SID Banka

ANNUAL REPORT of SID Bank and SID Bank Group 2016

Contents

BUSINESS REPORT

FINANCIAL REPORT

OTHER DISCLOSURES

List of abbreviations

BAMC	Bank Assets Management Company
BGN	Bloomberg Generic Price
CBBT	Composite Blomberg Bond Trader
CCF	Credit Conversio Factor
CEB	Council of Europe Development Bank
CMSR	Centre for International Cooperation and Development
CRR	Capital requirements regulation
CVA	Credit Valuation Adjustment
EAD	Exposure At Default
EAPB	European Association of Public Banks
EBA	European Banking Authority
EC	European Commission
ECAI	External Credit Assesment Institutions
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
ELTI	European Long-Term Investors
EU	European Union
EUA	European Emission Allowances
EUAA	European Aviation Allowances
EWS	Early Warning System
GDP	Gross Domestic Product
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMAD	Institute for Macroeconomic Analysis and Development
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MEIP	Minimum Export Insurance Premiums
MGRT	Ministry of Economic Development and Technology
NEFI	Network of European Financial Institutions for Small and Medium Sized Enterprises
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Co-operation and Development
PD	Probability of Default
PKZ	SID – Prva kreditna zavarovalnica
SIS	Slovenian Innovation Hub
SME	Small and Medium Sized Enterprises
SORS	Statistical Office of the Republic of Slovenia
SREP	Supervisory Review and Evaluation Process
SSD	Schuldscheindarlehen
ZBan-2	Banking Act
ZGD-1	Companies Act
ZIPRS	Implementation of the Republic of Slovenia's Budget
ZJShemFO	The Act on the Natural Persons Guarantee Scheme of the Republic of Slovenia
ZJShemRS	The Republic of Slovenia Guarantee Scheme Act
ZPFIGD	Act Regulating Guarantees of the Republic of Slovenia for Financing Companies' Investments
ZPPOGD	Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities
ZSIRB	Slovene Export and Development Bank Act
ZVO-1	Environmental Protection Act
ZZavar-1	Insurance Act
ZZFMGP	The Act Governing Insurance and Financing of International Commercial Transactions

BUSINESS REPORT

Statement from the President of the Management Board

Dear shareholders, business partners and colleagues,

The successful operation of SID Bank in the past year was significantly influenced by the economic conditions and opportunities to introduce supplemental market development financial services and the reduced need to cover market gaps. In 2016 the Slovenian economy was in relatively good shape as the economic growth reached 2.5%, the average annual inflation rate was negative and exports reached a record level of 31 billion euros. The latter was, in addition to the rise in domestic consumption, also the main basis for growth and the high (6%) surplus in the current account of the balance of payments. At the same time, despite the lower industrial productivity and net savings of businesses and households, the continuing (4%) decline in the level of investment in both the public and private sectors, especially the former, and for the seventh consecutive year a decline in lending to the economy and an increase in labour costs also had a significant impact. This state of the economy was noticeably reflected in our business operations as we continued the withdrawal from the market and the adjustment of our business model to these new conditions in line with our counter-cyclical and developmental role. This was further accelerated by the very low interest rates and excess liquidity of Slovenian banks. Consequently, the Bank's total assets fell by 20% to 2.5 billion euros. Structurally, however, while our countercyclical role has decreased, our developmental role has again increased. With new, more complex, long-term development financial instruments we have achieved better coverage of the most prominent market gaps, as well as long-term funding and capital in the Slovenian market. Despite a 19% decrease compared to the previous year, loans to banks, intended for corporate entities as the final beneficiaries, totalling 805 million euros, still represent the largest share (57%) of loans. However, loans to non-bank customers rose by 1% in 2016 and amounted to 611 million euros, representing 43% of all loans. This is mainly due to the aforementioned new developmental financial engineering for the promotion of capital investments in the capital strengthening of SMEs. This is a special form of financing of the SME operations, designed together with the Ministry of Economic Development and Technology. With its 12-year maturity and up to 6-year moratorium it is the only financial instrument of this kind on the Slovenian market and was in high demand, within just eight months it amounted to 50 million euros. Financial engineering instruments have so far amounted to 27% of all corporate loans and contributed significantly to the change in business models and increased sales and exports of Slovenian companies, which are the key elements of growth.

Regarding direct corporate lending, the Bank has also increased some other activities which have led to higher lending to projects involving research and development, energy efficiency and the environmental projects of municipalities and enterprises. In doing so, as a gateway to Slovenia within the European Investment Advisory Hub (EIAH), we devoted a great deal of attention to the preparation of projects under the European Fund for Strategic Investments (EFSA) together with the EIB. Several potential projects were identified within these activities which have not yet been realized, so they could not compensate for the repayment of bank loans from previous programs of SID Bank. Over 2000 entities, mostly SMEs, were directly and indirectly jointly funded in 2016, of which 550 were new entities; such funding amounted to 290 million euros. According to our impact assessments, we have contributed 3 billion euros to the national GDP and 3.5 billion euros to Slovenian exports, especially to the preservation and creation of jobs (approximately 18,000), thereby fulfilling the mission of SID Bank in Slovenia.

In treasury operations, with the intention of creating added value for our customers, we mostly used special long-term dedicated resources of the EIB, KfW and CEB, totalling 200 million euros. The share of securities in the Bank's liquidity was 17% lower than in the previous year and amounted to 778 million euros, mainly due to payouts of SID Bank bonds in a nominal amount of 260 million euros. Deposits and account balances were also lower and amounted to 339 million euros. Accordingly, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) were also high.

The Bank’s operating result for the past year was good, as the net interest income was 7% higher than in 2015 and amounted to 23.8 million euros. Profit before tax was 13 million euros, and after tax 11 million euros, higher than the previous year. Thus, the net profit amounted to 21.4 million euros. Among the reasons for this increase are the one-off effects of corporate restructuring and the influx from recognized bad debts. In this way the proportion of non-performing loans decreased to 11%, which is a level comparable to other banks operating in Slovenia. The 10% coverage of classified assets with impairments and provisions is also important. In addition, the interest margin increased from 0.69% to 0.85%, which is consistent with the planning and strategic orientation of the Bank.

In addition to profits and provisions, the Bank’s stability and soundness are also reflected in the Bank's capital, which increased by 8.1% and amounted to 394 million euros. The capital adequacy reached 33%, mainly due to a further decline in the loan portfolio, while the leverage ratio amounted to 14%.

Regarding risk management, in addition to the ongoing management of significant risks (credit, interest rates, operational) for our Bank, the strategy and six management policies of individual types of risk based on market conditions were updated last year. We also updated the assessment of the risk profile and the impairment methodology. On this basis, it was ascertained that the Bank has a high capability to take on additional risks and, in the context of strategic planning in agreement with the Supervisory Board, we have accordingly increased the Bank’s risk appetite to implement more effectively the development bank’s mission. Consequently, the organisational structure and working processes now allow for an even better implementation of risk management measures and awareness thereof at all levels of the Bank, all with the aim of developing an appropriate risk management culture.

Furthermore, in the area of the internal development of the Bank, in addition to effective cost management – the ratio between costs and income has improved, reaching 26% – we have continued with the adaptation of internal processes and the standardisation of products in line with the new business model. In the field of accounting, reporting and controlling, we have successfully carried out the necessary tasks in accordance with the new method of reporting to the ECB and the introduction of IFRS 9. Particular emphasis was placed on automation and digitisation, as in the past year we completed a data warehouse project, thus enabling greater data hygiene and integrity.

The aforementioned good performance of SID Bank and the positive economic situation in Slovenia have contributed to the fact that the rating agency S&P upgraded SID Bank from A- to A, and its rating outlook from stable to positive.

In the field of non-marketable risk insurance, where SID Bank acts as an authorised export credit agency in the name of and for the account of the Republic of Slovenia, operations were also impacted by economic conditions, i.e. the reduction in market and non-market risks. Structural changes in the banking sector also played an important role, as Slovenian banks were still reluctant to finance exports. Thus, last year the volume of non-marketable risk insurance transactions dropped by 16% and amounted to 539 million euros. The largest share comprised reinsurance of short-term insurance transactions, followed by insurance of investments and medium-term transactions. The latter have been increasing in number, as has the total number of insurance transactions i.e. contracts, although they are much smaller in value than in the past. Due to the assumption of risks in the private market, insurance premiums fell by 20% to 3.3 million euros. The damages paid out were low and amounted to only 460 thousand euros, which is significantly less than in the previous year, when they amounted to

6.1 million euros. Consequently, the operating result for the state account was positive and the national contingency reserves which we manage for this purpose increased to 130 million euros.

Due to the change in the strategy of SID Bank resulting in greater focus on our core mission, we sold the Prokolekt subsidiary last year. Together with our partner NLB, we also made the decision to liquidate the company Prvi faktor. The subsidiary company PKZ increased its volume of insurance transactions, but due to a moderate number of loss events and competitive environment, in particular in regard to the operations of sales agents, there was a 7% drop in the premium rate and a reduction in charged premiums. The loss ratio was favourable, as was the internal development of the Bank and customer relations. In the past year the Centre for International Cooperation and Development successfully operated and continued the successful implementation of international development cooperation and the internationalisation of the Slovenian economy. SID Bank Group covers more than 20% of Slovenian exports, which is the driving force of the Slovenian economy.

Social responsibility towards customers, employees and the environment has been a constant in the actions and mission of SID Bank. As such, we have continued to upgrade the principles of responsible lending and begun training for project financing, which is a big market gap in the Slovenian financial market, as we have seen in the context of the implementation of the EIAH tasks. All this was done in order to increase the added value for our customers and to direct them to the new business models of the circular economy and sustainable development. We ourselves are also implementing all the components of sustainable development, especially the environmental and human components, with the appropriate use of all resources within SID Bank. With new forms of training and action (identifying and developing key personnel) we have achieved remarkable results in staff development. In the past year 99% of all employees participated in the aforementioned forms of training and employee meetings, which undoubtedly contributed to the success of the Bank's operations, as competences and commitment are an essential element thereof. Therefore, on behalf of the hitherto Management Board, I would like to thank all employees as well as the hitherto Management Board Member Mr. Jožef Bradeško. I would also like to thank our supervisors for their trust, also as regards the selection and appointment of the new Management Board, as well as all our customers for successful cooperation. With the change in the Management Board and other developments, concerning both personnel and organisational structure, SID Bank will undoubtedly be able to handle its new and complex tasks and the products of the developmental segment of operations, which we need to strengthen in the coming period. Based on the changes in the business model, the stability and flexibility of SID Bank, and in particular the professional competences of employees, in the event different circumstances transpire, the Bank will immediately be able to resume an interventionist or some other role, for example in the framework of the EU cohesion funds for the future financial perspective, etc. All with the aim of creating added value for our customers and especially new jobs and the sustainable development of the Slovenian economy.

Sibil Svilan, M.Sc.

Report of the Supervisory Board for 2016

In discharging its responsibilities for monitoring and overseeing the Bank's activities and the work of the Management Board, the Supervisory Board complied with the applicable laws and regulations, the Bank's strategic orientation and its risk exposures, and assessed the compliance of the Bank's management and operations within that framework.

In 2016, the Supervisory Board operated in the following composition: Monika Pintar Mesarič, Chair of the Supervisory Board; Janez Tomšič, Deputy Chair; and Members Marjan Divjak, MSc; Štefan Grosar, Leo Knez, MSc; Boris Škapin, MSc (until 7 March 2016); and Marko Tišma (as of 28 July 2016). Based on the Slovene Export and Development Bank Act, which establishes that the Supervisory Board of SID Bank comprises 7 members, the Supervisory Board carried out procedures during the year to fill its vacancies.

Supervisory Board Members signed a statement of independence, whereby confirming that there were no circumstances that would affect their unbiased, professional, objective, fair and comprehensive judgement when discharging their duties or in the Supervisory Board deliberations. Furthermore, when the members of the Supervisory Board discharged their duties and took part in deliberations, there were no circumstances and conduct that could have been construed as, or that might have given rise to a conflict of interests and such member of the Supervisory Board would inform other members of the Supervisory Board of such conflict.

In 2016, the Supervisory Board held thirteen (13) regular and eight (8) correspondence meetings, at which it considered general and specific issues referring to the Bank's activities and operations, and decided on the matters falling within its competence.

In 2016, Supervisory Board Members attended regular sessions in full composition, while any rare absence (due to sickness or unavoidable obligations) was noted in line with the rules of procedure and did not hinder the work of the Supervisory Board.

The members of the Supervisory Board took part in discussions as proactive participants both by making observations and providing guidelines, and by raising a variety of matters and putting forward requests for explanations. The majority of resolutions were passed unanimously and no person claimed a conflict of interests.

Professional support to the Supervisory Board was provided by the following committees:
- Audit Committee, which discussed and prepared positions primarily regarding the Bank's interim reports on operations and financial statements, 2015 annual report, the Bank's financial plan for 2017, regular internal audit reports, external auditing, and monitored the progress of activities related with the implementation of IFRS 9;
- Risk Committee, which provided professional support to the Supervisory Board in risk assumption and management, and prepared positions primarily regarding risk management strategy and policies, the Bank and Group's risk profile methodologies and assessments, methodologies and implementation of the internal capital adequacy assessment process, liquidity adequacy assessment process, strategies to reduce non-performing exposures, outsourcing policy, rules regulating the introduction of new products, exposure limits and weighted interest rate gap limits, and in risk management and control within the scope of regular reports on operations;
- Nomination and Remuneration Committee, which provided professional support to the Supervisory Board in assessing the compliance of remuneration policies and practices, preparing a policy to select Supervisory Board Members, assessing the Management Board's performance and in carrying out the selection procedure of a new Management Board, which started its term of office on 1 January 2017, and, furthermore, carried out the assessment procedure for the first time in 2016 and adopted an assessment of knowledge, skills and experience for individual Management and Supervisory Board Members as well as the body as a whole, and an assessment of the structure, size, composition and performance of the Management and Supervisory Boards.

In 2016, the Supervisory Board discussed or made decisions relating in particular to the following key matters:
- the Annual Report for the financial year 2015 with the Auditor's report and a proposal for the appropriation of distributable profit for the financial year 2015;
- the Bank's action strategy for the period 2017-2019 and achievement of strategic goals in 2016;
- the annual operational plan with the elements of business policy and risk policy, and financial plan for the financial year 2017;
- regular reports on the operations of the Bank and companies within the Group;
- the procedure of the sale of the company Pro Kolekt and the procedure of controlled liquidation of companies within the Prvi faktor Group;
- regular risk management reports;
- the plan of engagements of the internal audit function for 2017 and the strategic plan of activities of the internal audit function for 2016 and 2017, the Annual Report on Internal Audit for 2014 and quarterly reports by the internal audit function;
- the plan of the compliance function and the report on the implementation and enforcement of the Code of Ethics and Statement of Values and Professional Standards;
- risk management strategy and policies, and the assessment of the Bank's risk profile for 2016;
- the report to the Bank of Slovenia on the internal capital adequacy assessment process and the Letter of the Bank of Slovenia following the ICAAP supervisory review and evaluation process;
- deciding on particular matters within its competence;
- the Bank's lending activity and its borrowings;
- the development of new products and Bank's financing programmes;
- the strategy and action plan for the management of non-performing exposures;
- the reports prepared at regular intervals on the progress made at loan rescheduling and corporate restructuring;
- the policy for the selection of the candidates for members of the Management Board and an action plan to ensure a suitable composition of the Supervisory Board;
- the policy to assess the suitability of members of a governing body and key function holders;
- the remuneration policy;
- the outsourcing policy;
- the policy to introduce new products;
- the governance policy;
- the appointment of the Management Board for a new term of office.

In the course of monitoring, i.e. overseeing the Bank's management and operations, the Supervisory Board was supplied with all information requested appropriate to enable it to assess on an ongoing basis the results achieved and the work of the Management Board, as well as to pass resolutions that fall within the framework of its competence.

The Supervisory Board carried out a self-assessment exercise and the assessment of the work of the Supervisory Board in discharging its duties in the course of 2015 in March 2017 on the basis of the recommendations, i.e. the supervisory self-assessment matrix from the Supervisory Board Assessment Manual of the Association of Supervisory Board Members. Before embarking on the self-assessment procedure, the members of the Supervisory Board also obtained reports on the work of the three committees of the Supervisory Board in discharging their duties. The results of self-assessment confirm that the Supervisory Board performed its work with due care, diligence and responsibility and in line with the Bank's interests, that the Supervisory Board Members as individuals and the Supervisory Board as a whole hold sufficient knowledge and experiences to be able to carry out tasks within the competence of the Supervisory Board with quality and efficiency. During the discussion on the results of the self-assessment exercise, the Supervisory Board adopted a position with regard to the necessity to undertake further activities to improve its work.

Confirmation of the 2016 Annual Report

The unaudited annual report of SID Bank and SID Bank Group for 2016 was reviewed by the Audit Committee at its meeting held on 13 March 2017, the Risk Committee at its meeting held on 14 March 2017, and the Supervisory Board at its meeting held on 16 March 2017. The Audit Committee and the Risk Committee reviewed the audited report at their meetings held on 3 April 2017, when a report was also prepared by the certified auditor. The two committees assessed the drawing up of the Annual Report as adequate (each within the domain of its authority) and submitted a proposal to the Supervisory Board to confirm the Annual Report.

The Supervisory Board examined and verified the Annual Report SID Bank and the SID Bank Group for the financial year 2016 at the meeting held on 3 April 2017, along with the proposal for the appropriation of the distributable profit for the financial year 2016 submitted by the Management Board of SID Bank, and raised no objections.

