSETS	**3,895,541**	**72,551**	**166,373**	**(48,385)**	**4,086,080**
Financial liabilities with the central bank	1,001	0	0	0	1,001
Financial liabilities held for trading	29	0	0	0	29
Financial liabilities measured at amortized cost	3,559,862	0	161,948	(42,068)	3,679,742
Provision	2,761	45,595	70	0	48,426
- Bank provision	*2,577*	*0*	*0*	*0*	*2,577*
- Liabilities from insurance contracts	*0*	*43,933*	*0*	*0*	*43,933*
- Other provision	*184*	*1,662*	*70*	*0*	*1,916*
Corporate income tax liabilities	1,472	1,841	211	0	3,524
Other liabilities	2,600	4,859	1,006	(22)	8,503
EQUITY	327,816	20,256	3,078	(6,295)	344,855
TOTAL LIABILITIES AND EQUITY	**3,895,541**	**72,551**	**166,373**	**(48,385)**	**4,086,080**
CONTINGENCY RESERVES	**129,400**				**129,400**
INTEREST RATE EQUALIZATION PROGRAMME	**7,830**				**7,830**

In the course of consolidation for 2010 loans given in the amount of EUR 42,068 thousand have been eliminated. Loans received in the same amount have been eliminated. Accordingly, impairments formed for these loans in the amount of EUR 4,716 thousand have been eliminated. On the other side, due provision adjustments in the amount of EUR 3,768 thousand have been made. For the remaining amount of EUR 948 thousand an adjustment was made in net profit for the period.

Furthermore, other assets in the amount of EUR 22 thousand and other liabilities in the same amount have been eliminated. Other assets or other liabilities represent in content short-term operating receivables or short-term operating liabilities.

Investments in subsidiary and associated companies in the amount of EUR 11,500 thousand have been eliminated. Accordingly, appropriate eliminations from the item share capital in the amount of EUR 9,997 thousand and in capital reserves in the amount of EUR 945 thousand have been made. Profit reserves in the amount of EUR 70 thousand have been eliminated. Goodwill in the amount of EUR 488 thousand was formed for the difference in intangible assets.

Furthermore, in the item net profit for the year there was an increase in the amount of EUR 917 thousand (transfer of credit risk equalization provisions) and a reduction in profit reserves in the same amount.

In consolidation procedures the matter of proportionality of ownership interest of the parent company in the associated company was taken into account appropriately. A detailed presentation is in Item 2.1.2. of the financial section of the annual report.

	31.12.2009				
	SID Bank	SID-PKZ	PF Group	Eliminations	SID Bank Group
Cash and balances of transaction accounts with the state and the central bank	1,073	102	2,461	0	3,636
Financial assets held for trading	248	0	0	0	248
Financial assets held for hedging	2,101	0	0	0	2,101
Available-for-sale financial assets	50,051	22,338	1	0	72,390
Loans	2,954,952	7,680	162,184	(33,317)	3,091,499
Property, plant and equipment	4,441	94	310	0	4,845
Investment property	0	0	80	0	80
Intangible assets	395	88	107	488	1,078
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	0	0	(7,293)	419
Corporate income tax assets	1,019	162	974	0	2,155
Other assets	2,902	32,277	2,037	(34)	37,182
- Assets from insurance operations	*0*	*32,228*	*0*	*0*	*32,228*
- Other assets	*2,902*	*49*	*2,037*	*(34)*	*4,954*
TOTAL ASSETS	**3,024,894**	**62,741**	**168,154**	**(40,156)**	**3,215,633**
Financial liabilities held for trading	271	0	0	0	271
Derivative financial instruments held for hedging	1,202	0	0	0	1,202
Financial liabilities measured at amortized cost	2,693,134	0	158,489	(37,085)	2,814,538
Provision	4,382	52,227	86	0	56,695
- Bank provision	*4,250*	*0*	*0*	*0*	*4,250*
- Liabilities from insurance contracts	*0*	*50,295*	*0*	*0*	*50,294*
- Other provision	*132*	*1,932*	*86*	*0*	*2,151*
Corporate income tax liabilities	138	0	0	0	138
Other liabilities	3,785	1,347	3,965	(34)	9,063
EQUITY	321,982	9,167	5,614	(3,037)	333,726
TOTAL LIABILITIES AND EQUITY	**3,024,894**	**62,741**	**168,154**	**(40,156)**	**3,215,633**
CONTINGENCY RESERVES	**125,428**				**125,428**
INTEREST RATE EQUALIZATION PROGRAMME	**7,627**				**7,627**

Statements of comprehensive income by segments for the year 2010

	2010				
	SID Bank	SID-PKZ	PF Group	Eliminations	Total
Interest income and similar income	106,283	778	12,371	(1,996)	117,436
Interest expense and similar expense	(66,134)	0	(8,423)	1,996	(72,561)
Net interest	40,149	778	3,948	0	44,875
Fees and commissions received	2,256	0	4,107	(49)	6,314
Fees and commissions paid	(796)	(15)	(924)	49	(1,686)
Net fees and commissions	1,460	(15)	3,183	0	4,628
Realized profits/losses from financial assets and liabilities not measured at fair value through profit or loss	439	5	0	0	444
Net profits/losses from financial assets and liabilities held for trading	(47)	0	0	0	(47)
Changes in fair value when calculating risk insurance	(449)	0	0	0	(449)
Net foreign exchange gains/losses	6	4	948	0	958
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	(6)	0	14	0	8
Other net operating profits/losses	2,919	3,528	(56)	(308)	6,083
Administrative costs	(6,101)	(2,638)	(3,151)	308	(11,582)
Depreciation, amortization	(616)	(65)	(167)	0	(848)
Provision	1,616	7,736	(13)	0	9,339
Impairments	(32,192)	(616)	(7,128)	948	(38,988)
Profits/losses on ordinary activities	**7,178**	**8,717**	**(2,422)**		**14,421**
Corporate income tax on ordinary activities	(1,557)	(1,841)	(765)		(4,163)
Deferred taxes	105	(32)	818		891
Net profits/losses for the year	**5,726**	**6,844**	**(2,369)**		**11,149**
Net profits/losses for the year	**5,726**	**6,844**	**(2,369)**		**11,149**
Net profits/losses derecognized from revaluation surplus from available-for-sale financial assets	135	48	0		183
Corporate income tax on other comprehensive income	(27)	(10)	(165)		(202)
Post-tax comprehensive income for the year	**5,834**	**6,882**	**(2,534)**		**11,130**
Of owners of the parent company					11,130

In the course of consolidation for the year 2010 impairments in the amount of EUR 948 thousand have been eliminated. These impairments were formed for the loans of the parent company granted to a subsidiary in 2010.

Furthermore, interest income in the amount of EUR 1,996 EUR has been eliminated with the parent company. Interest expenses in the same amount have been eliminated with the subsidiary.

Intra-group revenues from fees and commissions amounted to EUR 49 thousand and have been eliminated from the consolidation accordingly. Also, expenses for fees and commissions in the same amount have been eliminated with the subsidiary.

Furthermore, revenues from insurance premiums in the amount of EUR 169 thousand have been eliminated from the consolidation. Administrative costs in the same amount have been eliminated.

Other operating profits/losses in the amount of EUR 249 thousand have also been eliminated. On the other side, expenses for insurance operations in the amount of EUR 74 thousand, administrative costs in the amount of EUR 139 thousand and operating losses in the amount of EUR 36 thousand have been eliminated accordingly.

Statements of comprehensive income by segments for the year 2009

	2009				
	SID Bank	SID-PKZ	PF Group	Eliminations	Total
Interest income and similar income	82,256	985	13,633	(1,094)	95,779
Interest expense and similar expense	(60,754)	0	(7,648)	1,094	(67,308)
Net interest	21,502	985	5,985	0	28,471
Dividend income	2,474	0	0	(2,474)	0
Fees and commissions received	2,006	0	4,489	(39)	6,456
Fees and commissions paid	(437)	(14)	(821)	39	(1,233)
Net fees and commissions	1,569	(14)	3,668	0	5,223
Realized profits/losses from financial assets and liabilities not measured at fair value through profit or loss	330	274	0	0	605
Net profits/losses from financial assets and liabilities held for trading	24	0	0	0	24
Changes in fair value when calculating risk insurance	(40)	0	0	0	(40)
Net foreign exchange gains/losses	44	29	1,000	0	1,073
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	(4)	0	2	0	(2)
Other net operating profits/losses	2,542	2,039	(101)	(351)	4,129
Administrative costs	(5,729)	(2,530)	(3,063)	351	(10,971)
Depreciation, amortization	(643)	(66)	(172)	0	(881)
Provision	(1,985)	(8,571)	0	0	(10,556)
Impairments	(18,906)	(292)	(6,482)	2,084	(23,596)
Profits/losses on ordinary activities	**1,178**	**(8,146)**	**837**		**(6,521)**
Corporate income tax on ordinary activities	(230)	0	(525)		(755)
Deferred taxes	1	1,617	274		1,892
Net profits/losses for the year	**948**	**(6,529)**	**587**		**(5,384)**
Net profits/losses for the year	**948**	**(6,529)**	**587**		**(5,384)**
Net profits/losses derecognized from revaluation surplus from available-for-sale financial assets	347	859	0		1,206
Corporate income tax on other comprehensive income	(70)	(172)	(45)		(287)
Post-tax comprehensive income for the year	**1,225**	**(5,842)**	**542**		**(4,465)**
Of owners of the parent company					(4,465)

5. APPENDICES

5.1. Financial statements of insurance against non-marketable risks (on behalf and for the account of the Republic of Slovenia)

Statement of financial position

In EUR thousand	31.12.2010	31.12.2009
Cash in business accounts with banks in the country	32	43
Loans to banks	99,095	101,859
Available-for-sale financial assets	25,288	18,258
Other assets	4,985	5,268
TOTAL INVESTMENTS OF CONTINGENCY RESERVES	**129,400**	**125,428**

In EUR thousand	31.12.2010	31.12.2009
Contingency reserves	124,219	120,039
Revaluation surplus from available-for-sale financial assets	286	208
Other liabilities	4,895	5,181
TOTAL LIABILITIES FOR CONTINGENCY RESERVES	**129,400**	**125,428**