In addition, the Supervisory Board examined the Auditor's Report in which the external auditor, Deloitte Revizija d. o. o., Ljubljana issued an unqualified opinion to the financial statements drawn up by SID Bank, d. d., Ljubljana, and the SID Bank Group for the financial year 2016. The Auditor is of the opinion that the financial statements are in every significant aspect a fair presentation of the company’s financial position as at 31 December 2016, including its profit or loss and cash flows, and that the consolidated financial statements are a fair presentation of the consolidated financial position of the Group as at 31 December 2016, including its consolidated profit or loss and consolidated cash flows, for the then finished year pursuant to the International Financial Reporting Standards (IFRS) as adopted by the European Union. The Supervisory Board raised no objection to the auditor’s report, as prepared by Deloitte Revizija d. o. o., Ljubljana.

Having verified it, the Supervisory Board unanimously approved the Annual Report of SID Bank and the SID Bank Group for the financial year 2016.

Monika Pintar Mesarič
Chair of the Supervisory Board

1 Financial Highlights and performance indicators of SID Bank and SID Bank Group

Major data

	SID Bank			SID Bank Group		
in EUR thousand	2016	2015	2014	2016	2015	2014
Statement of financial position						
Total assets	2,548,643	3,198,967	3,577,036	2,596,076	3,247,397	3,631,383
Loans from banks and central banks	1,153,125	1,638,908	1,841,494	1,153,125	1,638,908	1,841,494
Deposits from non-bank customers	30,000	6	6	30,000	6	6
Total equity	393,829	364,165	355,275	413,808	382,525	372,666
Loans to banks	996,368	1,606,153	2,180,886	1,002,502	1,612,787	2,186,274
Loans to non-bank customers	610,563	605,465	637,327	610,563	605,465	637,327
Impairments of financial assets measured at amortised cost and provisions for off-balance-sheet liabilities	199,744	239,977	261,860	199,744	239,977	261,860
Off-balance-sheet items	64,253	540,227	811,180	64,253	540,227	811,180
Income statement						
Net interest income	23,841	22,246	43,247	24,166	22,608	43,716
Net non-interest income	21,213	9,659	12,890	27,192	13,850	17,299
Labour costs, general and administrative	(11,018)	(10,227)	(9,806)	(15,288)	(14,084)	(13,484)
Amortisation and depreciation	(805)	(789)	(613)	(1,115)	(1,114)	(984)
Impairments and provisions	(7,914)	(8,221)	(33,568)	(7,619)	(7,454)	(34,331)
Pre-tax profit	25,317	12,668	12,150	27,336	13,806	12,216
Corporate income tax	(3,954)	(2,169)	(7,606)	(4,371)	(2,411)	(7,824)
Net profit for the financial year	21,363	10,499	4,544	22,965	11,395	4,392
Statement of comprehensive income						
Other comprehensive income before tax	10,399	(1,940)	5,949	10,594	(1,852)	6,611
Corporate income tax in connection to items which may be subsequently reclassified to profit or loss	(2,097)	330	(1,011)	(2,150)	316	(1,126)
Number of employees as at 31 December	162	158	147	277	349	356
Shares						
Number of shareholders	1	1	1			
Number of shares	3,121,741	3,121,741	3,121,741			
Nominal value of share (in EUR)	96.10	96.10	96.10			
Book value of share (in EUR)	126.91	117.35	114.48			
International credit rating as at 31 December						
Moody's	-	Baa3	Ba1			
Standard & Poor's	A	A-	A-			

Key indicators[1]

	SID Bank			SID Bank Group		
In %	2016	2015	2014	2016	2015	2014
Capital						
Total capital ratio	33.63	29.48	26.15	33.98	29.12	25.82
Leverage ratio	14.03	10.65	9.61	14.53	11.11	9.76
Quality of assets in the statement of financial position and assumed commitments						
Impairments of financial assets measured at amortised cost and provisions for commitments/Classified on- and off-balance-sheet items	10.48	9.74	8.57	11.42	10.50	9.20
Non-performing loan (NPL) ratio	11.79	14.75	14.90	13.07	11.30	14.27
Profitability						
Interest margin	0.85	0.69	1.17	0.85	0.68	1.17
Financial intermediation margin	1.60	1.00	1.52	1.57	0.94	1.45
After-tax return on assets	0.76	0.33	0.12	0.81	0.34	0.12
Pre-tax return on equity	6.60	3.52	3.42	6.80	3.67	3.29
After-tax return on equity	5.57	2.92	1.28	5.71	3.03	1.18
Operating costs						
Operating costs/average assets	0.42	0.34	0.28	0.58	0.46	0.39
Operating costs/net income	26.39	34.53	18.56	31.94	41.69	23.71
Liquidity						
Liquid assets/Current financial liabilities to non-banking customers, measured at amortised costs	14,340.17	18,209.36	625.90			
Liquid assets/average assets	26.03	22.29	12.69			

1 Notes on indicators:
(1) The indicators have been calculated using Bank of Slovenia methodology.
(2) The calculation of total capital ratio, financial leverage, the ratio of impairments to rated items, and provisions for the share of non-performing loans for the SID Bank Group takes into account SID Bank and a proportionate share of the assets of Prvi faktor Group (prudential consolidation).
(3) The calculation of the financial intermediation margin for SID Bank Group does not take into account revenues from insurance operations of PKZ.

2 About SID Bank and SID Bank Group

2.1 About SID Bank

SID Bank is a specialist promotional export and development bank authorised to render long-term financial services that complement the market in various areas as laid down by ZSIRB, which are important for Slovenia's sustainable development. The fundamental activity pursued by SID Bank is funding market gaps, which ordinarily include small and medium enterprises, development, environmental, infrastructural and energy projects, and internationalisation of companies.

The operations of SID Bank are based on a clear strategy and business model deriving from long-term development documents of the European Union and the Republic of Slovenia. The Republic of Slovenia provides long-term stable operations for SID Bank to carry out its transactions and activities in order to pursue the long-term development orientations of the Republic of Slovenia and the European Union. As the sole shareholder, the Republic of Slovenia is responsible irrevocably and without limitations for SID Bank's liabilities deriving from the transactions concluded during the pursuit of activities from Articles 11 and 12 of ZSIRB. If SID Bank fails to settle its due liabilities to a creditor at its written request, such liability should be immediately settled by the Republic of Slovenia at the creditor's request. This arrangement allows SID Bank to borrow on financial markets without having to obtain a guarantee by the Republic of Slovenia for each borrowing transaction.

SID Bank renders all financial services in order to generate direct or indirect added value for the users of such services in line with the purpose and goals of individual transactions without pursuing the goal of generating maximum profit. During the pursuit of its activities, it does not pose competition to other financial institutions on the market. To achieve the goal of non-competition, SID Bank also applies the principle of equal access or non-discrimination of all users of the Bank's financial services and the transparency of the services provided, compliance of operations and operating results.

When rendering its services, SID Bank may use financial instruments available in the European Union and Slovenian legislation, such as credits, guarantees and other forms of surety and risk assumption, factoring, financial leasing, financial engineering, concession credits and other instruments of international development cooperation, capital investments and other forms of financing, including them in funding programmes for development and promotion.

Development and status

1992 The Slovenian Export Company (SID) was established as a special private financial institution for insuring and financing Slovenian export. SID's business activities were regulated by the Slovenian Export and Finance and Insurance Company Act.

2004 The Act Governing Insurance and Financing of International Commercial Transactions (ZZFMGP)[2] entered into force, establishing that SID align its activities relating to the insurance transactions rendered on its own behalf and for its own account with regulations governing the operations of insurance companies no later than by the end of 2004, and to align the operations not pertaining to insurance and not

2 ZZFMGP governs the foundations of the insurance and financing system for internal commercial transactions as a trade policy instrument of the Republic of Slovenia.

regulated by ZZFMGP with regulations governing bank operations no later than by the end of 2006. On these legal grounds, SID established an insurance company and transferred to it a portfolio of marketable insurance products that were rendered on its own behalf and for its own account until the end of 2004.

2005 The establishment of SID – Prva kreditna zavarovalnica d. d., Ljubljana.

2006 At the end of the year, Slovenian Export Company transformed into a bank after having obtained a licence by the Bank of Slovenia for the pursuit of banking and other financial services, thus renaming as SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (abbreviated name SID banka d.d., Ljubljana)[3].

2007 SID Bank starts operating as a specialist development bank.

2008 ZSIRB enters into force, granting the Bank two powers:
- SID Bank is a special Slovenian promotional export and development bank authorised to pursue activities under ZSIRB;
- SID Bank is an institution authorised to pursue all transactions under ZZFMGP.

2010 Amendments to the Banking Act expressly laid down that SID Bank was an authorised specialist Slovenian export and development bank that cannot accept public deposits.

By adopting Commission Directive 2010/16/EU which amends Directive 2006/48/EC of the European Parliament and of the Council the European Commission also confirmed, in line with the opinion of the European Banking Committee, that SID Bank was 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.

2011 In October, SID Bank was recognised as a bank significant for the Slovenian banking system based on a decision by the Bank of Slovenia.

SID Bank and MGRT conclude a contract on financing and implementation of the first financial engineering measure in Slovenia. The fund was intended to promote technological and development projects for the planned 2011-2013 period by combining the assets of both institutions and suitably sharing the risks.

2014 SID Bank was one of the three Slovenian banks that underwent comprehensive due diligence assessment, covering an asset quality review and stress tests by the European Central Bank. SID Bank successfully concluded the due diligence, with no capital deficit found.

2015 The Bank of Slovenia issued a decision identifying SID Bank as an other systemically important bank based on the Banking Act.

3 In the continuation of the Annual Report the name SID Bank or Bank is used for SID banka d. d., Ljubljana, and SID Bank Group or Group for the SID Bank Group irrespective of the time of operations and changes to the company name.

Banking services

In line with its role, purposes and tasks, SID Bank primarily renders financial services within the scope of the licences issued by the Bank of Slovenia. That primarily includes the provision of loans, as a rule, mostly through banks, in certain cases in cooperation with other commercial banks in bank syndicates, and in specific cases the Bank lends directly to final beneficiaries.

The financial services rendered by SID Bank support the four main purposes of development:
- development of a society of knowledge and innovative entrepreneurship;
- development of an environmentally friendly society and economic production;
- development of a competitive economy;
- regional and social development.

The Bank renders financial services with regard to the identified market gaps, whereby carrying out developmental and promotional tasks aims to achieve the goals of long-term development policies with financial services primarily in the following areas (under ZSIRB):
- development of small and medium enterprises and entrepreneurship;
- research, development and innovations;
- environmental protection, energy efficiency and climate change;
- international business transactions and international economic cooperation;
- regional development;
- economic and public infrastructure.

As at 31 December 2016, SID Bank holds a permit granted by the Bank of Slovenia to render the following mutually recognised financial services under Article 5 of ZBan-2:
- acceptance of deposits from informed persons;
- provision of loans, including:
  - mortgage loans;
  - purchase of receivables with or without recourse (factoring);
  - financing commercial transactions, including export financing based on the purchase of non-current non-past-due receivables collateralised by a financial instrument at a discount and without recourse (forfeiting);
- issuing guarantees and other sureties;
- trading for own account or the account of clients:
  - in foreign legal tender, including foreign exchange transactions;
  - in standardised futures and options;
  - in currency and interest rate financial instruments;
  - trading for own account
    - in money market instruments.
- credit rating services: collection, analysis and dissemination of information on creditworthiness.

SID Bank's activities mandated by the Republic of Slovenia

SID Bank provides insurance for international commercial transactions against non-marketable risks on behalf of the Republic of Slovenia and for its account as its agent. The funds required for the effective provision of insurance operations under ZZFMGP are provided to SID Bank by the Republic of Slovenia in the form of contingency reserves that are used to settle liabilities to the insured entities (claims payout) and to cover losses deriving from such transactions. Contingency reserves are created primarily from premiums, fees and commissions, recourse from paid claims and other revenues generated by SID Bank from insurance and reinsurance against non-marketable risks. If the claims incurred cannot be settled from the reserves indicated, funds for the payout are provided by the Republic of Slovenia.

Based on the Republic of Slovenia Guarantee Scheme Act, SID Bank was authorised in 2009 to provide a corporate guarantee scheme on behalf of the Republic of Slovenia and for its account. The Act was adopted within the scope of the EU stimulus package and was not extended upon its expiry at the end of 2010. Hence, SID Bank's activities are now focused on processing applications for approvals to changes, claims for the disbursement of guarantees, enforcement of recourse claims and on-going monitoring of the compliance of loans with the law and other statutory requirements.

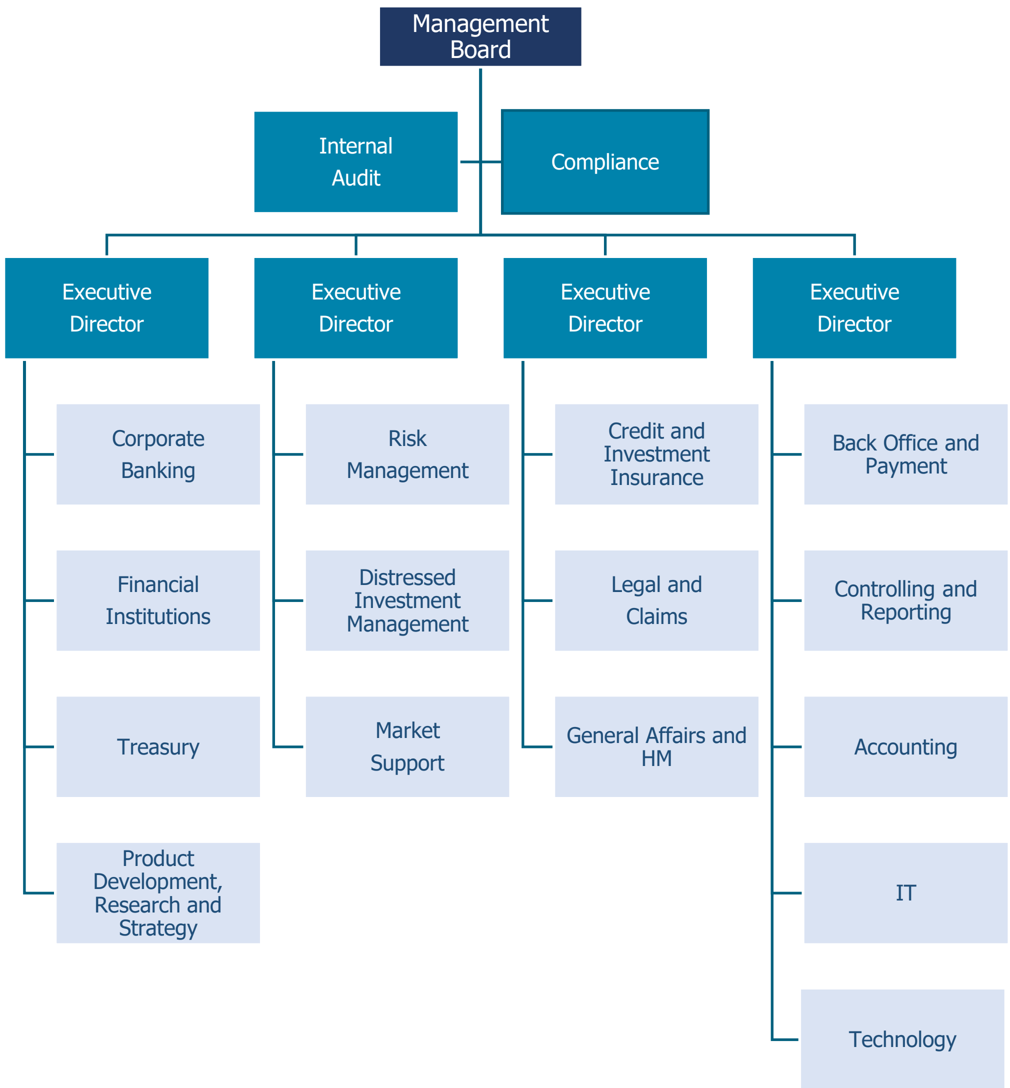
Pursuant to the Act on the Natural Persons Guarantee Scheme of the Republic of Slovenia, SID Bank was authorised in 2009 to provide a guarantee scheme for natural persons on behalf of the Republic of Slovenia and for its account. At the end of 2010, the statutory deadline for the issue of government guarantees under that Act expired. SID Bank's activities are now focused on processing applications for approvals to changes and claims for the disbursement of guarantees, enforcement of recourse claims and on-going monitoring of the compliance of loans with the law and other statutory requirements.

Based on amendments to the Act Regulating Guarantees of the Republic of Slovenia for Financing Companies' Investments, SID Bank ceased issuing government guarantees as of 31 December 2015 and now only carries out the tasks indicated in the previous paragraph in guarantee schemes for corporate entities and natural persons.

Based on supplements to the Environmental Protection Act (ZVO-1) in 2010, SID Bank was authorised to perform the role of the official auctioneer at emission allowance auctions and to implement the management programme for Kyoto units and emission allowances on behalf of the State and for its account, along with other such related transactions.

SID Bank's activities mandated by the State are presented in detail in chapter 8.2.3.

Organisational chart of SID Bank as at 31 December 2016



Share capital

The Bank's share capital is divided into 3,121,741 no-par-value shares. These are ordinary registered shares, issued in dematerialised form. The central share register and all procedures for trading the shares are administered at the Central Securities Clearing Corporation in Ljubljana.

There were no changes to the share capital in 2016, which stood at EUR 300 million as at 31 December 2015.

Shareholders as at 31 December 2016	Number of shares	Holding of share capital (%)
Republic of Slovenia	3,103,296	99.4
SID Bank - own shares	18,445	0.6
Total	3,121,741	100

There are no constraints on shareholder voting rights; each SID Bank no-par-value share entitles its holder to one vote. The financial rights attached to shares are not separated from the ownership of the shares. Pursuant to the provisions of Article 4 of ZSIRB, the Republic of Slovenia is the sole shareholder of SID Bank.

On 6 July 2016, SID Bank's General Meeting passed a resolution allocating the 2015 distributable profit of EUR 4,987,167.72 to other profit reserves.

Total equity amounted to EUR 393.8 million as at 31 December 2016. As at 31 December 2016, the audited book value per share stood at EUR 126.91 (compared to EUR 117.35 as at 31 December 2015).