Statement of comprehensive income

In EUR thousand	2010	2009
Interest income and similar income	2,219	3,101
- Loans and deposits	1,581	2,570
- Securities	638	531
- Other	0	0
Net interest	**2,219**	**3,101**
Technical items		
- Insurance and reinsurance premiums	*8,227*	*4,754*
- Reinsurance and processing commissions	*(1,038)*	*(445)*
- Claims	*(2,990)*	*(4,899)*
- Recourses	*90*	*6*
- Bonuses	(1)	0
Total technical items	**4,288**	**(584)**
Other net fees	16	13
Gains/losses from sale/realization of securities	147	103
Other operating profits/losses	0	0
Operating costs	(2,490)	(2,490)
Surplus of income over expenses	**4,180**	**143**
Net profit/loss in surplus from revaluation of available-for-sale financial assets	286	208
Comprehensive income for the year	**4,466**	**351**

5.2. Financial statements of the IREP programme (on behalf and for the account of the Republic of Slovenia)

Statement of financial position

In EUR thousand	31.12.2010	31.12.2009
Cash in business accounts with banks in the country	2	1
Loans to banks	3,481	2,843
Available-for-sale financial assets	4,286	4,782
Financial assets held for trading	60	0
Other assets	1	1
TOTAL INVESTMENTS OF IREP PROGRAMME	**7,830**	**7,627**

In EUR thousand	31.12.2010	31.12.2009
Liabilities from the interest rate equalization programme	7,732	7,585
Financial liabilities held for trading	60	
Revaluation surplus from available-for-sale financial assets	37	42
Other liabilities	1	42
TOTAL LIABILITIES OF IREP PROGRAMME	**7,830**	**7,627**

- Agent transactions (interest rate swaps)	**11,949**	**0**

Statement of comprehensive income

In EUR thousand	2010	2009
Interest income and similar income	352	197
- Loans and deposits	55	59
- Securities	114	138
- Other (interest rate swaps)	183	0
Interest expense	238	0
- Loans (interest rate equalization)	54	0
- Other (interest rate swaps)	184	0
Net interest	**114**	**197**
Other net fees	(5)	(4)
Gains/losses from sale/realization of securities	38	(15)
Surplus of income over expenses	**147**	**178**
Net profit/loss in surplus from revaluation of available-for-sale financial instruments	37	42
Comprehensive income for the year	**184**	**220**

III. DISCLOSURES IN ACCORDANCE WITH THE DECREE ON DISCLOSURES BY BANKS AND SAVINGS BANKS

Disclosures in this chapter are compiled in accordance with the Decree on Disclosures by Banks and Savings Banks. In accordance with capital legislation of the EU, SID Bank has the status of parent undertaking, therefore it is obliged to publish disclosures in accordance with this decree based on consolidated financial position.

Policy and goals of risk management

Strategy and processes of risk management

Risk management with the relation to risks, while taking into account business goals of the company, represent one of the main challenges of any bank or other financial institution. SID Bank banking group is not a homogeneous group. Business activity of the parent company is financing or crediting of legal persons, while factoring is the business activity of PRVI FAKTOR Group, of which NLB d.d., faktoring is the joint owner. In the field of factoring, processes of risk management of two owners are therefore intertwined. In risk management of SID Bank banking group these particularities need to be taken into account.

Risk management strategy and policies of SID Bank are approved by its Management Board, while the policies of Prvi faktor are approved by its supervisory body - General Meeting of Shareholders, which consists of the representatives of both companies. This method ensures harmonization of risk management rules on the level of SID Bank banking group. In order to achieve strategic goals of SID Bank banking group, special attention is paid to credit risk on the group level.

Strategy and policies of risk management are presented in Item 6.4 of the business section of the annual report.

Structure and organization

Structure and organization of risk management are described in item Risk Management in SID Bank Group of Item 6.4 in the business section of the annual report.

Extent and characteristics of risk reporting and risk measuring systems

Organization and demarcation of competences of risk management are devised in a way which prevents development of conflict of interests, as well as ensure transparent and documented process of decision making along with an adequate upward and downward information flow.

SID Bank banking group has an established system of regular reporting. On consolidated basis it prepares reports on exposure, insurances, bad investments and ongoing recovery procedures. These reports are discussed by the Credit Committee, and also acquainted with by the management board of the bank.

Risk measuring systems are integral parts of risk management policies; for the needs of supervision on consolidated basis they also comply with regulatory requirements of the Bank of Slovenia.

Hedging against risks policies, policies for reduction of risks, strategies and processes for monitoring of effectiveness of types of hedging against risks and their reduction

For the purpose of hedging against risks in SID Bank, the following documents are the most important:
- Risk Management Strategy,
- Operational Risk Management Policy,
- Interest Rate Risk Management Policy,
- Liquidity Risk Management Policy,
- Foreign Exchange Risk Management Policy,
- Credit Risk Management Policy,
- Capital Risk and Capital Management Policy,
- Rules on Limits of Exposure to Credit Risk,
- Rules on Monitoring of Exposure to Credit Risk,
- Rules on Assessment of Credit Risk Losses.

For the more significant types of risk, PRVI FAKTOR Group also has policies, which supplement risk management on the level of SID Bank banking group:

- Non-credit Risk Management Policy (Interest rate, Foreign Exchange, Liquidity Risk),
- Operational Risk Management Policy (OR),
- Policy of investment insurance in company PRVI FAKTOR Ljubljana and PRVI FAKTOR Group,
- Policy of restricting big exposure in PRVI FAKTOR Group.

Policy and objectives of risk management for each type of risk are presented in more detail in Item 6.4 of the business section, and in Item 3 of the financial section of the annual report.

Information on persons included in disclosures

Pursuant to Decree on Supervision on the Basis of Consolidation (Bank Consolidation), the consolidated financial statements include SID Bank and PRVI FAKTOR Group by the method of proportional consolidation. PRO KOLEKT Group and the CIDC institute were excluded, since their total assets account for less than 1 percent of the total assets of SID Bank and their income accounts for less than 1 percent of the income of SID Bank. Investment in PRO KOLEKT Group is also not a deduction when calculating capital of the SID Bank banking group. In accordance with the IFRS, beside SID Bank the consolidated financial statements include insurance company PKZ by the method of full consolidation and PRVI FAKTOR Group by the method of proportional consolidation. The difference between banking and accounting consolidation is therefore in the latter also including insurance company SID-PKZ.

Companies of SID Bank Group are presented in detail in the business section of annual report, in Items 2 and 3.

There are no obstacles to transfer of capital or settlement of liabilities between parent and subsidiary companies of SID Bank banking group.

All the companies of SID Bank Group, which are excluded from consolidation in accordance with the Decree on Supervision of Banks and Savings Banks on Consolidated Basis, fulfil the required capital minimum. Total amount of capital deficit is 0.

Capital, minimal capital requirements and the process of assessment of necessary internal capital

Capital adequacy of SID Bank Group

In EUR thousand	31.12.2010	31.12.2009
Paid-up share capital	300,000	300,000
Treasury shares	(1,324)	(1,324)
Capital reserves	1,139	1,139
Profit reserves and retained earnings	33,106	28,183
Other core capital deduction items	(824)	(992)
- Intangible assets	(824)	(992)
- Difference between the reported impairments and provisions according to IFRS and the regulation on loss assessment	0	0
Core capital	332,096	327,006
Tier I additional capital	56	63
Total core and additional capital I	332,152	327,069
Deduction items from core capital and Tier I additional capital	(8,412)	(4,206)
- Interest in insurance companies	(8,412)	(4,206)
Total capital - for the purpose of capital adequacy	323,740	322,863
Tier II additional capital	0	0
Capital requirements	(198,070)	(164,511)
- For credit, settlement and counterparty risks	(193,816)	(161,391)
Central governments and central banks	*(160)*	*(197)*
Regional governments and local authorities	*(120)*	*(162)*
Public sector entities	*(1,094)*	*(571)*
Multilateral development banks	*0*	*0*
Institutions	*(122,151)*	*(95,917)*
Corporate	*(67,596)*	*(60,077)*
Past due items	*(1,897)*	*(3,082)*
Items belonging to regulatory high-risk categories	*(344)*	*(896)*
Positions in investment funds	*(11)*	*(10)*
Other exposure classes	*(444)*	*(479)*
- For foreign exchange risk	0	0
- For market risks	0	0
- For operational risk	(4,253)	(3,120)
Share premium	125,670	158,352
Capital adequacy ratio (in percent)	13.08	15.70

In the calculation of the capital adequacy of SID Bank banking group, 50 percent of the assets of PRVI FAKTOR Group were included besides the assets of SID Bank.

Capital requirements for credit and foreign exchange risks are calculated under standardized approach, while capital requirements for operational risks are calculated under simple approach.

Summary of approach to assessment of adequate internal capital is presented in Item 6.4. of the business section of the annual report.

Credit risk and risk of reduction of value of repurchased claims on money

Credit risk is presented in Item 6.4 of the business section and in Item 3.4. of the financial section of the annual report.

Definition of past due items and impaired items for accounting purposes

	31.12.2010		31.12.2009	
In EUR thousand	Balance	Impairments	Balance	Impairments
Undue/group impaired	3,822,326	(34,072)	3,156,176	(24,904)
Undue/individually impaired	120,002	(16,806)	25,476	(8,383)
Undue/unimpaired	39,142	0	139,243	0
Due/unimpaired	1,815	0	19,851	0
Due impaired	79,393	(42,593)	42,988	(22,125)
Total	4,062,678	(93,470)	3,383,734	(55,412)

Data in the table includes deposits, granted loans, guarantees, derivative financial instruments and approved undrawn loans. Items are disclosed at gross value.

The policy of adjustment forming is presented in Item 2.2.6 of the financial section of the annual report.