Other relevant data

Company name	SID – Slovenska izvozna in razvojna banka, d. d., Ljubljana
Registered office	Ulica Josipine Turnograjske 6, 1000 Ljubljana
Registration number	5665493
Tax number	82155135
VAT ID No.	SI82155135
Settlement account	0100 0000 3800 058
IBAN	SI056 0100 0000 3800 058
SWIFT	SIDRSI22
LEI code	549300BZ3GKOJ13V6F87
Website	http://www.sid.si
Email	info@sid.si
Telephone	+ 386 (1) 200 75 00

2.2 About SID Bank Group

SID Bank Group

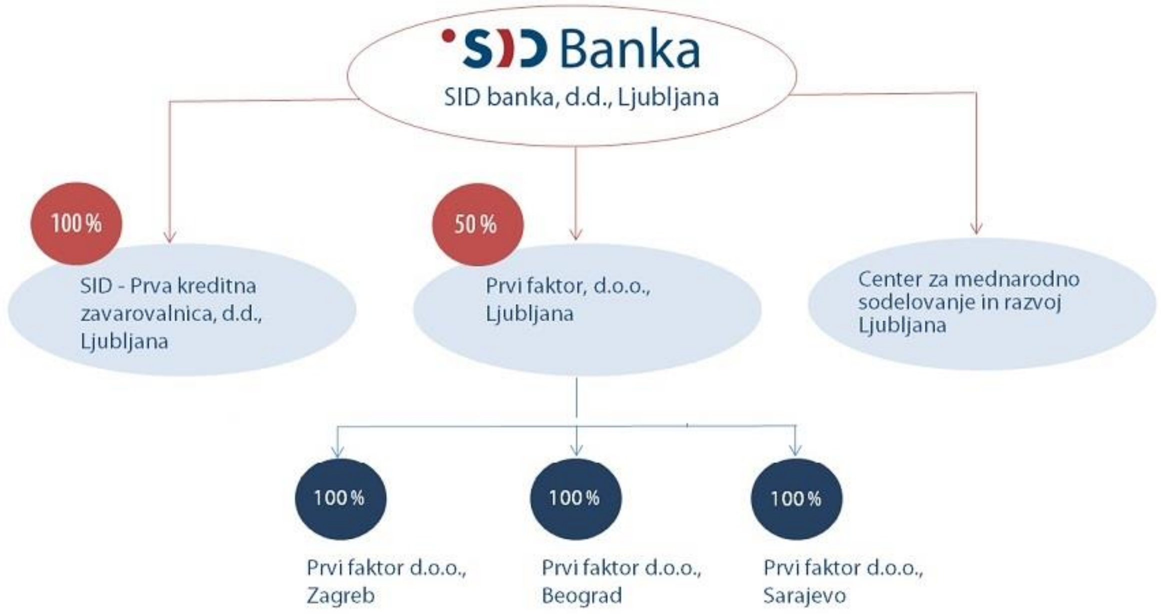
As at 31 December 2016, SID Bank Group comprised:

Company	Role	Holding of SID Bank (%)
SID banka d.d., Ljubljana	Parent company	-
SID - Prva kreditna zavarovalnica d.d., Ljubljana	Subsidiary	100
Prvi Faktor, faktoring družba d.o.o.	Joint venture	50
Center za mednarodno sodelovanje in razvoj	Joint foundation	-

SID Bank and SID – Prva kreditna zavarovalnica d.d., Ljubljana, are included in the consolidated financial statement of SID Bank Group based on the full consolidation method, while Prvi faktor Group is included based on the equity method.

The Centre for International Cooperation and Development is not included in consolidation due to its insignificant impact on the financial position and profit or loss of SID Bank Group.

Organisational chart of SID Bank Group as at 31 December 2016



About the companies

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

PKZ started pursuing its activity on 1 January 2005. On that date, short-term insurance contracts concluded by the end of 2004 by SID for its own account were also transferred from the transferring company SID to the acquiring insurance company PKZ.

PKZ insures short-term operating receivables, typically with maturity up to 180 days or, exceptionally, of up to one year when so required by the nature of the transaction or type of goods. Insurance is provided against commercial risks and optionally also non-commercial (political) risks. Insurance contracts are typically annual or biannual and cover the entire policyholder's turnover on an open account. It is also possible to insure a part of a sale (e.g. only export, only domestic sales or only the claims financed by the Bank) if PKZ assesses that the criteria used to decide whether a segment offered would be insured are objective and not an attempt at negative selection. Furthermore, it is possible to insure pre-supply risks (production risks) separately within the scope of an insurance contract. Under tailored conditions, PKZ also insures the transactions of factoring companies, individual projects and engineering deals if payment deadlines do not exceed two years. In 2016, PKZ launched a new product, i.e. advance payment insurance (the insured entity's claim on a supplier deriving from an advance payment that is made before goods are delivered or a service is rendered).

In the period between 1 January 2016 and 31 October 2016, PKZ was run by a 3-member Management Board chaired by Ladislav Artnik, with Barbara Kunc and Igor Pirnat, MSc, acting as Members. Barbara Kunc gave her resignation effective as of 1 November 2016, which is why PKZ was run by a 2-member Board in the period between 1 November 2016 and 31 December 2016, comprising Chairman of the Board Ladislav Artnik and Member of the Board Igor Pirnat, MSc. The Management Board's term of office expires on 31 December 2017.

In the period between 1 January 2016 and 31 August 2016, the Supervisory Board comprised Jožef Bradeško as the Chairman, Bojan Pecher as Deputy Chair (SID Bank's representatives) and Andraž Tinta as Member (employee representative). In the period between 1 September 2016 and 31 December 2016, the Supervisory Board comprised: Jožef Bradeško as the Chairman, Goran Katušin as Deputy

Chair, Ph.D. Matejka Kavčič and Mirjam Janežič as Members (SID Bank's representatives) and Andraž Tinta and Sanja Dimec as Members (employee representatives).

The Supervisory Board established an Audit Committee, which had three members in the period between 1 January 2016 and 31 August 2016, i.e. two Supervisory Board Members and independent expert Blanka Vezjak, MSc. In the period between 1 September 2016 and 31 December 2016, the Audit Committee comprised Ph.D. Matejka Kavčič as Chairwoman, Mirjam Janežič as Deputy Chair, Bojan Pecher as Member and Blanka Vezjak, MSc, as independent expert.

The nominal value of SID Bank's interest in PKZ as at 31 December 2016 amounted to EUR 8.4 million.

Prvi faktor, faktoring družba, d.o.o., v likvidaciji

The activity of the company Prvi faktor, faktoring družba d.o.o., v likvidaciji, Ljubljana (hereinafter "Prvi faktor, Ljubljana") is the provision of factoring services. Within that scope, the company primarily entered into the following transactions:

- acquisition against payment or purchase of receivables deriving from the sale of goods and services with or without assuming payment risk;
- financing the receivables assumed;
- administrative management of the receivables assumed;
- realisation and recovery of the receivables assumed;
- trading in assumed receivables;
- intermediation and brokerage in factoring transactions at home and abroad.

SID acquired 50% of the share capital and half of the voting rights at Prvi faktor, Ljubljana, in 2002. The other company member is Nova Ljubljanska banka d.d., Ljubljana. The nominal value of SID Bank's equity share as at 31 December 2016 amounted to EUR 1.6 million.

In 2016, Company Directors were Klemen Hauko and Marcel Mišanović Osti, while Saša Keleman and Branko Jerak represented SID Bank at the General Meeting in 2016.

On 28 December 2016, the General Meeting adopted a decision to commence the procedure for voluntary liquidation and appointed the current managers as liquidators.

Prvi faktor, Ljubljana, is the founder and 100% owner of the three companies.

The company Prvi faktor, faktoring društvo, d.o.o., Zagreb, Croatia, engaged in factoring activity, was established on 17 December 2003. The Company's share capital amounts to EUR 2.7 million. Until the end of May 2016, the Chairman of the Board was Hrvoje Turkalj, while Mario Martinović and Tomaž Kačar were Members of the Board. As of June 2016, the Chairman of the Board became Jure Hartman, with Vesna Lončar a Member of the Board and Marko Ugarković the Procurator.

The company's General Meeting comprises representatives of Prvi faktor, Ljubljana, i.e. Marcel Mišanović Osti (Chair of the General Meeting) and Klemen Hauko. The Chairman of the company's Supervisory Board is Klemen Hauko, while Igor Jarc and Matjaž Jevnišek act as its Members. As of 31 December 2016, the company is subject to liquidation proceedings.

The company Prvi faktor, faktoring d.o.o., Beograd, Serbia, engaged in factoring activity, was established on 24 February 2005. The Company's share capital amounts to EUR 2.7 million. In 2016, the company was run by Director Željko Atanasković. The company's General Meeting comprises representatives of Prvi faktor, Ljubljana, i.e. Marcel Mišanović Osti (Chair of the General Meeting), Klemen Hauko and Svetlana Miškić.

The company Prvi faktor d.o.o., financijski inženiring, Sarajevo, Bosnia and Herzegovina, engaged in other financial intermediation, was established on 27 February 2006. The company's share capital amounts to EUR 1.4 million. As of 29 December 2016, the company is subject to liquidation proceedings. The current director and liquidator of the company is Đenan Bogdanić. The company's General Meeting comprises representatives of Prvi faktor, Ljubljana, i.e. Marcel Mišanović Osti (Chair of the General Meeting), Klemen Hauko and Svetlana Miškić.

Companies within Prvi Faktor Group have no supervisory boards, which is why these competences and responsibilities are carried out by the companies' General Meetings.

Centre for International Cooperation and Development

Together with the Republic of Slovenia, SID Bank is the co-founder of the Centre for International Cooperation and Development (CMSR). The principal activities of the Centre are macroeconomic, political and other analyses of countries, risk assessments for countries and publishing. Based on government authority, CMSR performs technical and operational tasks pertaining to international development cooperation.

CMSR's governing bodies are the Director and Council. The Centre is represented by Gašper Jež, Director. The Council comprises six members. SID Bank's representatives in the Council are Sibil Svilan, MSc, also the Chair of the Council, and Bojan Pecher.

3 Corporate Governance Statement

3.1 Corporate Governance Code

In 2016, SID Bank, as a state owned company followed the Corporate Governance Code for Companies with Capital Assets of the Republic of Slovenia (as adopted in 2014 and amended in 2016 by the Slovenian Sovereign Holding) and the Recommendations and Expectations of the Slovenian Sovereign Holding. SID Bank fully impelements the mentioned Code, unless otherwise stipulated by the special law (ZSIRB). SID Bank is the signatory of the Slovenian Corporate Integrity Guidelines from January 2014.

Due to the restrictions imposed by ZSIRB, SID Bank does not apply the following recommendations of the Corporate Governance Code for Companies with Capital Assets of the State (hereinafter "Code").

The Code lays down as follows:

"3. Governance framework for companies with capital assets of the State"

Point 3.1:

The operations of SID Bank are regulated by ZSIRB, which inter alia lays down that SID Bank shall render all services with the purpose to generate direct or indirect added value for the users of such services in line with the purpose and goals of individual transactions, projects, investments or other forms, and primarily to keep or increase capital without pursuing the goal to generate maximum profit (Article 9 of ZSIRB).

"4. The relation between shareholders or company members, Slovenian Sovereign Holding, the State and a company with capital assets of the State"

The recommendations are applied mutatis mutandis.

Point 4.2:

SID Bank has only one shareholder, i.e. the Republic of Slovenia (Article 4 of ZSIRB).

Point 4.3:

Supervisory Board Members are appointed by the Government of the Republic of Slovenia, i.e. 5 Members as representatives of expert public at the proposal of the minister responsible for development and European affairs, 1 Member at the proposal of the minister responsible for finance, and 1 Member at the proposal of the minister competent for the economy (Article 18 of ZSIRB).

"6. Supervisory Board"

Point 6.1:

SID Bank shall discuss the succession plan periodically at Supervisory Board sessions, i.e. within the scope of the HR development plan. The recommendation is applied mutatis mutandis.

Point 6. 4:

Procedures for the proposal and appointment of the Bank's Supervisory Board Members are regulated by the Banking Act (ZBan-2), the Companies Act (ZGD-1) and ZSIRB, as a specific act laying down the number of Supervisory Board Members and the composition of the Supervisory Board of SID Bank (Article 18 of ZSIRB).

Point 6.5:

As a bank, SID Bank is obliged to observe and observes the provision of ZBan-2 (Article 49) laying down that members of Supervisory Board committees can only be the Bank's Supervisory Board Members irrespective of the provisions of ZGD-1.

Point 6.6:

SID Bank's Supervisory Board Members are appointed by the Slovenian Government at the proposal of ministers (Article 18 of ZSIRB).

Point 6.7.2:

The recommendation is applied mutatis mutandis.

The Supervisory Board's Rules of Procedure contain no special provisions related with the introduction of Supervisory Board Members. In practice, the provision is enforced, i.e. Supervisory Board Members have an interview with the Management Board and the Chairman of the Supervisory Board upon taking up their position, while the Supervisory Board secretary provides them with the necessary internal acts and strategic documents for performing the function.

Point 6.8.2:

The same applies as in the case of the Supervisory Board Audit Committee (point 6.5); SID Bank observes the provisions of the Banking Act (ZBan-2).

Point 6.12:

The same as in cases laid down in points 6.5 and 6.8.2.

In 2016, SID Bank also observed Corporate Governance Code for Publicly Traded Companies, as applicable between 1 December 2010 and 31 December 2016.[4] Due to the mentioned legal restrictions, SID Bank does not apply the following recommendations from the mentioned code:

"Corporate Governance Framework"

Point 1:

The fundamental principles of SID Bank's operations are laid down by ZSIRB. SID Bank's basic objective is not to maximise the company's value, but to generate direct or indirect added value for the users of SID Bank's financial services and, most of all, to keep or increase equity without pursuing the goal to maximise profit (Article 9 of ZSIRB).

"Relations between the company and shareholders"

Point 4:

Since the sole shareholder of SID Bank is the Republic of Slovenia, the recommendations are applied mutatis mutandis (Article 4 of ZSIRB).

"Supervisory Board"

Points 6 and 7:

The recommendations are applied mutatis mutandis, as proposals and appointments of Supervisory Board Members are regulated by a special act (Article 18 of ZSIRB), whereby SID Bank is also obliged to observe the provisions of the Banking Act (Zban-2) and subordinate rules (i.e. Decision on the management system, management body and internal capital adequacy assessment process for banks and saving banks).

SID Bank realises the Bank's corporate governance system in line with the legislation applicable in the Republic of Slovenia, while taking into account its internal acts (e.g. SID Bank's articles of association). SID Bank additionally applies the regulations laid down by the European Banking Authority, the legal acts of the European Central Bank, and the regulations and other acts of the Bank of Slovenia.

4 The last amendment of the Code was made in October 2016 and entered into force on 1 January 2017.

3.2 Governing bodies

Composition and operations of the management and supervisory bodies and their committees

The management and supervisory bodies are appointed pursuant to regulations, while additional conditions and procedures are laid down in Article 18 of ZSIRB. The Bank has a two-tier governance system, with the Management Board managing the Bank and the Supervisory Board supervising its operations.

Supervisory Board of SID Bank

Pursuant to the provisions of ZSIRB, the Supervisory Board comprises 7 Members who are appointed by the Government of the Republic of Slovenia. Supervisory Board Members are appointed for a period of 5 years. The procedure and criteria for the selection of suitable members are laid down by the Policy for the Selection of Supervisory Board Members in a manner allowing the selection of the right candidates with the necessary knowledge, skills and experiences to oversee and monitor the management of the Bank's transactions as well as with the necessary reputation, and ensuring that the Supervisory Board as a whole has the necessary knowledge, skills and experiences for in-depth understanding of SID Bank's activities and the risks to which it is exposed. Focus is placed on maximising diversity in knowledge, skills, experience and other circumstances, particularly gender, age, education, social position and other circumstances on the part of candidates. The Supervisory Board comprises at least one member with the knowledge and experience in financial risk management, supervision and auditing in relation to SID Bank's activities, commercial law and corporate governance, management and remuneration, and at least 2 members holding specific knowledge and several years of experience in banking.

In March 2016, the Nomination and Remuneration Committee assessed the Supervisory Board as suitable in terms of knowledge, skills and experiences of individual Members and the body as a whole as well as its structure, size, composition and performance.

As at 31 December 2016, Supervisory Board comprised Monika Pintar Mesarič as its Chairwoman, Janez Tomšič as Deputy Chair and Marjan Divjak, MSc, Štefan Grosar, Leo Knez, MSc, and Marko Tišma as Members.

The Supervisory Board oversees and monitors the Bank's management and operations. It operates based on the adopted Rules of Procedure for the Supervisory Board, laying down in detail the principles, procedures and method of work, while main competences and responsibilities are laid down by the Bank's articles of association and the acts regulating the Bank's operations, in particular the Companies Act, Banking Act and Slovene Export and Development Bank Act.

Among others, the Supervisory Board adopts the Bank's strategic orientations, examines the Bank's annual and other financial reports and issues its opinion, explains its opinion to the Bank's General Meeting of Shareholders on the annual report of the Internal Audit Department and the opinion on the Management Board's annual report, confirms the Bank's annual report and the Management Board's proposal for the appropriation of distributable profit, discusses any findings by the Bank of Slovenia, tax inspection and other supervisory bodies and in procedures to supervise the Bank. Furthermore, the Supervisory Board gives its consent to the Management Board to the Bank's business policy, financial plan, remuneration policy, organisation of the internal control system and annual programme of work for the Internal Audit Department. The Supervisory Board is also competent for the issue of preliminary consents for the conclusion of financing, borrowing and capital investment transactions. The Supervisory Board appointed the Audit Committee, Risk Committee and Nomination and Remuneration Committee as advisory bodies. The Rules of Procedure of each committee lays down the tasks and competences of a particular committee.