Aggregate amount of exposure, reduced by impairments or provisions, without notice of effects of credit insurance and average amount of exposure in the reporting period broken down by all exposure classes

Year 2010 (In EUR thousand)

EXPOSURE CLASS	Original exposure value before the application of conversion factors	Impairments and provisions related to original exposure	Net exposure value	Average net exposure value in 2010
Central governments and central banks	48,692	4	48,687	41,030
Regional governments and local authorities	1,961	6	1,955	2,614
Public sector entities	31,883	943	30,941	25,970
Multilateral development banks	5,024	0	5,024	5,022
Institutions	3,104,553	4,300	2,100,253	2,880,256
Corporate	935,397	44,778	890,619	860,079
Past due items	33,732	12,915	20,817	21,769
Items belonging to regulatory high-risk categories	35,120	30,923	4,197	7,319
Positions in investment funds	138	0	138	138
International organizations	0	0	0	798
Other exposures	5,545	0	5,545	5,288
Total	4,202,045	93,868	4,108,176	3,850,283

Data in the table includes all assets and risky off-balance-sheet items

Year 2009 (In EUR thousand)

EXPOSURE CLASS	Original exposure value before the application of conversion factors	Impairments and provisions related to original exposure	Net exposure value	Average net exposure value in 2009
Central governments and central banks	29,522	0	29,522	27,849
Regional governments and local authorities	3,012	0	3,012	1,366
Public sector entities	14,428	308	14,120	14,181
Multilateral development banks	5,057	0	5,057	2,272
Institutions	2,485,686	3,777	2,481,909	2,071,238
Corporate	821,096	25,948	795,148	720,127
Past due items	35,394	7,708	27,686	41,039
Items belonging to regulatory high-risk categories	30,218	19,275	10,943	12,348
Positions in investment funds	130	0	130	115
Other exposures	5,985	0	5,985	5,857
Total	3,430,528	57,016	3,373,512	2,896,390

Data in the table includes all assets and risky off-balance-sheet items

Distribution of exposure by important geographical areas, segmented by important exposure classes

Six major geographical areas are disclosed in detail in a given year.

Year 2010 (In EUR thousand)

EXPOSURE CLASS	Slovenia	Croatia	Serbia	Bosnia and Herzegovina	Netherlands	Switzerland	Other countries	TOTAL
Central governments and central banks	38,590	1,997	6	0	0	0	8,094	48,687
Regional governments and local authorities	1,076	606	46	201	0	0	26	1,955
Public sector entities	30,677	130	60	74	0	0	0	30,941
Multilateral development banks	0	0	0	0	0	0	5,024	5,024
Institutions	3,023,375	6,634	10,235	10,513	3,411	0	46,084	3,100,253
Corporate	653,867	110,677	56,584	29,152	17,506	11,956	10,878	890,619
Past due items	9,966	4,993	5,796	59	0	0	3	20,817
Items belonging to regulatory high-risk categories	1,216	2,926	0	0	0	0	55	4,197
Positions in investment funds	138	0	0	0	0	0	0	138
Other exposures	1,140	5	1	11	0	0	4,388	5,545
Total	3,760,047	127,969	72,728	40,009	20,917	11,956	74,551	4,108,176

Data in the table includes all assets and risky off-balance-sheet items at net value.

Year 2009 (In EUR thousand)

EXPOSURE CLASS	Slovenia	Croatia	Serbia	Bosnia and Herzegovina	Netherlands	Russia	Other countries	TOTAL
Central governments and central banks	27,057	2,465	0	0	0	0	0	29,522
Regional governments and local authorities	2,105	717	0	157	0	0	33	3,012
Public sector entities	13,964	50	90	16	0	0	0	14,120
Multilateral development banks	0	0	0	0	0	0	5,057	5,057
Institutions	2,411,508	5,612	13,868	12,085	253	15,866	22,717	2,481,909
Corporate	567,061	101,050	59,198	34,133	20,145	1,988	11,573	795,148
Past due items	11,205	7,353	8,618	402	31	0	77	27,686
Items belonging to regulatory high-risk categories	8,790	2,009	0	5	0	0	139	10,943
Positions in investment funds	130	0	0	0	0	0	0	130
Other exposures	5,325	468	192	0	0	0	0	5,985
Total	3,047,145	119,724	81,966	46,798	20,429	17,854	39,596	3,373,512

Data in the table includes all assets and risky off-balance-sheet items at net value.

Distribution of exposure according to industry or type of clients segmented by exposure classes

Seven major economic sectors are disclosed in detail in a given year.

Year 2010 (In EUR thousand)

	DOMESTIC EXPOSURES									OFFSHORE	TOTAL
EXPOSURE CLASS	Financial and insurance activities	Processing industry	Market; maintenance and repairs of motor vehicles	Public administration activity	Transport and storage	Expert, scientific and technical activities	Building sector	Other	Total domestic	Total offshore	Total
Central governments and central banks	12	0	0	38,578	0	0	0	1	38,590	10,097	48,687
Regional governments and local authorities	0	0	0	1,076	0	0	0	0	1,076	879	1,955
Public sector entities	2,879	0	21	27,526	0	1	0	251	30,677	263	30,940
Multilateral development banks	0	0	0	0	0	0	0	0	0	5,024	5,024
Institutions	3,023,375	0	0	0	0	0	0	0	3,023,375	76,878	3,100,253
Corporate	76,998	306,509	78,111	112	65,475	30,316	28,553	67,793	653,867	236,752	890,619
Past due items	3,548	184	176	12	2	1,079	2,049	2,916	9,966	10,851	20,817
Items belonging to regulatory high-risk categories	0	1,050	0	0	0	0	166	0	1,216	2,981	4,197
Positions in investment funds	138	0	0	0	0	0	0	0	138	0	138
Other exposures	320	0	0	1	0	0	0	818	1,140	4,405	5,545
Total	3,107,271	307,743	78,308	67,305	65,477	31,396	30,768	71,779	3,760,047	348,129	4,108,176

Data in the table includes all assets and risky off-balance-sheet items at net value.