Nomination and Remuneration Committee

As at 31 December 2016, the Committee comprised Monika Pintar Mesarič as Chairwoman, Janez Tomšič as Deputy Chair and Marko Tišma as Member. The Committee is responsible and competent for the tasks related with the appointment of members of the Management and Supervisory Boards and the remuneration system. Its tasks are, therefore, to identify and recommend candidates for Management Board Members to the Supervisory Board by identifying the tasks and conditions for a particular appointment, to assess the composition and performance of the Management Board, the knowledge, skills and experiences of individual members of the Management and Supervisory Boards or both bodies as a whole, and to assess the compliance of policies and remuneration practices, including those affecting the Bank's risks and risk management.

Audit Committee

As at 31 December 2016, the Audit Committee comprised Marjan Divjak, MSc, as the chairman, Leo Knez, MSc, as Deputy Chair and Štefan Grosar as Member. In relation to its monitoring and supervisory competences, the Committee discusses primarily materials referring to annual and interim financial statements, the activities of the Internal Audit Department, the organisation of the internal control system, risk management and any findings made by supervisory bodies in inspection procedures over the Bank. Furthermore, the Committee participates in procedures to select the external auditor, and reviews and monitors its work and impartiality.

Risk Committee

As at 31 December 2016, the Risk Committee comprised Leo Knez, MSc, as Chairman, Marjan Divjak, MSc, as Deputy Chair and Marko Tišma as Member. Within the scope of its competences, the Risk Committee primarily gives advice on the Bank's general risk appetite and risk management strategy, provides support in the implementation of supervision over senior management regarding the risk management strategy, examines whether the incentives provided within the scope of the remuneration system take into account risks and whether the prices of the Bank's products are compatible with the business model and risk management strategy.

Management Board

The Bank's operations are managed by the Management Board, which represents the Bank. The Bank's Management Board is appointed by the Supervisory Board for a period of 5 years and maintains the possibility of reappointment. Pursuant to the articles of association, the Management Board of SID Bank has no more than 3 Members, one of which is appointed as Chairperson of the Board, while the number of Board Members is laid down by the Supervisory Board. In 2016, the Management Board had 2 Members, i.e. Sibil Svilan, MSc, as Chairman and Jožef Bradeško, MSc, as Member, whose 5-year term of office expired on 31 December 2016.

During 2016, the Supervisory Board or, rather, the Nomination and Remuneration Committee conducted a procedure to select a new 2-member Management Board for the next 5-year term of office based on an open call. In doing so, it observed the terms, conditions and criteria to be met by a Member of the Board and as laid down by ZSIRB, ZBan-2, ZGD-1, Policy for the selection of board members, which contains incentives to achieve the diversity of the governing body in terms of knowledge, skills and experiences as well as gender, age and education, and ensures that candidates get the equal opportunities during candidacy and selection, and the Policy to assess the suitability of members of a governing body and key function holders. The Supervisory Board reappointed Sibil Svilan, MSc, as Chairman of the Board for another term starting on 1 January 2017, and Goran Katušin as Member of the Board. Both of them meet the required conditions in reference to knowledge, skills and experience as well as other criteria, while the Management Board as a whole meets the condition of collective suitability, meaning that the Members of the Board are persons who meet all criteria for a suitability assessment together and without the need for additional training.

The Management Board manages transactions independently and at its own risk. Its operations are regulated by the Rules of

Procedure for the Management Board. As a rule, the Board meets on a weekly basis at its meetings, where it discusses matters relating to the Bank's operations. The Bank's Management keeps the Supervisory Board informed of the most important issues relating to the Bank's operations, its business policy, financial positions and other major issues relating to its operations.

The Management Board transferred certain decision-making rights to collective decision-making bodies, such as the Credit Committee, Committee for operations on behalf of the State, Distressed Investment Management Committee and Assets/Liabilities Committee. The main competences and method of work of the committees are laid down in rules governing their work. Furthermore, the Management Board transferred certain decision-making powers on transactions to individual employees at SID Bank based on the rules on authorisations.

Credit Committee

The Credit Committee decides on approvals and changes to the conditions of investment transactions that do not constitute a borrower's refinancing or restructuring due to its financial problems pursuant to SID Bank's business policy, on classifications of individual investments, exposure limits for a particular client and documents upon the introduction of new and changes to the existing financing programmes or individual products. The Credit Committee monitors individual exposures and the quality of a credit portfolio based on the recommendations made by individual organisational units and also decides on the transfer of investments with increased credit risk to non-performing assets. At the end of 2016, the Credit Committee had 5 members who met at regular weekly meetings.

Assets/Liabilities and Liquidity Committee

The Liquidity Committee and Assets/Liabilities Committee joined on 1 July 2016 to form a uniform Assets/Liabilities and Liquidity Committee. Within the scope of its competences to regulate liquidity at the level of SID Bank and SID Bank Group, the Committee manages liquidity risk and structural liquidity. In doing so, it decides on raising and placing assets on money and capital markets at home and abroad, use of the instruments provided by the Bank of Slovenia and European Central Bank, and confirms and monitors the exchange-rate and interest-rate policies. In assets and liabilities management, the Committee makes decisions, changes and monitors the implementation of assets/liabilities strategy and policy, lays down and monitors the implementation of pricing, liquidity, interest-rate and exchange-rate policies, decides on proposals relating to asset and liability management, confirms funding programmes and products in the treasury and their changes, monitors the Bank's capital adequacy, confirms the treasury investment policy, and assesses the results of stress tests. The Committee manages liquidity and assets and liabilities in relation to SID Bank's operations on behalf of the State, whereby managing, in particular, liquidity risk and structural liquidity adopts the contingency reserve policy in asset and liability management and assesses the impact of new insurance programmes on the amount of contingency reserves. Various departments report to the Committee. In terms of membership, this is the largest committee, as it has 8 members. Regular meetings are held on a weekly basis for the purposes of liquidity management and on a monthly basis for asset and liability management.

Committee for Operations on Behalf of the State

The Committee decides on approvals and changes to the transactions concluded by SID Bank on behalf of the State, including inter alia transactions for financing international commercial transactions from contingency reserves, (re)insurance and guarantee schemes, and on other matters therewith. The Committee monitors the mentioned transactions based on the reports made by several departments. The purpose of establishing a special committee for operations on behalf of the State is to separate consistently the operations of SID Bank from the operations on behalf of the State. At the end of 2016, the Committee had 5 members who met at regular weekly meetings.

Distressed Investment Management Committee

The Committee manages bad debts that have obtained the status of non-performing assets based on a decision of the Credit Committee, whereby it decides on approvals and changes to the terms and conditions of an investment transaction and financial restructuring plans as well as all issues related with non-performing assets (including regarding the enforcement of rights in insolvency proceedings). At the end of 2016, the Committee had 5 members who met at regular weekly meetings.

Committee for the Assessment of Suitability of Management Body

SID Bank has adopted a policy for the selection of members of the management and supervisory boards and a policy for the assessment of the suitability of governing body members and key function holders that regulate the procedure to select suitable candidates and lay down the necessary knowledge and competences as well as detailed criteria and procedures to make an assessment of the suitability of a member of a management body.

The suitability of the management body is assessed by the Committee comprising one external member with knowledge and experience in the pursuit of banking or financial services, one external member with knowledge and experience in staffing, psychology and related sciences, and one member who is a SID Bank employee and manages an independent compliance function, thus ensuring maximum independence of the Committee on one hand and the four-eyes principle on the other hand.

As at 31 December 2016, members of the Committee were Beti Jenko, Viktor Lenče and Barbara Bračko.

Pursuant to the applicable legislation, the Committee assesses the suitability of management body before they are appointed and afterwards if circumstances arise that require a reassessment of suitability, but no less than once a year.

International Trade Promotion Commission

The Government of the Republic of Slovenia has appointed an International Trade Promotion Commission to coordinate the actions of the competent government and other bodies and institutions in the implementation of ZZFMGP, and to ensure the effective implementation of the insurance and financing of international trade and investments.

The Commission decides on the Bank's proposals to conclude insurance transactions exceeding EUR 5 million or in which SID Bank is involved, whereby it holds decisive competences in other areas related with risk management, such as giving consent for:

- insurance policies in individual countries or groups of countries that, together with the insurance limits already laid down in ZZFMGP, limit the volume of potential claims;
- the formulation and conclusion of special insurance terms for individual insurance policies and other transactions;
- the management of contingency reserves and the risks taken up in insurance operations;
- agreements and relations with financial and other institutions;
- the reprogramming, recovery and liquidation of claims;
- other transactions under government authority.

The International Trade Promotion Commission regularly monitors the Bank's operations in areas regulated by ZZFMGP, discussing performance reports and providing its opinion on the Bank's report on the implementation of authorities under ZZFMGP to the Ministry of Finance.

Until 10 November 2016, the Commission comprised Eva Štraus Podlogar as Chairwoman, Ph.D. Sabina Koleša as Deputy Chair and Matej Čepeljnik, Ph.D. Robert Kokalj, Janez Krevs and Jože Renar, MSc, as Members. As of 11 November 2016, members of the Commission are Ph.D. Sabina Koleša as Chairwoman and Darja Adlešič, Matej Čepeljnik, Ph.D. Robert Kokalj, Janez Krevs and Jože Renar, MSc, as Members.

3.3 Main features of internal control and risk management systems in relation to the financial reporting procedure

The Bank has set up through by-laws various internal controls in relation to financial reporting procedures, which are conducted primarily in organisational units competent for risk management, accounting, controlling and reporting. The Bank's internal controls and risk management are also subject to internal auditing, as carried out by a special organisational unit.

To perform its function efficiently, the Supervisory Board established an Audit Committee, focused in particular on financial reporting, and a Risk Committee, the competences of which are primarily related to supervision and provision of advice in risk management. Within the scope of the Bank, a compliance function has been established as part of the internal control system, which is conducted by a special organisational unit.

Compliance

SID Bank has a compliance function pursuant to ZBan-2. SID Bank was one of the first banks in the Republic of Slovenia to establish the compliance function, i.e. as early as in 2008 based on a decision by the Bank's Management Board. Independently of the compliance function, the Bank's Management Board is primarily responsible for managing compliance risk and ensuring that the Bank's operations are in line with regulations. The provision of compliance also falls within the responsibility of all employees at the Bank, taking into account their role and level of responsibility. Their right and duty is to train in compliance risk management.

In 2016, the Compliance Department recruited a new information security engineer, thus further reinforcing internal control functions at the Bank.

The Compliance Department is an independent organisational unit, while its Director reports directly to the Management board and is allowed to communicate directly with the Supervisory Board.

The purpose of compliance is to eliminate or limit compliance risks, strengthen corporate ethics and integrity, and prevent fraud and abuse. SID Bank observes the Corporate Governance Code for Companies with Capital Assets of the State and the Management Code for Publicly Traded Companies with minor derogations (see chapter Corporate Governance Code) and is the signatory of the Slovenian Corporate Integrity Guidelines. Upon the consent of the Supervisory Board, the Bank's Management Board adopted a Code of Ethics and Professional Standards laying down the principles and rules observed by SID Bank, its bodies and bank employees in the pursuit of their activities and tasks in relation to clients, other banks, economic environment and within SID Bank.

The Compliance Department holds a supervisory function, keeps the internal code of ethics and professional standards, and is competent for handling violations of the mentioned code and anonymous or public whistleblowing complaints and/or complaints by employees or third parties. The established whistleblowing and complaint system was made fully operational in 2016. The Compliance Department considered complaints made by employees and third parties, in which most complaints were not anonymous. The Compliance Department reports to the Management and Supervisory Boards on the complaints received and conclusions reached in procedures on an annual basis and, if necessary, sooner.

The Compliance Department exercises its supervisory function through regular and outstanding due diligence in terms of compliance, i.e. in selected areas from which it derives based on an analysis of the risk profile that the risk of non-compliance is the highest. While conducting due diligence, Compliance Department cooperates with the Internal Audit Department by exchanging information or findings. The compliance function includes compliance risk monitoring and reporting, and advice and training on compliance risk management.

Internal Audit

The Internal Audit Department is organised as an independent and impartial organisational unit that is separated from other organisational units of the Bank in terms of function and organisation and reports directly to the Bank's Management Board.

The Internal Audit Department operates in line with the Banking Act, International Standards for the Professional Practice of Internal Auditing, Internal Audit Code of Ethics and Code of Internal Audit Principles. The work of the Department and procedures to conduct internal auditing are laid down in the Internal Audit Rulebook and the Internal Audit Manual.

The purpose of the Internal Audit Department is to provide independent and impartial assessments on the efficiency and quality of risk management, internal controls and organisation of internal management, thus contributing to improved operations and achievement of the Bank's goals. The Department realises its mission by conducting internal audits and counselling, whereby it focuses on the riskiest areas as laid down within the scope of the Department's plan of work. Annual and strategic plans are based on the Bank's risk profile and regulatory requirements for mandatory auditing of individual areas of the Bank's operations in order to cover the riskiest areas of the Bank's operations in terms of auditing and periodically also less risky or not yet audited areas. Both plans are adopted by the Bank's Management Board in agreement with the Bank's Supervisory Board.

Ten regular audits from the 2016 annual plan of work were conducted and one special audit was completed in second quarter. The plan was not realised in full, primarily due to personnel changes. Outsourced services were used to carry out two audits.

The Internal Audit Department placed special attention on the implementation of recommendations. In addition to regular and special audits and monitoring the implementation of recommendations, the Department also provided counselling, revised fundamental auditing documents, performed self-assessment of its own work and coordinated the preparation of answers to the inquiries made by the regulator.

The Internal Audit Department reports its activities, findings and the implementation of recommendations on an annual and quarterly basis to the Bank's Management Board, Audit Committee and Supervisory Board. Furthermore, the Bank's Management Board discusses all reports on individual audits.

At year-end, the Department employed two persons, one of whom works part time. The employees hold suitable licences or titles to perform the tasks of internal auditing.

4 Risk management

SID Bank's risk management system includes procedures to identify, measure or assess, manage and monitor risks, as well as internal and external risk reporting.

The main risks faced by SID Bank Group are credit, interest rate, liquidity, foreign exchange, operational, strategic, capital, profitability and reputational risks. Risk appetite priority identifies credit risk as the most important risk, followed by reputational risk, profitability risk, operational risk, interest rate risk, strategic risk, capital risk, market risk and liquidity risk. In risk management, SID Bank further observes particularities relating to the implementation of promotional and development tasks and services that are important for the development of the Republic of Slovenia, and to the segmentation of operations to operations with the Bank's own resources and operations on behalf of the State and for its account, including the management of contingency reserves.

The organisational structure and work processes at SID Bank are set up in a manner allowing the realisation of business objectives while taking into account safe and compliant operations. The key goal in the implementation of risk management measures is to achieve a suitable awareness of risks at all levels of the Bank's operations.

Risk identification starts in commercial organisational units and continues in organisational units that are separated from commercial organisational units, all the way to the level of the Management Board, thus ensuring its independence.

Direct implementation of risk management falls within the competence of the following bodies and organisational units:

- Management Board: adopting an assessment of risk profile, laying down, adopting and regularly revising risk assumption and management strategies and policies in relation to the Bank's exposure or possible exposure during its operations, including risks deriving from macro-economic environment in which the Bank operates, taking into account the credit and business cycle applicable at the time;
- Credit Committee: management of all types of credit risks for operations on behalf of and for the account of SID Bank, decision-making on proposals affecting exposure to credit risk at the level of SID Bank and SID Bank Group, and its monitoring;
- Assets/Liabilities and Liquidity Committee: management of liquidity and assets and liabilities, including risks at the Bank's aggregate level, balance sheet structure and capital adequacy;
- Distressed Investment Management Committee: management of non-performing receivables that have been classified by the Credit Committee as non-performing exposures;
- Executive Director for Risk Management: reporting to the Bank's Management Board about all relevant risks and circumstances that affect or may affect the Bank's risk profile; independent reporting to the Chairperson of the Supervisory Board and of the Risk Committee in case of specific risk developments that affect or may affect the Bank's risk profile;
- Risk Management Department: preparation of risk management strategy and policies, assessment of risk profile, risk measurement or assessment or monitoring, application of different methods to control risks, preparation of a plan of activities to manage risks, assessment and regular monitoring of the debtors' financial position and projections of their operations, assessment of investment acceptability, assessment of soft factors, selection of suitable indicators to identify financial commitments;
- Market Support Department: monitoring debtors and management of early warning systems (EWS) for debtors with increased credit risk, monitoring credit insurance, in-depth and crisis monitoring of debtors;
- Backoffice and Payment Department: daily monitoring of foreign exchange and liquidity risks pursuant to internal limits;
- Distressed Investment Management Department: management of non-performing exposures, proposals for solutions in order to prevent and minimise potential losses.

SID Bank has addopted a risk management strategy and 6 policies covering procedures to identify, measure or assess, manage and monitor risks. Documents are updated on an annual basis.

The risk management strategy takes into account the applicable legislation and regulations governing risk management. Furthermore, it takes into account SID Bank's particularities deriving from its status as an institution authorised under ZSIRB.

The strategy defines the types of risks faced by SID Bank as an independent institution and, at the same time, a parent company within the SID Bank Group that is in charge of consolidated risk management, laying down the method to manage such risks.

The internal management system at SID Bank is based on:

– a clear organisational culture with clearly defined, transparent and consistent internal relations relating to responsibilities and allowing effective communication and cooperation at all levels of organisation, including an adequate upstream and downstream flow of information. SID Bank has established a Credit Committee, Assets/Liabilities and Liquidity Committee, Distressed Investment Management Committee and Committee for the Operations on Behalf of the State, where the Bank's Management Board and senior management are actively involved in the risk management process;
– an effective risk management process that includes procedures to identify, measure or assess, manage and monitor risks, as well as perform internal and external risk reporting;
– a suitable internal control system that includes suitable administrative and accounting procedures. SID Bank has established an Internal Audit Department, which regularly, independently and comprehensively audits the functioning of internal controls put in place and the implementation of the measures adopted to manage risks, giving recommendations to improve the internal control system and risk management procedures. Furthermore, it has established a Compliance Department that identifies, assesses and monitors the compliance risks to which SID Bank is exposed in its operations, and reports its findings to the Bank's Management and Supervisory Boards;
– a suitable remuneration system for employee categories with specific nature of work that significantly affect the risk profile.