Year 2009 (In EUR thousand)

EXPOSURE CLASS	DOMESTIC EXPOSURES									OFFSHORE	TOTAL
	Financial and insurance activities	Processing industry	Market; maintenance and repairs of motor vehicles	Public administration activity	Transport and storage	IT and communication activities	Cultural activities	Other	Total domestic	Total offshore	Total
Central governments and central banks	1,004	0	0	26,046	0	0	8	0	27,058	2,464	29,522
Regional governments and local authorities	0	0	0	1,757	0	0	0	347	2,104	908	3,012
Public sector entities	305	0	0	13,659	0	0	0	0	13,964	156	14,120
Multilateral development banks	0	0	0	0	0	0	0	0	0	5,057	5,057
Institutions	2,411,508	0	0	0	0	0	0	0	2,411,508	70,401	2,481,909
Corporate	90,996	239,803	81,799	17	41,719	21,135	19,842	71,749	567,060	228,088	795,148
Past due items	1	6,960	45	135	10	4	0	4,049	11,204	16,482	27,686
Items belonging to regulatory high-risk categories	6,714	1,503	0	0	0	0	0	574	8,791	2,152	10,943
Positions in investment funds	130	0	0	0	0	0	0	0	130	0	130
Other exposures	459	0	0	0	0	0	0	4,867	5,326	659	5,985
Total	2,511,117	248,266	81,844	41,614	41,729	21,139	19,850	81,586	3,047,145	326,367	3,373,512

Data in the table includes all assets and risky off-balance-sheet items at net value.

Remaining maturity exposure breakdown

In EUR thousand	2010		2009	
EXPOSURE CLASS	Short-term (Up to 1 year)	Long-term (Over 1 year)	Short-term (Up to 1 year)	Long-term (Over 1 year)
Central governments and central banks	9,858	38,834	7,528	21,994
Regional governments and local authorities	1,935	26	2,489	523
Public sector entities	537	31,346	156	14,272
Multilateral development banks	0	5,024	0	5,057
Institutions	601,771	2,502,782	215,891	2,269,794
Corporate	168,548	766,851	294,083	527,013
Past due items	25,346	8,386	33,001	2,393
Items belonging to regulatory high-risk categories	34,838	282	22,335	7,883
Positions in investment funds	138	0	130	0
Other exposures	382	5,163	680	5,306
Total	843,351	3,358,694	576,293	2,854,235

Data in the table includes all assets and risky off-balance-sheet items at gross value.

Past due and impaired exposures

Seven major economic sectors are disclosed in detail in a given year.

Year 2010 (In EUR thousand)

	DOMESTIC PAST DUE EXPOSURES									OFFSHORE	TOTAL
	Processing industry	Agriculture	Professional, scientific and technical activities	Building sector	Market; maintenance and repairs of motor vehicles	Financial and insurance activities	Catering	Other	Total domestic	Total offshore	Total
Past due exposures	10,599	6,176	3,823	6,284	959	4,436	797	406	33,480	24,970	58,450
Impairments and provisions	9,369	6,176	2,744	6,090	783	887	731	288	27,068	12,248	39,317

Table includes past due exposures over 90 days at gross value.

Year 2009 (In EUR thousand)

	DOMESTIC PAST DUE EXPOSURES									OFFSHORE	TOTAL
	Processing industry	Agriculture	Professional, scientific and technical activities	Building sector	Market; maintenance and repairs of motor vehicles	Financial and insurance activities	Real estate activities	Other	Total domestic	Total offshore	Total
Past due exposures	10,281	6,368	3,835	2,526	1,291	8,392	570	290	33,553	26,695	60,248
Impairments and provisions	6,753	5,794	2,785	365	238	1,678	202	68	17,883	9,934	27,817

Table includes past due exposures over 90 days at gross value.

Changes of revaluations and presentation of adjustments in provisions by types of assets

Changes in adjustments (impairment)

In EUR thousand	2010 Adjustments of loans to banks	2010 Adjustments of loans to clients other than banks	2010 Total adjustments	2009 Adjustments of loans to banks	2009 Adjustments of loans to clients other than banks	2009 Total adjustments
Balance as at 1 January	3,180	46,501	49,681	1,133	26,824	27,957
Adjustments formed	2,596	50,536	53,132	2,716	27,907	30,623
Elimination of adjustments	(2,158)	(12,927)	(15,085)	(669)	(8,230)	(8,899)
Balance as at 31 December	3,618	84,110	87,728	3,180	46,501	49,681

Changes in provisions

In EUR thousand	2010 Provisions for off-balance-sheet liabilities	2009 Provisions for off-balance-sheet liabilities
Balance as at 1 January	4,250	2,165
Provisions formed	9,468	8,502
Elimination of provisions	(11,141)	(6,417)
Balance as at 31 December	2,577	4,250