SID Bank systematically and regularly monitors all mentioned risks. Within the scope of the risk management put in place, it detects important risks early, considers them comprehensively, monitors them within the scope of its day-to-day activities and timely reports them to the Management Board. The Management Board promotes a culture of risk management that complies with the risk appetite adopted and regularly reports to the Supervisory Board on the management of individual types of risks. Effective risk management reduces the probability of unexpected losses and, as a result, the probability of reputational risk. The monitoring frequency and reporting method on risk exposure are laid down in internal acts, i.e. for each type of risk separately. A detailed description of methodologies used to measure or assess and monitor individual types of risks is in Chapter 3 of the Financial Report. In risk management, SID Bank fully observes the regulations applicable to banks and good banking practices, irrespective of the exceptions laid down by ZSIRB.

The risk profile of SID Bank and SID Bank Group is assessed each year and a report on the implementation of the internal capital adequacy assessment process is compiled. The Bank's risk profile is a documented and categorised collection of quantitative and qualitative assessments of the risks assumed by SID Bank Group within the scope of its operations and the control environment used to manage such risks. The risk profile assessment is one of the key strategic performance measurement indicators of SID Bank's strategy.

SID Bank assesses the risk profile for the entire SID Bank Group, whereby it makes an aggregate assessment of subsidiaries and an assessment by activity for SID Bank.

Pursuant to the risk management strategy and the capital risk and capital management policy, SID Bank has put in place an internal capital adequacy assessment process which:

– is based on the identification and measurement or assessment of risks, the formulation of an aggregate assessment of

risks, and the monitoring of significant risks that the Bank takes up within the scope of its operations;
- ensures adequate internal capital in relation to the Bank's risk profile;
- is properly incorporated in the governance system.

SID Bank also conducts stress tests based on its own scenarios and the scenarios suggested by the supervisor. Based on the results of such tests, SID Bank is able to identify in due time and in advance the areas at which it is the most vulnerable, thus mitigating the risks and improving its performance by means of appropriate measures.

SID Bank uses the standardised approach to calculate the minimum capital requirement for credit risk and the basic indicator approach for operational risk. SID Bank does not pursue trading transactions and is, therefore, exposed to minimum market risk. Within the scope of market risks, SID Bank monitors and manages foreign exchange risk and calculates the capital requirement for foreign exchange risk pursuant to the provisions of Articles 351 to 354 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (hereinafter "CRR Regulation").

SID Bank is required to meet the requirements for sustaining a capital conservation buffer, its own specific counter-cyclical capital buffer and a buffer for other systemically important institutions using Common Equity Tier 1 capital (CET1).

In 2016, SID Bank maintained high capital adequacy, which amounted to 33.6% as at 31 December 2016, thus providing future stable operations. Furthermore, liquidity ratios were also high, with liquidity coverage ratio (LCR) amounting to 3439% as at 31 December 2016 (the required minimum for 2016 was 70%), while the net stable funding ratio (NSFR) stood at 204%.

In risk management activities carried out in 2016, SID Bank:
- revised and upgraded the outsourcing policy, rules on the introduction of new products and systems, and rules on the management of non-performing exposures;
- continued to upgrade IT support and automate reports for the purposes of external and internal reporting;
- implemented the Bank of Slovenia guidelines to calculate the default and loss rates;
- carried out activities related to the introduction of the International Financial Reporting Standard 9;
- placed special attention on reducing non-performing exposures pursuant to the regulator's guidelines and the Bank's strategy in that area;
- updated the competences and responsibilities of the Supervisory Board in respect of granting consent to increased exposure to individual clients or groups of related parties as laid down in the Bank's articles of association pursuant to the regulations, and further expanded them to cases that should also be discussed by the Supervisory Board in view of sound risk management;
- upgraded the monitoring of liquidity and interest rate risk.

SID Bank also places special attention on risks deriving from loan funds. The promotional and development platform developed by SID Bank is an instrument for integrating and distributing national budget funds for the implementation of financial actions within the scope of national and European public policy. Within the scope of the platform, the Bank implements financial engineering measures where the State covers the first loss. The most important risk of the loan fund is credit risk.

In 2016, SID Bank continued to implement different measures to manage the credit risk of loan funds, such as:
- approval of (changes to) loan fund lines of credit in line with the Rules on Investment Approval;
- preparation of credit ratings for borrowers from the loan fund pursuant to the Rules on the assessment of domestic and foreign persons pursuing economic activity;
- within the scope of quarterly reporting to the Asset/Liability and Liquidity Committee on credit risks (internal reporting), the preparation of a separate review of the loan fund credit portfolio by credit rating and activity;

- performance of sample checks of the intended use of assets for the loan fund's credits based on reports by beneficiaries/borrowers and pursuant to internal instructions.

In risk management, SID Bank will place special attention in the coming year on further automation of reports for internal and external reporting and on procedures to introduce new International Financial Reporting Standards (IFRS 9). In 2017, it will increase its risk appetite in credit, interest rate and foreign exchange risk, which is ensured by its high ability to assume risks (favourable capital adequacy) and a high leverage ratio. Upgrades to the current techniques to manage risks to reach the integrity and sensibility of the system taking into account the volume, type and complexity of transactions, have been planned through different activities, such as upgrade to portfolio risk management, upgrade to the risk profile assessment methodology, revision of ICAAP/ILAAP, upgrade of the impairment and provisioning methodology, identification and elaboration of liquidity management scenarios and upgrade of interest rate risk assessment. Furthermore, it will continue to deal with non-performing exposures intensively, thus maintaining due implementation of the credit process and an adequate risk management culture.

Pursuant to market developments, SID Bank expects that the environment will have an important impact in 2017, primarily on profitability risk as a result of continuing low interest rates in the euro area and, if the trend reverses, on interest rate risk. Considering the foreseen further stabilisation of economic conditions, it is expected to see further improvements to credit risk and, therewith, a related share of non-performing exposures.

SID Bank also provides credit and investment insurance against non-marketable risks of commercial and/or non-commercial nature on behalf of and for the account of the Republic of Slovenia. Claims payouts are covered from contingency reserves, from which policyholders are paid.

To prevent conflicts of interest and maximise efficiency, credit and investment insurance operations are provided in a special department that is organisationally separate from banking operations all the way to the level of the Executive Director or the Management Board, while transactions are decided and discussed by the separate Committee for Operations on Behalf of the State. The rights to conclude insurance operations are defined similarly to banking operations, whereby all transactions of EUR 5 million or more are decided by the International Trade Promotion Commission. The Commission also has the power to make decisions in other areas related with risk management, such as approvals for insurance policies in individual countries or groups of countries, which together with insurance limits already laid down in the Act Governing Insurance and Financing of International Commercial Transactions limit potential claims. Furthermore, SID Bank uses a risk management model (a value-at-risk technique) to calculate potential claims on the basis of data on insurance concluded on behalf of and for the account of the Republic of Slovenia in order to assess whether contingency reserves are adequate to cover such claims and to estimate the maximum potential claim and the impact of new insurance operations on potential claims. To calculate potential claims deriving from the insurance portfolio, it uses a methodology based on loss event probability coefficients, both for countries as well as individual obligors. The calculation of the probability of default for a particular country or client is based on the credit ratings provided by recognised credit ratings and pertaining to adjusted probabilities of default.

More about risk management is available in Section 3 of the Financial Report.

5 Management Body Declaration on the Adequacy of Risk Management Arrangements

Pursuant to Article 435 (point 1.e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), the governing body, i.e.

MANAGEMENT BOARD:

Sibil Svilan, MSc, President of the Board, Goran Katušin, Member of the Board and

Monika Pintar Mesarič, Chair of the Supervisory Board

by signing this declaration confirms the adequacy of risk management arrangements at SID Bank and SID Bank Group, thus providing assurance that the risk management systems put in place are adequate with regard to the Bank's risk profile and business strategy.

The risk management function is separated in the Bank's organisational structure up to the level of the Executive Director who covers only that area and is required to provide suitable realisation of risk management arrangements at the level of the Bank's day-to-day activities and regularly reporting to the Management Board. The Executive Director regularly participates in Supervisory Board sessions in the part referring to risks and in Risk Committee meetings, and is given direct access to the Chairperson of the Supervisory Board and the Chairperson of the Risk Committee to inform them of any important circumstances that affect or could affect the Bank's risk profile.

Notwithstanding, the Bank's management body (Management Board and Supervisory Board) is fully accountable and responsible for defining and adopting risk management arrangements and regularly reviewing their adequacy, including the provision of updates relative to the impacts of the Bank's internal and external environment factors, and for controlling the realisation of the risk management strategies and policies adopted.

Ljubljana, 3 March 2017

6 Strategy of SID Bank

In line with the established strategic planning process foreseeing, inter alia, a "sliding" strategy on a 3-year basis, SID Bank's medium-term strategic plans were audited at the end of 2016. On that basis, SID Bank adopted its Action Strategy for the 2017-2019 period.

The key external circumstances taken into account by SID Bank when revising its strategy were primarily changes in the operation of financial markets and the banking system in Slovenia and abroad and, at the same time, improved economic conditions and expectations of continuing economic growth in Slovenia in the future medium-term period.

The key internal factors encouraging the revision of the action strategy were primarily adaptations of the business model, products and lending methods. Another integral part of the action strategy is the risk profile with which SID Bank manages risks at a strategic level as well.

Mission, Vision and Values

As the central Slovenian promotional and development financial institution, SID Bank develops and provides long-term financial services to complement the financial market, thereby promoting economic competitiveness, job creation and the sustainable development of Slovenia.

By monitoring companies in various phases of their operations and offering tailored financial services, SID Bank ensures suitable funding conditions where the existing market offer is insufficient. This way, the Bank promotes the realisation of opportunities for the Slovenian economy at home and abroad, especially for SMEs that show high development potential.

The financial value of services for final beneficiaries, the implementation of the national development strategy, and the effective exercise of its public authorisations are the foundations on which SID Bank pursues its objective of being an effective and valued partner in development.

SID Bank endeavours to ensure that its operations are transparent, efficient and socially responsible, with concern for its staff and its own internal growth. Values, such as responsibility, expertise, commitment, cooperation, and creativity are the fundamental principles that guide SID Bank employees in their everyday work, in their mutual relations, and in their dealings with clients and other stakeholders.

Key Strategic Policies

Market Aspect

From the market perspective, it is important that SID Bank continuously adapts its business model to new economic conditions and needs. The Bank is developing a new generation of financial services tailored to the environment and current challenges that will increase financial value for final beneficiaries and have development effects on the Slovenian economy. Within this context, the Bank will continue to focus on the active adaptation of existing products and the development of new ones over the entire enterprise lifecycle. The Bank is developing new products primarily in the areas of SMEs, infrastructure financing, eco programmes, support for financial and business restructuring of the economy and capital market catalysation. Moreover, the Bank will endeavour to expand financial and consulting engineering and its product-based cooperation with other public promotional institutions in Slovenia, and to improve the effectiveness of the allocation of refundable budget funds and European cohesion policy funds. In project-based and investment funding, the Bank intends to contribute to the construction of suitable infrastructure at the national level, primarily in terms of suitable financial schemes, such as public-private partnership and financing within the scope of the Investment Plan for Europe (EFSI, the so-called blending funds, etc.).

SID Bank will act primarily in areas where market gaps are the largest and where support from commercial banks is diminished. That is why the Bank will continue to focus on SMEs with high potential for developing or growing into medium-size or large enterprises, which will result in job creation and sustainable growth of the economy.

SID Bank's new strategic perspective will, as a priority, develop programmes with elements of state aid, meaning the provision of favourable funding conditions in segments with market gaps. To achieve that objective, SID Bank uses the concept of financial engineering, where it uses its own funds in combination with fiscal and private funds, thereby also achieving proper risk distribution and management mechanisms.

SID Bank will continue to act primarily in the segment of indirect financing via banks on the basis of specially designed promotional development programmes. In market gaps, where banks are particularly inactive, it will increase its share of direct financing.

Financial Aspect

SID Bank will implement the risk policy in the classical meaning of the operation of development banks (higher risk, longer maturity, lower interest rates and return). Despite that, it is also required to ensure a financially sustainable business model. Namely, the Bank will ensure that all risks are managed to a degree that ensures the required level of security, while achieving a positive result in the medium term.

The Bank will continue to work on diversifying and using its new favourable instruments to provide long-term funding. If funding is also provided from the state budget or European cohesion policy, the Bank will be able to offer final beneficiaries more favourable financing terms.

Upon expected restoration of sustainable economic growth, the Bank will focus on the development segment. The role of SID Bank thus adjusts to cyclical conditions as determined by macrofinancial conditions, which have improved significantly in recent years. Gradual focus on the development segment will enable SID Bank to develop towards a key financial pillar of the new Slovenian development model. Despite that, SID Bank stays ready to renew the activities of its intervening role in case of aggravated economic conditions.

SID Bank will remain committed to increasing the value of its capital and maintaining capital adequacy, also due to its important role as a systemically important bank. In terms of capital increase, cost-effectiveness is also vital and the Bank will try to keep it at a suitable level in the next period, although additional resources will be required due to new forms of operation. In doing so, SID Bank will continue to implement a conservative policy for making impairments and provisions.

Internal Aspect

The strategic priorities from the internal point of view are to adapt internal processes to the new business model, to speed up product development and standardisation, and to further adapt operations as required by the European Commission.

The organisational culture at the Bank will be developed in line with the established ethical values and high professional standards, and the optimisation of organisational structure will be completed. SID Bank will preserve internal cohesion and strengthen cooperation. It is vital to manage a quality system that enables effective management of internal growth and mitigation of operational risks.

In IT, focus will be placed on digitalising procedures, and the process of developing an effective data model will continue. SID Bank will further endeavour to ensure data integrity and the availability of quality data to ensure suitable services and support even upon increased turnover.

In 2017, the Bank plans to upgrade the key IT server infrastructure, both at the primary as well as reserve location, and security infrastructure for the operation of mobile computer equipment. In the area of application support, the Bank will introduce new applications and upgrade existing ones for digital transformation of internal processes, data exchange processes with clients and adaptation of analytical applications in light of amended IFRS 9.

Learning and Development Aspect

One of the key strategic guidelines in terms of learning and development is primarily the development of competences and utilisation or strengthening of an important connective role that SID Bank plays in relation to the economy, financial sector, public sector, and the development and promotional system. Furthermore, it will be important to maintain a network of expertise that SID Bank has built in the past in financial, technical, technological, and institutional areas, primarily with a goal to transfer good practice. SID Bank will endeavour to maintain and obtain competences in developing and marketing financial instruments, drawing cohesion funds, implementing the advisory function and project financing. Furthermore, it will continue its efforts to develop "pools of knowledge" in all areas of operation, participate in the development of national development documents and its positioning as a relevant opinion leader in public and expert debates.

SID Bank will continue to apply the concepts of responsible lending and try to exercise its strategy outwards while doing its best to influence the development of general society towards sustainable development.

Plans for 2017

The adopted strategic guidelines and objectives formed the basis for the preparation of the Bank's annual operating and financial plans, which provide support for the pursuit of strategic objectives at the operative level. The financial plan observes the assumptions of SID Bank's Strategy for the 2017–2019 period, prepared on the basis of a selected scenario.

Pursuant to the Bank's core strategic orientations, the activities of the Bank in 2017 will be focused on providing financial services in segments where market gaps or other irregularities have been identified in terms of countercyclical nature and development impacts. Due to reduced counter-cyclical financing needs, the Bank will next year expand a part of its activities to development and services, where SID Bank seeks to contribute to a more effective transfer of EU promotional programmes in the Slovenian environment and to the transmission of European Cohesion Policy funds, thus enhancing its role in the formation of the economic and development policies.

According to the foreseen market developments, further improvement of the economic and financial situation, and the growth of the economy, the Bank will adjust total assets and credit portfolio to the current phase of the economic cycle and smaller need to carry out counter-cyclical activities, also taking into account favourable liquidity position of banks anad decreasing credit risks, which reduces demand for SID Bank loans. Loans to non-bank customers will focus on loans within the scope of financial engineering measures, which will ensure clients with favourable funding for operations and development.

The balance of the Bank's operations, which is reflected through the provision of capital stability, adequate cost effectiveness, maintenance of adequate liquidity and proactive management of all risks, will continue to form the foundations for SID Bank's operations in 2017.

7 Corporate Social Responsibility

SID Bank's Mission

The mission and activities of SID Bank focus on achieving wider social objectives as defined by all three components of sustainable development in Slovenia: the economy, social security, and environmental concern. SID Bank's activities are based on long-term development documents issued by the Republic of Slovenia and the European Union, laying down priority areas with the requisite social consensus.

The primary role of SID Bank is to promote the sustainable development of the Republic of Slovenia by contributing to long-term sustainable and stable economic growth through the provision and upgrades to the development financing system. Concern for social responsibility is integrated in all operations of SID Bank and is implemented within the scope of all its activities.

SID Bank's role is intermediation in financing and insurance in areas where there are market gaps, and the resulting creation of wider social benefits primarily in terms of:

– sustainable and balanced economic development in Slovenia;
– research and innovations, and other forms of economic development activities;
– close-to-nature environmental development with a high degree of protection for the environment and habitat, public infrastructure and utilities, and energy efficiency;
– social progress, education and, in particular, employment, and job creation and preservation;
– other activities contributing to economic growth, sustainable development and prosperity.

The final objective of the Bank's operations is to provide equal opportunities to satisfy the needs of future generations.