Changes in adjustments (impairments) and provisions

	2010			2009		
In EUR thousand	Impairments	Provision	Total	Impairments	Provision	Total
Balance as at 1 January	49,681	4,250	53,931	27,957	2,165	30,122
Increase	53,132	9,468	62,600	30,623	8,502	39,125
Decrease	(15,085)	(11,141)	(26,226)	(8,899)	(6,417)	(15,316)
Balance as at 31 December	87,728	2,577	90,305	49,681	4,250	53,931

Additional disclosures of the bank, which uses the standardized approach

Exposure value and exposure values with effects of credit insurances broken down by credit quality steps

In EUR thousand		2010		2009	
EXPOSURE CLASS	Risk weight (in percent)	Net exposure value	Net exposure after allowing for credit insurance and before the application of conversion factors	Net exposure value	Net exposure after allowing for credit insurance and before the application of conversion factors
Central governments and central banks		48,687	131,334	29,523	99,749
	0	46,684	129,331	27,058	97,284
	50	0	0	0	0
	100	2,003	2,003	2,465	2,465
Regional governments and local authorities		1,955	1,955	3,011	3,011
	50	1,102	1,102	2,137	2,137
	100	652	652	717	717
	150	201	201	157	157
Public sector entities		30,941	30,941	14,120	14,120
	50	30,677	30,677	13,964	13,964
	100	264	264	156	156
Multilateral development banks		5,024	5,024	5,057	5,057
	0	5,024	5,024	5,057	5,057
Institutions		3,100,253	3,061,517	2,481,909	2,452,336
	20	57,896	57,896	22,974	22,974
	50	2,999,462	2,971,505	2,393,102	2,381,615
	100	28,725	21,776	34,537	21,573
	150	14,170	10,340	31,296	26,174
Corporate		890,619	849,601	795,148	754,495
	100	861,454	844,374	712,494	705,259
	150	29,165	5,228	82,654	49,236
Past due items		20,817	17,924	27,686	27,686
	100	9,229	6,336	6,008	6,008
	150	11,588	11,588	21,678	21,678
Items belonging to regulatory high-risk categories		4,197	4,197	10,943	10,943
	100	3,989	3,989	10,420	10,420
	150	208	208	523	523
Positions in investment funds		138	138	130	130
	100	138	138	130	130
Other exposures		5,545	5,545	5,985	5,985
	100	5,545	5,545	5,985	5,985
Total		4,108,176	4,108,176	3,373,512	3,373,512

A risk weight is determined according to the level of credit quality, which can be different for the same level of credit quality, depending on the class of each exposure.

Operational risk

The approach used for calculation of capital requirement for operational risk is presented in detail in the business section of annual report, in Item 6.4, segment Operational risk.

Investments in equity shares not included in the trading book

Carrying amount of investments in equity shares not included in the trading book as at 31 December 2010 amounted to EUR 138 thousand.

Interest rate risk from items not included in the trading book

Interest rate risk from items not included in the trading book arises from time discrepancy of items sensitive to interest rate and from different types of interest rates. SID Bank banking group decreases interest rate risk through coordination of investments and liabilities by their maturity, due date, types of interest rate and through use of derivative financial instruments.

SID Bank banking group measures interest rate risk with the method of interest gaps. Items are included in interest gaps according to due date or the date of first resumed determination of interest rates. Interest rate risk monitoring is conducted monthly.

SID Bank banking group measures exposures to sudden changes of interest rates by calculating the effect of change of level of interest rates on interest income and on capital value.

Effect on income or other measure of value used when managing interest rate risk in case of sudden increase or decrease of interest rate

Sensitivity analysis of all assets and liabilities items sensitive to interest rate is based on the assumption that the market interest rate would change by 100 basis points (1 percent p.a.). The impact on net interest income in the first year of change has also been calculated.

If the market interest rates increased by 100 basis points, net interest income of SID Bank banking group would increase by EUR 3,420 thousand in 2011 (by EUR 1,434 thousand in 2010). The change would be reflected as higher revenues in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed.

If the market interest rates change for less or more, the calculated results are proportional.

Available-for-sale financial assets

SID Bank banking group carried out a sensitivity analysis of the securities portfolio to the change of interest rate. The analysis shows how the fair values of securities or future cash flows of financial instruments would fluctuate due to the changes in market interest rates on the reporting date. The analysis does not include deposits given, which are typically of a very short-term nature and placed at a pre-arranged fixed interest rate, as well as mutual funds, which do not respond to the changes in interest rates to the same extent as debt financial instruments – bonds with fixed or variable interest rate. Only SID Bank has securities in its portfolio.

The analysis separately calculates the responsiveness of bonds with variable and those with fixed interest rates in view of the changes in the market interest rate. The analysis is based on the assumption of a change in the market interest rate by 100 basis points (1 percent p.a.).