The Bank sees its role and activities from at least two perspectives. While the external activity, focused on the environment, is revealed at national and economy levels in the support for sustainable projects by individual SID Bank funding programmes, its internal socially responsible actions by all employees help it in the pursuit of its core business activities and mission.

Outward Effects of Socially Responsible Activities

Effects of the Bank's Activities

After its establishment, SID Bank quickly affirmed itself as one of the most important institutions of the Slovenian financial system, also due to needs for its intervention activities during the crisis. Using the methodology from an independent evaluation of SID Bank's activities in the 2007–2010 period, the SID Bank Group's services, excluding the guarantee schemes, facilitated EUR 7.3 billion in sales by Slovenian companies, EUR 2.9 billion in GDP, EUR 3.5 billion in exports and around 17,200 new jobs in 2016.

The scope of those effects derives from the Bank's focus on activities in the financial system's market gaps and on development activities where the financial system does not work adequately or at all. Due to its enhanced role during the crisis, SID Bank became the third largest bank in terms of total assets and capital, and the second largest bank in terms of corporate lending. The consolidation of the banking system, which is also revealed in bank mergers after the crisis, and at the same time an extremely incentive ECB monetary policy, naturally reduce the need for a large scope of the intervention role and shift focus to projects related to sustainable development funding. Despite that, SID Bank still took fourth place in 2016 according to the balance sheet total and one of the leading roles in corporate lending.

Responsible Lending

SID Bank upholds the principle of responsible lending in its decision-making process, which in addition to an economic and financial assessment encompasses an assessment of five borrower balance sheets (intellectual capacity, raw materials, environment, energy efficiency and innovation). This provides a comprehensive risk assessment in terms of sustainable development. In addition to the planned adjustment in its lending activities, SID Bank is also developing and introducing systemic solutions, tailoring its range of services in substantive and technical terms to the changing needs of final beneficiaries and commercial banks when they act as intermediaries of SID Bank's funds.

In practice, SID Bank has integrated the responsible lending concept into its internal decision-making process. As a development bank, it primarily pursues the principles of sustainability and self-sufficiency, but not profitability, which enables it to provide favourable financial conditions within the scope of its incentive programmes. In accordance with ZSIRB, SID Bank reinvests and earmarks all profits for the additional financing of the economy.

SID Bank's role is thus not to support all projects, but only those that are economically and financially eligible and, at the same time, include a sustainable development component.

The concept of responsible lending is also revealed in the provision of added value of the Bank's services using the following levers:

- the diversity of own financial resources;
- more efficient use and allocation of funds;
- programmes of longer maturity and increased risk-taking of final beneficiaries;
- lower prices of services and other more favourable terms and conditions;
- co-financing and acting as a promotional factor together with other financial institutions;
- promoting the functioning of the private sector in the direction of sustainable development and increasing its capacities;
- transferring financial benefits to final beneficiaries;
- developing financial instruments tailored to the needs of the Slovenian economy;
- achieving positive external effects (social benefits);
- integrating with other public promotional institutions;
- advisory services.

In dealing with clients or in specific projects, special attention is placed on preventing corruption and on the environmental policy. The Bank is aware of its specific position as regards potential distortion of free competition, which is why it implements measures preventing it from competing with commercial financial institutions on the market in the implementation of its activities. Therefore, SID Bank's activities are embedded in a framework complementing other market participants.

Accessibility to Services

Due to its public functions, the Bank seeks to realise the principle of equal access or equal treatment of all users of its services, implying the same services under the same terms and condition to all entities equally eligible (the principle of non-discrimination). Special attention is placed on suitable dispersal of development funds.

With the aim of giving final beneficiaries access to financial services for sustainable development projects, SID Bank continued developing products and programmes in 2016 by pursuing the concept of covering the key stages of the production chain where market gaps are present – from working capital, research and development, investments, and all the way to sales on domestic and foreign markets, even up to the final repayment of related claims.

In 2016, the Bank implemented new and existing credit and insurance products for:

- financing SMEs;
- financing technological and development projects;
- financing renewable energy sources and efficient energy use;
- financing infrastructural and environmental projects of municipalities;
- insuring pre-export credits;
- insuring export credits, pursuant to OECD's sustainable funding policy in officially supported export credits.

Professional Commitments and Cooperation

Interbank agreements and recommendations enhancing best practices, rules and principles of the banking profession contribute to long-term sustainable operations, responsible lending, security and liquidity in the banking sector and beyond. The Bank therefore ascribes appropriate relevance to such agreements with financial institutions at national and international levels, and actively participates in the exchange of information, best business practices, and the establishment of professional values.

SID Bank considers agreements with the Bank Association of Slovenia and other domestic and foreign banking associations, of which it is a member, as particularly important. The Bank is a member of several international associations of financial institutions, including the EAPB, ELTI, NEFI, and the Berne Union. Together with over 50 other members of the Berne Union, the Bank signed a special declaration committing itself to pursuing the high ethical standards and values of the association, and performing its activities professionally and in a financially responsible manner, all while respecting the environment.

To strengthen cooperation with European institutions, the Bank became a shareholder of the European Investment Fund (EIF) in 2015.

At the end of 2016, at the autumn General Meeting of the European Association of Public banks (EAPB), of which SID Bank is an active member, appointed Sibil Svilan, MSc, President of the Board of SID Bank as Member of the Governing Board competent for Central and East Europe. As a provider, SID Bank is included in the indicative list of national projects for financing from the European Fund for Strategic Investments (EFSI) in the area of promoting the energy renovation of state and other buildings, and financing SMEs via quasi-equity.

SID Bank strengthens its advisory services by participating in the European Investment Advisory Hub (EIAH), where it acts as a national entry point for investment project support, particularly within the scope of the European Fund for Strategic Investments (EFSI). In 2016, SID Bank and the Goriška Energy Agency GOLEA carried out the first project within the scope of the Investment Plan for Europe, whereby successfully acquiring EIB's technical assistance for projects totalling at EUR 45 million. In the domestic institutional environment, SID Bank is active in the European economic interest grouping Slovenian Innovation Hub (SIS) as a founding member, together with 22 other founding members from the economy, banking, academic sphere, regional and local organisations. The core tasks of SIS are to integrate different players in innovations (from an idea to production via funding to the end user), and carry out activities to improve the Slovenian innovation and entrepreneurial environment while supporting and actively participating in the implementation of individual projects relating to innovations. The ultimate purpose of SIS is to execute the industrialisation or commercialisation stage for as many innovation projects as possible.

Communication with External Audiences

As a promotional and development bank, SID Bank pays a great deal of attention to the transparency of its operations and, accordingly, open communications.

The Bank's primary focus in external communications is on the business public, in particular business partners. SID Bank provides comprehensive information about its programmes and opportunities to obtain its funds. In addition to press releases and notification via its website, SID Bank organised presentations of new and existing products for companies, banks and local governments in 2016 while providing ongoing information and upgrading business relationships with companies and other banks that transmit SID Bank's funds to companies.

Representatives of SID Bank actively participated and cooperated in various events, seminars, conferences, panel discussions, etc., discussing topics that are important for the activities of SID Bank, such as export, development, energy, environment, competitive entrepreneurship and others.

Environmentally Friendly Company

SID Bank upholds internal social responsibility in terms of environmental protection and energy efficiency. In 2016, it continued its socially responsible practices by compiling its energy-environmental balance sheet, calculating its carbon footprint and keeping a corporate responsibility index. Using the latter, the Bank monitors the implementation of measures and the achievement of objectives in the implementation of corporate social responsibility.

	unit	2016	2015
Energy consumption for heating	kWh	274,700	229,250
per employee	kWh/emp.	1,716.9	1,503.3
Electricity consumption	kWh	170,203	183,224
per employee	kWh/emp.	1,063.8	1,201.5
Water consumption	m^3	1,311	892
per employee	m^3/emp.	8.2	5.9
Carbon footprint/CO_2 emissions	t	266	294
per employee	t/emp.	1.7	1.9
Office paper consumption	t	4.7	5.5
per employee	kg/emp.	29.4	36.2
Expenses for other office supplies	€	17,794	20,762
per employee	€/emp.	111.2	136.1
Size of premises			
per employee	m^2/emp.	14.3	15.0

In 2016, SID Bank gave most of its funds intended for New Year's gifts for business partners, instead, as a donation to the University Medical Centre Ljubljana, i.e. the intensive care unit at Trauma Department, for the purchase of medical equipment that would ensure safer, faster and successful rehabilitation of paralysed patients with an injury of the cervical spine. This way, SID Bank wishes to contribute to improved quality of life in Slovenia, thus realising its commitments to socially responsible activities.

Inward Effects of Socially Responsible Activities

SID Bank is aware that socially responsible activities cannot be properly developed without incorporating the personal responsibility of every individual in the organisation. For this reason, SID Bank promotes the awareness of one's personal and social responsibility as the lifestyle of an individual and the entire organisation at all levels of its operation.

This is also taken into account in SID Bank's corporate responsibility policy, which was adopted in the broadest and most comprehensive sense. The formally binding document emphasises the role of the entire collective in the implementation of the policy, while the bases for the systematic management of the policy's content have also been put in place. The Bank constantly upgrades measures in social responsibility through a strategic and operational planning process.

Hence, SID Bank adopted a governance policy based on internal socially responsible activities. The policy emphasises corporate values, the reference governance code, cooperation with all stakeholders, the policy of transactions between the company and related parties, the commitment to identify conflicts of interest, the independence of management and supervisory bodies, the assessment of efficiency, and the protection of employee interests.

The Code of Ethics and Standards specifies the principles and rules by which the Bank, its bodies, and employees act in the pursuit of their tasks in relation to clients, other banks, the economic environment, and within the Bank. The Code confirms the established practice of promoting an appropriate organisational culture and the positive behaviour and attitude of employees in the performance of their tasks. The Code also places special emphasis on social and environmental responsibility.

Internal Communications

SID Bank performs a highly specialised activity. It is therefore crucial to its successful functioning that employees understand and support its actions. Effective and open communication can contribute to that end.

Various forms of notifying and communicating with employees are in place at the Bank. They include direct communication between management and employees (such as regular internal meetings and meetings between employees and the Management Board, and trade union meetings), access to electronic data collections, notification via an internal email and the quarterly publication of the in-house newsletter, *Cekin*.

Concern for Employees

SID Bank enables its employees flexible working hours, thus facilitating a balanced organisation of their business and private life. Special attention is also given to the basic rights of employees, their safety and health, working conditions, social security, personal and professional development, social dialogue, and mutual relationships.

In the area of employee health and safety, SID Bank continued specialist and periodic medical check-ups for all employees in 2016. It also conducted regular training in the area of occupational health and safety and fire safety, which is obligatory for all employees. The Bank's activities within the scope of occupation health promotion see to the health and well-being of employees at work.

The payment of salaries and other job-related expenses for employees is subject to the applicable legislation and the Bank's Collective Agreement, while remuneration for employees' job performance and promotions are governed by the Corporate Collective Agreement. In 2016, the Bank continued its practice of paying in voluntary health insurance and supplementary pension insurance premiums for its employees.

SID Bank gives special attention to employee development with the aim to keep an education and qualification structure appropriate for the Bank's development and strategic objectives. The stimulation system further contributes to the employees' effective adaptation to changes and challenges within the organisation and the environment, and it provides employees with a sufficiently stimulating work environment that will offer enough professional challenges in the future. A part of the long-term investments in the provision of a quality structure is also a system of competences for individual jobs within the scope of a complex functional structure of SID Bank as a development bank.

Annual career development interviews were conducted with employees. Such interviews are used to assess the development potential of individuals, define key employees and draft annual training plans. This enables the Bank to identify the needs for new knowledge in a timely manner, and to plan targeted training and education programmes for individuals and groups of employees.

The objectives of SID Bank's action strategy include the promotion of continuous acquisition of necessary knowledge and skills and their transfer to practice. In 2016, 99% of employees participated in various forms of training, which is more than the share of employees in 2015. Great stress is also placed on the internal transfer of newly acquired knowledge and the evaluation of training programmes.

In terms of in-house social responsibility, the Bank uses annual interviews and meetings with employees to implement or integrate its values into the daily life and work of its employees. At the same time, employees take part in various meetings and round tables where they promote their business values of sustainable development and ethical operations as the basis for socially responsible and sustainable banking.

In 2016, recruitment was carried out in line with the annual employment plan and the guidelines from the action strategy, which are based primarily on the adjustment of employment to the growth of the volume of operations and development of new products, on the recruitment of experts with specific skills and experience, and on keeping competent and promising employees at the Bank. In 2016, SID Bank hired 15 new employees, primarily as substitution for employees who retired or found new challenges outside the Bank and, partly, as an answer to the needs and challenges imposed by new tasks and expectations of stakeholders. The Bank had 162 employees at the end of the year, 108 of whom were women and 54 men. The average number of employees in 2016 was 161.

	SID Bank		SID Bank Group	
Qualification level	number	proportion, %	number	proportion, %
Level 5 or lower	13	8.0	30	10.8
Level 6/1	10	6.2	23	8.3
Level 6/2	33	20.4	52	18.8
Level 7	85	52.5	140	50.5
Level 8/1	16	9.9	27	9.7
Level 8/2	5	3.1	5	1.8
Total	**162**	**100.0**	**277**	**100.0**

8 Performance in 2016

8.1 Macroeconomic Environment in 2016[5]

International Environment

In 2016, global economic conditions continued to improve, although economic growth was slightly lower than in the previous year. The data available show the growth of global GDP of around 3%. Problems in the economies of developing countries were less present that in 2015, when growth was hindered by structural obstacles and macroeconomic imbalances, and low prices of raw materials in countries exporting raw materials. Certain parts of the world were subject to growing geopolitical tensions. Growth somewhat decreased in the major part of economically developed countries despite still favourably low prices of raw materials, very favourable funding terms, improved conditions on the labour market, increased confidence and reduced inhibitory effects resulting from private sector deleveraging and public finance consolidation.

In the euro area growth slightly decreased in 2016, achieving 1.7%. This was largely contributed by domestic demand, particularly private consumption. The main inhibitors of economic recovery in the euro area remained to be steady growth in emerging market economies and steady global trade. The European Commission expects a slight transient decrease in economic growth in 2017, finally achieving 1.8% in 2018.

The effects of the actions taken within the scope of the supportive ECB monetary policy stance transmitted to the real economy in form of improved loan conditions, which partly stimulated lending and, upon relatively high utilization of production capacities, increased business investments. High liquidity on financial markets boosted the issue of corporate securities in the euro area.

Low oil prices, which increase company profits and household purchasing power, boosted private consumption while reducing unemployment. Inflation rate stood at 0.2% in 2016, whereby it is expected that it will rise to around a 1.5% in the next two years, largely due to growing prices of energy products and unprocessed food.

Improved monetary and credit indicators were partly the result of low interest rates, targeted long-term refinancing operations by ECB and an enlarged security purchase programme. Bank funding costs achieved the lowest values, after decreasing for several years. Banks gradually transmitted reduced funding costs into low interest rates on loans, although less than in previous years due to negative interest rates on certain asset segments and their relatively low profitability. Favourable loan conditions supported the recovery of loan growth, while differences between interest rates on loans between countries further decreased.

The euro area budget balance improved slightly due to favourable economic trends, low interest rates and fiscal consolidation actions. The downward trend will decrease GDP from some 2% achieved to around 1.5% until 2018. Furthermore, gross debt of countries within the euro area is expected to decrease from 91.5% in 2016 to a level under 90% by 2018. Along with fiscal consolidation actions, the monetary policy and improved macroeconomic conditions also contributed to the maintenance of relatively small differences in required yields of countries within the euro area.

5 Data from publicly available publication of SORS, Bank of Slovenia, IMAD and EC issued until the publication of the Annual Report

Slovenian Economy

After GDP rose by 2.3% in 2015, it continued to grow in 2016, reaching 2.5%. Positive GDP growth since the beginning of 2013 also contribute to reduced unemployment and employment growth by nearly 2%. The main factor of GDP growth alongside further growth of foreign demand and improved competitiveness of the Slovenian economy remained to be exports, although household consumption also greatly contributed to the growth of demand in 2016.

Real growth of export of goods and services further increased in 2016, reaching almost 6%. Upon simultaneous significantly improved trading conditions, the balance of payments current account further increased exceeding 6% of GDP. Growth was also the result of increased private consumption in 2016, which grew by more than 2% alongside increased available income and improved consumer sentiment as promoted by favourable conditions on the labour market. Favourable economic outlooks are also resulting from increased stocks. On the other hand, investments sharply decreased, by some 4%, primarily due to reduced public investments and suspended drawing of EU funds upon the expiry of the previous financial perspective.

Improvements on the labour market in 2016 were similar to those in 2015. In addition to a growing number of the employed population, increased demand for labour force was also reflected in a decreased unemployment rate, which fell from 9% to 8.4%, whereby such tendency is expected to continue in the coming years. Productivity growth and a slightly higher inflation rate is expected to further increase the competitiveness of the economy through reduced real unit labour costs.

The harmonised index of consumer prices (HICP) achieved low interim growth in the second half of 2016. Despite that, the average annual inflation rate was negative after it amounted to -0.8 percentage points in 2015. The increase is largely the result of prices of energy products and, to a certain extent, the prices of unprocessed food. Hence, total inflation rate finally neared the core inflation rate indicators, i.e. slightly under 1%. Such a core inflation rate primarily reflects relatively weak internal cost pressures and moderate growth of consumption.

The general government deficit, which fell below the Maastricht threshhold of 3% in 2015 for the first time since the crisis, further decreased to around 2% of GDP. Reduced deficit is in line with gradual consolidation of public finance and improved economic conditions and conditions on the labour market. Based on that, revenues exceeded expectations, while the deficit was also reduced on account of much reduced expenses for investments and interest payments. On the other hand, certain expense categories increased, primarily salary expenditure by around 5%. The general government gross debt achieved 80.9% GDP, i.e. some 2 percentage points less than in 2015, and is expected to continue decreasing in the following years.

Banking Environment

Conditions in the banking system improved in recent years as a result of a more favourable macroeconomic environment, while the extensive recapitalization conducted at the end of 2013 ended uncertainties relating to bank solvency. A favourable macroeconomic environment contributes to reduced credit risk, which increases the value of bank assets and temporarily contributes greatly to banks' profitability. Along with the impact of the completed process to liquidate Factor banka and Probanka and their acquisition by BAMC, the share of receivables in default over more than 90 days was reduced to slightly more than 6% in 2016, and to under 16% in SMEs. Capital adequacy is accordingly high, i.e. at the level of 19% on a consolidated basis, which is above the euro area average. On the other hand, bank operations have been made increasingly difficult due to low and declining interest rates and reduced lending. The latter is reflected in increasing exposure of the banking system to revenue risk in the coming medium-term period.

In bank funding side, the strong bank deleveraging trend ended. Low liquidity risk and funding risk were favourably affected by high excess liquidity and availability of liquidity resources through non-standard ECB measures. Deposits by the non-banking sector sustained positive annual growth, accounting for some 70% of the banks' balance sheet total at the end of the year. As a result, the loan-to-deposit ratio further decreased, achieving a level well under 80%. A large share of deposits by the non-banking sector at the same time reduces the average maturity of banks' finding.

Despite improved conditions in the banking system and favourable financing conditions, corporate lending continued to decrease. The credit squeeze for the non-banking sector reached slightly less than 5%, taking into account impairment dynamics, while loans for the non-banking sector fell under 55% of the banks' balance sheet total. Loans to non-financial companies at the end of 2016 fell by more than 10%. In particular, demand for short-term loans has decreased, thus increasing the share of long-term loans, where the decrease ended in 2016. Decreased interest rates on loans, low household debt and improved conditions on the labour market contribute significantly to favourable dynamics of household loans, while a gradual recovery of the real estate market has further stimulated the growth of housing loans. Banks' credit activities to households have gradually strengthened and grew by some 3% annually by the end of 2016. Consumer and housing loans have increased, with growth growth of consumer loans strengthening in 2016.

One of the most prominent factors affecting loan provision were considerably reduced interest rates on loans in 2014 and 2015, and partly also in 2016. Interest rates for newly granted loans to companies on average range between 2% and 3%. The gap in the interest rates provided by Slovenian banks and those in the euro area hence reduced greatly, but still remains at around 1 percentage point, pursuant to somewhat increased credit risk. Banks uphold more stringent loan standards when lending to more risky clients, both in terms of the client's credit rating as well as company size. Decreases in the banks' passive interest rates largely contributed to decreased active interest rates. Interest rates on existing deposits made by non-financial companies and households amounted to no more than some 0.5% at the end of the year.

In recent years, a turning point was also recorded in corporate demand for loans, as companies save and return funds to other sectors on an annual level. This has revealed major adjustments of companies towards increasing the share of activities financed from own resources, while reducing their debts. The process is gradually completing, as the surplus from company savings in 2016 achieved merely half of the surplus recorded in 2015. Demand for short-term loans has reduced the most, whereby companies have increased the volume of liquidity investments, primarily cash and deposits. Negative loan dynamics is to a certain degree also affected by the commitments made by banks receiving state aid to the European Commission in respect of cutting down the volume of business.

The Impact of the External Environment on the Performance of SID Bank and SID Bank Group

Despite a general improvement of macroeconomic conditions, the conditions determining the implementation of SID Bank's financial services that complement the market remained fairly unfavourable in 2016. The continued deleveraging process in the corporate and banking sectors, lack of investments at micro and macro levels, operation in conditions of an extremely stimulating monetary policy, and the presence of negative interest rates in short maturities required further adjustments of the business model. Furthermore, the Bank was forced to adapt its business model also by cyclical developments in the economy that, after requiring extreme growth of the bank's intervention activities, automatically result in the decreased role or volume of SID Bank's activities when economic conditions improve.

The transmission of development funds to the economy has been made fairly difficult in consideration of the consolidation of the Slovenian banking system, the availability of cheap ECB funds, low interest rates on deposits and increased saving by the retail and corporate sectors. The loan-to-deposit ratio fell under 0.8 in commercial banks, resulting in reduced needs of banks for external funding resources and, therewith, low inclination for SID Bank's dedicated funding sources. The financial advantage of SID Bank's funds is hence merely the long maturity of funds provided for the stimulation of dedicated financing and, with respect to weak investment activity in the country, corporate demand for such sources is limited. SID Bank further strengthened this part of funding and additional developed some new development products (energy efficiency, sole proprietor funding, etc.) in recent years; however, these cannot replace the loan reduction from the period of the Bank's crisis operations. Further decrease of commercial banks' exposure to SID Bank's on-lending partially slowed down upon the assumption of administrative burdens accompanying dedicated funds and the adaptation of credit lines to new price conditions.

Notwithstanding improved funding conditions, the corporate sector continues to save and deleverage. Its net debt inter-sectoral position since 2013 has on average enabled companies to finance independently an increasingly large volume of production and investments, in addition to deleveraging. Nevertheless, market gaps in certain financing segments, particularly in SMEs with poor credit ratings, low ability to collateralize, or with a need for longer maturity, still require the presence of a development bank. Banks have become much more aggressive in addressing the existing corporate demand for loans, but typically only in the segment of companies with good credit rating scores. SID Bank has adjusted its activity accordingly, focusing primarily on the segment where the market gap is the largest.

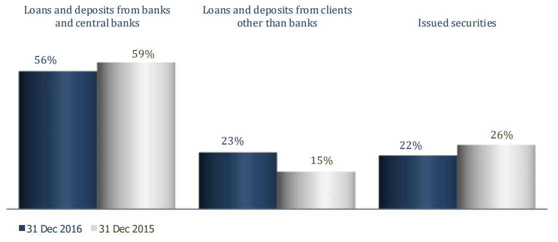
SID Bank, therefore, develops a policy and measures ensuring its activities in market gaps, thus preventing that its activities crowd out commercial banks from a market segment that operates appropriately. While adjusting its existing products and services, SID Bank also prepared two new products in 2016. Its development loan for the capital strengthening of small and medium enterprises gives promising companies with low capital adequacy access to affordable funding sources, so that they can improve the maturity structure of resources and gradually strengthen in terms of capital in order to introduce a (new) prospective business model. Upon the expiry of the loan, such companies should be able to access funding wiht the commercial banks. This is a favourable long-term loan for up to 12 years with a long grace period for principal repayment that is based on financial engineering using the assets of SID Bank and MEDT. SID Bank also prepared a new loan offering favourable financing of very long maturities for municipal infrastructural projects, in priority in cooperation with banks.

8.2 SID Bank's Performance

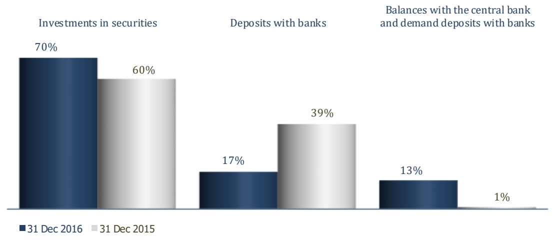
8.2.1 Funding and Liquidity

As a specialist banking institution with a government guarantee, SID Bank obtains long-term funding primarily on international financial markets and related banking institutions. In raising the funds, the Bank chooses debt instruments that enable it to adapt to the needs of financing transactions. Therefore, its borrowing is diversified in terms of maturity, size and the dynamics of bond issue or approved credit line drawing. The Bank endeavours to obtain long-term funding on capital markets that is comparable in price terms to government funding, offering minimum mark-ups over sovereign borrowing.

Structure of financial liabilities



Structure of liquid assets



In 2016, SID Bank did not borrow on international financial markets, as the dedicated borrowing covered the annual needs for funds. SID Bank also placed a great deal of attention on active management of its liabilities, in particular on the mitigation of refinancing risk. In the same year, several liabilities of SID Bank deriving from the instruments hired in financial markets fell due. Hence, SID Bank repaid two due bonds in the total nominal value of EUR 260 million in March 2016. Furthermore, the Bank repaid EUR 260 million of regular due promissory notes in 2016 in addition to some EUR 20 million of promissory notes redeemed early. It also made an early repayment of the funds raised from ECB (targeted long-term refinancing operation or TLTRO). In 2016, the Bank occasionally borrowed minor amounts in the short term on the interbank money market from domestic and foreign commercial banks. This way, it managed its liquidity in the short term, using negative interest rate conditions.

In order to generate new value for the target groups of final beneficiaries, SID Bank also included special long-term dedicated funds of the European Investment Bank in SID Bank's credit lines (two new loans totalling at EUR 100 million), German development bank KfW (a loan amounting to EUR 50 million), Council of Europe Development Bank (start of borrowing procedure in the amount of EUR 50 million) and MGRT. Hence, the Bank contributed to further provision of favourable medium- and long-term funds for companies, particularly micro, small and medium sized enterprises, to the effective transmission of funds to final beneficiaries and, indirectly, to a fast transformation of companies when changing and introducing new business models.

The Bank's investments for the purposes of liquidity management totalled EUR 1,116,723 thousand at the end of 2016 or 43.8% of total assets. 70% of the investments are included in the securities portfolio in the amount of EUR 777,676 thousand, while the remainder amounting to EUR 339,047 thousand refers to deposits made at domestic and foreign commercial banks and to cash at the central bank. Investments in securities mostly consist of Slovenian and foreign government bonds and marketable bonds of other issuers, whereby they are almost entirely euro-denominated. While investing in securities, the Bank gives priority to investments that can be used as collateral for entering into repo transactions on the market and at the European Central Bank, and investments that fall within the first-bucket liquidity ratio on the basis of the Bank of Slovenia decisions. As a rule, the Bank puts liquid assets in investments considered at least investment-grade, whereby 74% of all investments as at 31 December 2016 have a credit rating scope of at least BBB- or higher. Approximately 16% of investments with BBB- rating or lower are deposits given and short-term securities by domestic banks, while the remainder are government bonds issued by European countries and securities issued by domestic non-financial institutions.

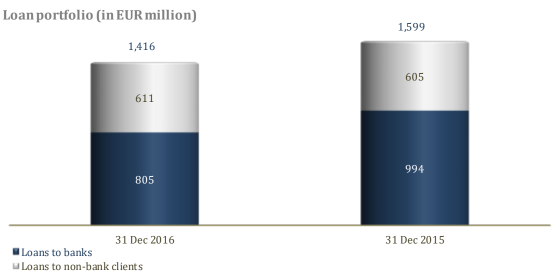
As at 31 December 2016, securities with a fixed interest rate accounted for almost 92.8%, while securities with zero coupon interest rate (treasury bills, commercial papers) or variable interest rate tied to Euribor accounted for the remaining share.

8.2.2 Financing

In 2016, SID Bank continued to execute the majority of funding for financial beneficiaries based on long-term purpose lending via banks, i.e. in line with the purposes laid down in ZSIRB. Within the scope of the remaining share of direct purpose lending to corporates and other clients, SID Bank, other than in few exceptions, provided funding either within the scope of the registered state aid schemes or in the form of corporate co-financing together with other banks.

The method and volume of its financing services were designed to complement the identified market gaps, market needs and the activities of other financial institutions. The complementary financing services were based on already established financing instruments, such as special purpose loans to commercial banks, loans with or without the state aid status, factoring, debt and risk sharing, project financing, export credits, etc.

As at the end of 2016, net loans given totalled at EUR 1,415,552 thousand (2015: EUR 1,598,971 thousand), i.e. decreased by 11.5% compared to the end of 2015.



Commercial banks remained SID Bank's most important partners in the provision of financing in 2016, accounting for 56.9% of its loan portfolio (2015: 62.1%). As at 31 December 2016, loans to banks decreased with respect to the previous year amounting to EUR 804,989 thousand. A decreasing share of loans to banks can be noticed since 2013 as a result of general macroeconomic conditions and the Bank's specific counter-cyclical role. The Bank grew faster during the financial crisis and had a higher share of that item than other comparable national development banks in the EU, which struck a balance in 2016. Direct financing accounts for a minor part of the loan portfolio; however, its share continued to increase in 2016 with respect to market developments (compared to 2015, loans increased by 0.8%). Lending to non-banks, as at 31 December 2016, amounted to EUR 610,563 thousand and represents 43.1% of the loan portfolio, which is 5.2 percentage points more than in 2015 (2015: 37.9%). In 2016, direct financing was carried out mainly in the form of specialized credit lines to promote technological development projects, research, development, innovations and employment, energy efficiency, development of SMEs and environmentally friendly public investments at the local level.

Despite a more favourable macroeconomic environment than in the previous year, credit risk remains to be high, while the decreased absorption capacity of commercial banks and final beneficiaries continued as a reflection of:

- continuation and completion of activities within the rehabilitation of the banking system (consolidation, mergers and ownership changes);
- conditions in the banking environment (low returns, low and declining interest rates, and systemic credit crunch);
- requirements and conditions of banking system operations (funds, liquidity, ECB's credit activity, high exposure of banks to individual industry or sectors);
- performance of the economy (low volume of investments in research and development, enhanced energy efficiency and environmental protection and therewith related lower demand for special purpose loans as provided by SID Bank pursuant to the mandates granted to it, lack of internal capital for (co-)financing investments, lack of eligible collateral for corporate loans);
- overlaps of state support instruments in certain areas.

In line with the above, the Bank continued to redirect its business model to more complex operation schemes, i.e. primarily in the direction of project funding and advisory services, while tailoring products and services and strengthening administrative technical support to intermediaries for the transmission of funds via banks. Within the scope of the

European Investment Advisory Hub (EIAH), the Bank continued to be a point of entry to the Investment Plan for Europe, which is part of the European Fund for Strategic Investments (EFSI). Along with other stakeholders, it strengthened cooperation in the preparation and realisation of major export projects and opening of new markets for the Slovenian economy, meanwhile strengthening the capital adequacy of SMEs andengaging in initiatives involving circular economy, environmental protection and energy efficiency.

The credit lines transmitted via banks are tailored to the financing method and specific terms of acquired purpose funds, while the terms and conditions for final beneficiaries have been formed accordingly. In 2016, SID Bank continued to upgrade its cooperation with commercial banks, primarily adjusting and optimising the existing products and services while taking into account regulatory frameworks, developing additional specialised credit lines and simplifying implementation.

In cooperation with the European Investment Bank, SID Bank continued two indirect financing programmes in 2016 that are rendered in cooperation with commercial banks, i.e. a programme for financing housing measures for natural persons, roughly amounting to EUR 10 million per annum, and a long-term financing programme for SMEs and mid-cap companies (with up to 3000 employees) achieving a total available value of EUR 210 million in 2016 based on a mixed structure of funds (2015: EUR 100 million).

The structure of SID Bank’s loan portfolio by maturity reflects the orientation of SID Bank towards activities compliant with ZSIRB and ZZFMGP. Almost all loans are long-term loans with variable interest rate, while the share of short-term loans and loans with a fixed interest rate is negligible.

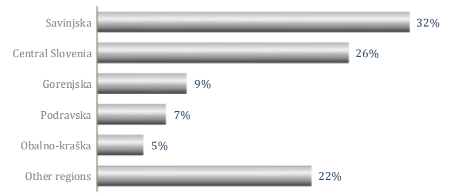
In 2016, SID Bank maintained the quality of its products, measured as a combination of maturity, amounts, cost terms and effective logistics of the approval process, and provided purpose funds in accordance with its role, mission and mandates. Despite still low creditworthiness and the presence of a capital crunch, SID Bank introduced new products and upheld the concept of responsible lending, thereby improving the quality of financial solutions for greater economic competitiveness.

Target Groups of Final Beneficiaries

In 2016, SID Bank financed a total of 553 final beneficiaries established in the Republic of Slovenia, either directly or indirectly via banks, in the total amount of EUR 290.2 million. The total number of all final beneficiaries supported directly or indirectly by SID Bank, therefore, amount to 2022 at the end of 2016. The funds were primarily earmarked for the promotion of research, development and innovations, jobs preservation and creation, corporate growth, particularly SMEs, energy efficiency, reduction of pollution and enhanced environmental protection.

In terms of the primary purpose, development of economic competitiveness accounted for 67.9% of new loans in total value terms. In terms of corporate size, a total of 509 SMEs established in the Republic of Slovenia (91.2% of all borrowers) received support in the amount of EUR 170.1 million (58.8% of loans), 71 of which were sole proprietors (14% of all SMEs) who received EUR 7.8 million (0.5% of total new loans for SMEs).

Breakdown of loans by regions in Slovenia



In the regional breakdown of loans approved for the borrowers established in the Republic of Slovenia, the greatest proportion of new loans were given to borrowers from the Savinjska region (31.8%), followed by Central Slovenia (25.6%), Gorenjska (9.1%), Podravska (7%) and Obalno-kraška (coastal) region (4.7%), while other regions accounted for 21.8% in total.

Prevalent borrowers were from the processing sector (35.9% of total new loans in value terms), followed by transport and storage (23.6% of total new loans in value terms), trade (13.5% of total new loans in value terms) and other sectors (27% of total new loans in value terms).

Products Based on Financial Engineering

To implement the financial measures and instruments of national and European public policies, SID Bank renders a set of financial instruments that are based on basic and derivative repayable incentives (e.g. a loan with or without elements of state aid) with a combination of own funds, national budget funds and other favourable fund resources.

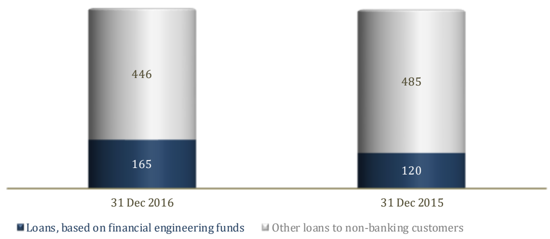
In 2016, the Bank implemented, together with MGRT, seven financial engineering measures (seven specialised credit lines). In addition to an active credit line for direct financing of technology development projects, two credit lines for financing ongoing operations of SMEs, a credit line for financing investments and job creation by SMEs, and a credit line for financing research, development and innovations by SMEs, SID Bank introduced another two credit lines in 2016 for direct SME financing, i.e. one for financing operations and capital strengthening of SMEs and the other for financing investments and capital strengthening of SMEs.