SID Bank banking group

	2010		2009	
In EUR thousand	+100 bps	-100 bps	+100 bps	-100 bps
BONDS AT FIXED INTEREST RATE				
Fixed - change of portfolio	-2,048	2,048	-1,200	1,200
Increase or decrease in capital	-2,048	2,048	-1,200	1,200
BONDS AT FLOATING INTEREST RATE				
Floating - change of portfolio	105	-105	106	-106
Impact on income statement	105	-105	106	-106
TOTAL				
Total - change of portfolio	-1,943	1,943	-1,094	1,094
Increase or decrease in capital	-2,048	2,048	-1,200	1,200
Impact on the statement of comprehensive income	105	-105	106	-106

Liquidity Risk

The methodology of for liquidity risk management is defined in the Policy of Liquidity Risk Management, where the manners of management of the assets and liabilities of assets in domestic and foreign currencies on a daily basis and also in the long run are defined. Daily/operational liquidity and structural/long-term liquidity are determined, measured and managed on a regular basis. SID Bank monitors and measures the exposure to liquidity risk on the basis of calculating the liquidity ratios in the manner determined by the applicable banking legislation, through careful planning of liquidity and implementation of internal liquidity measures prescribed for the management of liquidity risk. A calculation of liquidity gaps is performed on a monthly basis. SID Bank has no off-balance-sheet liabilities exceeding the contractually specified.

Identification, measurement, control and monitoring of liquidity is regulated by numerous regulations, including the Rules on Comprehensive Treatment of the Treasury Transactions, which defines different position limits, and the Rules on authorization and signing, which defines personal limits of the traders in treasury. Reduction of liquidity risk is also implemented through the established limits to domestic and foreign commercial banks, with which the excess liquidity facilities are placed. Limits are set based on international credit ratings and expert evaluation Risk Management. Limits are prescribed in a similar manner for to investments in securities, mainly bonds. SID Bank has internally set higher minimum liquidity ratios of the first and second grade than is prescribed by the central bank. In case these two ratios reach internally set limits, the Liquidity Risk Management provides measures, which are implemented to improve the ratios of both classes.

The bank mainly provides liquidity reserve by a portfolio of debt securities, which exceeds the value of EUR 100 million and represents a sufficient secondary liquidity. Most of the bonds are ECB eligible, which enables our access to liquidity on the interbank market and with the central bank.

Diversification of liquidity sources is provided through the use of various financing instruments; raising of assets in the money market, drawing of concluded bilateral loan agreements and issues of debentures and bonds on the domestic and international capital markets.

Stress scenarios and contingency plan are defined in the Policy of Liquidity Risk Management. SID Bank does not accept bank deposits and is therefore not exposed to liquidity risk in the conventional sense. In case of anticipated problems with actual and/or structural liquidity, the bank appoints a crisis committee, which seeks appropriate measures to resolve the crisis in a given situation. The baseline scenario and liquidity stress scenario are usually considered weekly at the Liquidity Committee meetings.

Credit insurance

Types of insurances, used as a rule by SID bank, are defined in Rules on Insurance of Investment Operations. The Rules define general categories and principles of insurance, criteria for separate types of insurances, as well as operational procedures of establishing, documenting, monitoring/valuation and realization of insurance. The Rules also include rules on valuation of separate types of insurance and procedures of handling the property which is used as insurance.

In SID Bank banking group valuation of pledged property is carried out at market value. If the property is listed, current rate is used for valuation. Unlisted property is valued on the basis of comparable transactions. Real estate is valued by independent and qualified asset appraiser, taking into consideration the international standards of value assessment. Real estate valuation is prepared by market and mortgage value. Transaction price, which is not older than one year and is achieved in transactions among unrelated persons, may also be used.

During the whole time of repayment period of investment SID Bank banking group monitors credit rating of the receivable and insurance coverage of the investment. In the event of reduction in value of insurance, SID Bank Group takes out an additional insurance if necessary.>

The most important issuers of personal guarantees are banks, insurance companies, companies with good credit rating (joint and several guarantees) and individuals - creditworthy joint and several guarantors.

Majority portion is represented by the following types of insurance: pledge of commercial real estate, followed by other guarantees of companies without rating or rating of less than A-, cession of claims for insurance, guarantees of companies without credit rating, guarantees of companies categorized as A class, pledging of ownership share in the company, insurance policy of SID bank for the account of the Republic of Slovenia, fiduciary transfer of real estate ownership rights, pledging of receivables for insurance, bills and other insurances.

Total value of loan collateral in SID Bank banking group as at 31 December 2010 was EUR 1,080,215 thousand.

Insurance value and concentration of credit risk

In EUR thousand	31.12.2010		31.12.2009	
INSURANCE TYPES:	Insurance value	in percent	Insurance value	in percent
Pledge of commercial real estate	366,003	33.9	313,854	38.8
Other guarantees of companies without credit rating	237,206	22.0	165,909	20.5
Pledging of receivables for insurance	78,251	7.2	71,030	8.8
Guarantees of companies without credit rating	88,700	8.2	56,314	7.0
Insurance policy of SID Bank for the account of the RS	52,221	4.8	43,821	5.4
Pledge of capital share in the company	79,392	7.4	43,836	5.4
Other	178,443	16.5	113,673	14.1
TOTAL	1,080,215	100.0	808,437	100.0

Total exposure value by classes, insured by property

In EUR thousand		
EXPOSURE CLASS	31.12.2010	31.12.2009
Corporate	2,430	906
Total	2,430	906

Total exposure value by classes, insured by personal guarantees or credit derivative financial instruments

In EUR thousand		
EXPOSURE CLASS	31.12.2010	31.12.2009
Institutions	567	839
Corporate	1,852	917
Past due items	152	0
Total	2,571	1,756