The new credit lines are based on the principle of a favourable long-term loan with a long grace period on principal repayment. In addition to typical development impacts with respect to the target contents in market gaps (investments, research, development, innovations, long-term working capital), the main purpose of the product is to enable companies with low capital adequacy to improve the maturity structure of debts, gradually strengthen in terms of capital and introduce a (new) prospective business model.

The mentioned credit lines typically include state aid elements, which are reflected in favourable interest rates on loans. Using all seven credit lines, SID Bank provided support to SMEs and development-oriented companies through direct funding in 2016.

In 2016, EUR 117.1 million of new funds in the form of loans were placed within the scope of financial engineering funds. As at the end of 2016, net loans given totalled at EUR 164.6 million. The weighted average maturity of loans amounted to 7.1 years, while the weighted average markup over the reference interest rate amounted to 2.37 percentage points. The used fund resources of MGRT and the European Investment Bank were key to reduced cost of final beneficiary funding. For every EUR 1 from the source of the Ministry of Economic Development and Technology, there was EUR 3.8 of basic credit potential.

Loans to non-banking customers (in EUR million)



SID Bank and the MGRT used these measures to improve accessibility to long-term resources for financing SMEs and development projects that are based on own research and development activity of companies in order to enhance their innovation capacities and competitive advantages, including by entering new markets and new relations.

By introducing repayable financing and combining fund resources, SID Bank provides favourable lending conditions for the Slovenian economy (through maturity, interest rate, insurance) and a multiplier and revolving effect on national budget funds.

In 2016, SID Bank examined further possible models of support and therewith related necessary technical and substantive adjustments within the scope of possible upgrades to products and services and the provision of added value for the economy and financial intermediaries – primarily any intensive involvement of SID Bank in the implementation of financial instruments within the scope of the European Cohesion Policy for 2014-2020. In line with the EU trend relating to transfer from non-repayable to repayable forms of financing, Slovenia earmarked a share of funds for the implementation of financial instruments (EUR 438 million from around EUR 3 billion) within the scope of the operational programme for the implementation of the European cohesion policy for the 2014-2020 period. Despite a gradual transfer to repayable financing, SID Bank's instruments will continue to be crowded out or face competition by non-repayable funds.

8.2.3 Operations under the Republic of Slovenia Authorisation

Insurance against Non-Marketable Risks

As an authorised institution, SID Bank insures commercial and non-commercial or political (non-marketable) risks on behalf of and for the account of the Republic of Slovenia that, given their nature and the level of risk, the private sector is either unwilling or has limited capacity to insure. Pursuant to EU regulations, commercial and political risks in OECD countries with maturity over 2 years and all risks in non-OECD countries are recognized as non-marketable. The role of the Republic of Slovenia is crucial in the area of non-marketable risks, as the majority of export transactions, particularly medium-term, would not be undertaken without such insurance. Exporters and investors can also mitigate their operating risks in high-risk countries by means of appropriate insurance, thereby creating high added value.

Volume of Insurance Operations

The volume of insurance against non-marketable risks stood at EUR 538,889 thousand in 2016 and fell by 16.4% compared to the previous year, primarily as a result of already mentioned macroeconomic conditions and the following specific factors:

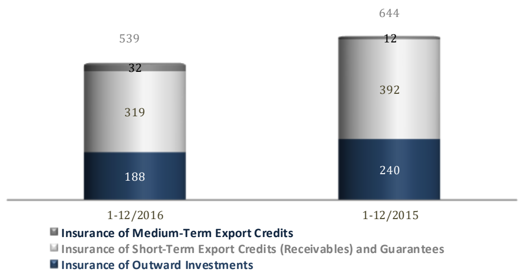
- non-realisation of announced major transactions of Slovenian exporters;
- increased interest of private reinsurers in reinsuring risks in non-EU or non-OECD countries;
- increased willingness by commercial banks to finance exporters without insurance;
- low investment activity of Slovene companies;
- early termination of certain major insurance contracts for insurance of outward investments;
- repayment of already insured loans.

Low realisation of insurance operations in recent years may also be partly attributed to structural changes in the banking sector, as there are few banks in Slovenia, other than SID Bank, that would provide export financing.

Furthermore, the Slovenian economy is small, which is why a loss of one or two major transactions may account for a major deviation in realisation between periods. This applies particularly to 2016, when two major export deals that had been announced the year before were not realised.

The achieved volume accounts for 5.4% of the maximum possible amount of newly assumed annual obligations as defined in ZZFMGP[6].

Volume of Insurance Operations by type (in EUR million)



In the realised volume of insurance operations, the largest share is taken by reinsurance of short-term export receivables (renewable insurance of short-term non-marketable risks; 56.6%), followed by insurance of outward investments (34.8%), while the remainder are insurance of short-term and medium-term export credits, guarantees and pre-export credits, the volume of which increased in 2016 by 163.1% with respect to the previous year. In 2016, the largest share of insurance referred to transactions in Russia, followed by Croatia and Bosnia and Herzegovina.

Taking into account all insurance operations pursued by companies within the SID Bank Group (SID – PKZ provides insurance of marketable risks and SID Bank provides insurance of non-marketable risks), the coverage of export of goods and services by insurance was assessed at 15.8% for 2016. For the same period, the coverage of all

6 Pursuant to the limit laid down in ZZFMGP relating to the volume of new liabilities assumed in an individual calendar year, these cannot exceed 1/3 of the last officially identified value of annual export of goods and services of the Slovenian economy (in 2015, export reached EUR 30,064 million, source: IMAD 2016). The volume of new insurance operations in the period between 1 January 2016 and 31 December 2016 amounted to EUR 538,898,546 and is within the statutory limits as laid down by ZZFMGP, i.e. amounting to EUR 10,021,333,334.

Slovenian outward investments by SID Bank insurance was assessed at 0.1%, and taking into account non-shareholder loans for investments abroad, the percentage of coverage amounted to 3.3%.

Although the volume of insurance has decreased in recent years, SID Bank offers adequate support to the economy, which is adjusting to new post-crisis conditions or, rather, has been transferring from former major deals to minor ones. The number of insurance users increases every year, while the loss of insurance operations due to the bankruptcy of major Slovenian construction companies is replaced every year with other minor transactions. SID Bank partly managed to compensate for the reduced volume of insured investments in this year by increased insurance of export credits where outlooks are positive with respect to demand. The main goal of operations is to provide maximum support for export or investments abroad while maintaining a long-term break-even point.

Insurance of Short-Term Export Credits (Receivables) and Guarantees

In the insurance and reinsurance of export credits (receivables), guarantees and pre-shipment credits, the volume of 2016 short-term insurance (EUR 318,803 thousand) was down 18.7% on 2015.

The majority of short-term insurance relates to the reinsurance of short-term revolving export credits on the basis of the reinsurance contracts between SID Bank and the SID-PKZ, which is subsidiary insurance company, as well as between SID Bank and Zavarovalnica Triglav (on the basis of a concluded reinsurance contract, SID Bank only covers those risks that private reinsurers are unable to accept for reinsurance because of a shortfall in available capacity – non-marketable risks), while only a small portion relates to the insurance of individual export transactions. The largest share of reinsurance of short-term export receivables in 2016 relates to the support for export transactions in Russia, followed by Ukraine, Belarus, Kazakhstan and other countries. Exposure from these (re)insurance operations totalled at EUR 269,509 thousand at the end of 2016, representing a 3.6% increase in the balance compared to the end of 2015 (EUR 260,134 thousand). The continuing trend of increasing exposure and reducing volume of insured and reinsured short-term export transactions is the result of valid limit increases and extended payment deadlines with clients. Extended payment deadlines led to lower volumes of goods being exported and, consequently, less export receivables insured than in the year before. This particularly applied to exporters active on the Russian market.

The lower volume of (re)insurance in 2016 was followed by the realised (re)insurance premium. The latter has decreased by 18.3% to EUR 1,675 thousand, primarily as a result of low insurance premiums agreed between primary insurers and the insured in contracts. Despite a lower volume of short-term (re)insurance, some other goals have been achieved, such as the diversification of assumed risks in terms of undertaking a larger number of foreign debtors and an increased number of supported exporters (over 80 companies).

Consistent with trends in recent years, commercial insurance risks were in 2016 insured mostly on the Russian market (distributors of pharmaceutical products) in addition to the coverage of non-commercial risks that the private market is unwilling to take (e.g. Iran, Uzbekistan, Argentina, Turkmenistan, Tajikistan, etc.).

Insurance of Medium-Term Export Credits

In 2016, the largest portion of insured medium-term export credits, guarantees and pre-shipment credits related to the export of light aircrafts, wood and metal processing machines and equipment, cooling installations, special purpose machines for the manufacture of metals, hydro turbines, mobile homes, services of engineering activities and related technical consultancy, and telecommunications equipment. Most medium-term transactions were insured against risks of buyers from Belarus, Turkmenistan, Bosnia and Herzegovina, Uganda, India and Serbia. The volume of secured medium-term export credits fluctuates from year to year due to the small number of projects realised annually and their size.

In 2016, the volume of realised insurance of medium-term export transactions (credits, guarantees and pre-shipment credits) more than doubled compared to the year before amounting to EUR 32,361 thousand (2015: EUR 12,300 thousand). The promising growth trend in medium-term insurance is primarily related with increased activities of SMEs on foreign markets, primarily new ones, and greater visibility of SID Bank's services.

Exposure from insured medium-term export credits, guarantees and pre-shipment credits (underwritten insurance policies and insurance offer) totalled at EUR 47,972 thousand as at 31 December 2016, with Belarus prevailing among countries in terms of exposure with a 38.4% share. In 2016, premiums from these insurance products amounted to EUR 468 thousand and increased by 39.5% compared to the year before, in line with increased realised volume for insuring such export operations.

Claims paid from the insurance of medium-term export credits amounted to EUR 391 thousand.

In 2017, the highest growth is expected in insurance for medium-term transactions. The growth estimate is based on increased export activities of the economy, which is expected to continue in 2017. It is expected that Slovenian companies will enter third markets more strongly, primarily Africa and the Middle East. According to plans, they will also be active in countries from the former Soviet Union and Yugoslavia. Furthermore, it is expected that Slovenian banks will assume a more active role in export financing transactions and consequently supporting Slovenian exports.

Insurance of Outward Investments

The volume of insured outward investments amounted to EUR 187,735 thousand in 2016, whereby the volume of insurance comprises newly insured outward investments and renewals of insured investments in previous years, which actually entail newly insured investments. The volume has decreased by 21.7% on the previous year, primarily as a result of a downturn in corporate investment cycles, certain key countries' convergence with the EU, thus reducing risk levels, repayment of insured loans and early cancellation of certain major insurance policies.

Demand for investment insurance almost ceased in recent years. This is the result of reduced risk in the countries of former Yugoslavia converging the EU . In recent years countries of former Yugoslavia represented the largest target market for investments made by Slovenian companies. To internationalise its business functions, Slovenian companies found alternative ways that are cost efficient and tie a small volume of assets unlike direct investments.

Exposure from insured outward investments at the end of 2016 amounted to EUR 166,896 thousand, decreasing by 12% compared to the end of the previous year. Reduced exposure from outward investments in 2016 derives from the same reasons as the reduced volume of insurance.

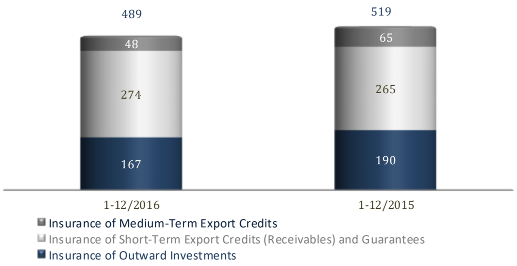
In the structure of insured investments, investments in Croatia account for the largest share, followed by Bosnia and Herzegovina, and the United States of America. In 2016, premiums from investment insurance decreased by 34.8% to EUR 1,125 thousand, which is in line with the reduced volume of insurance.

In 2017, occasional demand for project financing insurance with elements of investment insurance may be expected, primarily in the exploitation of renewable energy sources. In terms of value, these will be low amounts that will not exceed amounts that fall due annually based on the repayment schedules for insured investments. Therefore, the volume in investment insurance will continue to be low next year.

Exposure

Exposure from current insurance policies amounted to EUR 477,596 thousand at the end of 2016. Exposure from insurance offers, which are included in the total net exposure as per ZZFMGP, amounted to 11,428 thousand.

Exposure by type (in EUR million)



Total exposure from insurance operations for the account of the State and from issued insurance offers amounted to EUR 489,024 thousand at the end of 2016, decreasing by 5.8% compared to the end of 2015. The reasons for reduced exposure mostly coincide in content with elements that cause a reduced volume of insurance. In that respect, 2016 stands out for the number of regularly expired insurance policies (insured medium-term export credits, equity holdings and non-shareholder loans) and premature cancellations. The reasons for premature cancellations lie in the diminishing risk of target countries, which reduces demand for the insurance of equity holdings. There is also a cost impact, as loan insurance is at a disadvantage in relation to the cost-effectiveness of enterprises.

The exposure amount represents 23.3% of the limit defined in the Implementation of the Republic of Slovenia Budget for 2016 Act (ZIPRS) and 1.6% of the limit as defined by ZZFMGP.[7]

The largest exposures in the insurance portfolio in 2016 were disclosed against Russia, Croatia and Bosnia and Herzegovina.

7 Pursuant to the limit of the maximum possible volume of liabilities arising from insurance against non-commercial, medium-term commercial and short-term commercial risks not marketed, as laid down in ZIPRS, exposure from current insurance and commitments amounts to EUR 2,100 million. Net exposure from current insurance and commitments as at 31 December 2016 amounts to EUR 489.024.406.

Pursuant to the limit laid down in ZZFMGP in relation to the volume of all assumed and current liabilities arising from insurance, active reinsurance and retrocession, other transactions, guarantees and other pledges, it must not exceed the officially established value of annual exports of goods and services of the Slovenian economy (in 2015, exports totalled at EUR 30.064 million; source: IMAD 2016). Net exposure from current insurance and commitments as at 31 December 2016 amounts to EUR 489.024.406.

Insurance Technical Provisions and Operating Results

in EUR thousand	31 Dec 2016 or 1-12/2016	31 Dec 2015 or 1-12/2015	Index 2016/2015
Premiums	3,291	4,135	79.6
Potential claims	4,549	1,825	249.3
Claims under consideration	1,274	1,752	72.7
Claims paid	(458)	(6,134)	7.5
Recourse	8,568	282	3,038.3
Surplus of income	12,206	(1,254)	-

Premiums and fees from insurance against non-marketable risks amounted to EUR 3,291 thousand in 2016 and decreased by 20.4% with respect to 2015. The decreased insurance premium was the result of a reduced volume of insurance operations and the structure of insurance products. The largest percentage in the structure of paid premiums was accounted by (re)insurance of short-term export credits, followed by premiums for investments and medium insurance, whereby premium rates for short-term insurance were much lower than those for medium-term insurance and investments. Income from processing fees is negligible due to SID Bank's practice of including them in the premium if individual export transaction or investment isrealised, pursuant to its business policy and applicable price lists.

Claims paid in 2016 amounted to EUR 458 thousand, which is much less than the year before (2015: EUR 6,134 thousand). The majority of claims paid related to a claim paid in Ukraine amounting to EUR 390 thousand and deriving from buyer's export credit insurance. The remainder is a claim in Uganda from the reinsurance of short-term export receivables. A minor portion of represents the cost of recovery of already paid claims from previous years (Serbia, Azerbaijan, Croatia, Kazakhstan, Ukraine and Greece).

Claims under consideration (already received request for indemnification payment) stood at EUR 1,274 thousand as at 31 December 2016, which is EUR 478 thousand lower compared to the end of 2015. The volume of potential claims (EUR 4,549 thousand) increased in 2016 by EUR 2,724 thousand compared to 2015, whereby the majority of potential claims derive from (re)insured short-term receivables.

In 2016, the operating result for the account of the State was again positive and is the result of received recoveries amounting to EUR 8,568 thousand. The surplus of income over expenses amounted to EUR 12,206 thousand (in 2015: EUR -1,254 thousand).

Contingency Reserves

Contingency reserves constitute an important capacity for SID Bank and for the Republic of Slovenia in insurance against non-marketable risks before claims from insurance for the account of the Republic of Slovenia are paid out from the state budget.

In 2016, contingency reserves amounted to EUR 130,249 thousand and increased by EUR 12,206 thousand compared to the previous year as a result of a positive operating result.

In view of the investment policy, contingency reserves must be invested in liquid assets at least in the amount representing the sum total of potential claims and claims under consideration deriving from non-marketable insurance or representing at least 20% of all contingency reserve investments. Liquid assets comprise debt securities quoted on the regulated market and all other forms of investment in debt instruments with residual maturity not exceeding one year.

Guarantee Scheme for Corporates

The Republic of Slovenia Guarantee Scheme Act (hereinafter "ZJShemRS") set up a system in 2009 for issuing government guarantees for the liabilities of companies rated A, B or C from long-term loans hired at commercial banks. The legal deadline for issuing guarantees expired on 31 December 2010.

In line with its legal authorisations, SID Bank continued to actively manage the portfolio deriving from ZJShemRS in 2016.

In 2016, SID Bank received nine applications for amendments and issued four approvals for an amendment of the terms of government-guaranteed loans where the relevant conditions were met, rejected two applications for different reasons, while one application was still under consideration at the end of 2016 because of the Bank's supplementation. Due to the identified violations of statutory provisions or business decisions made by banks on the withdrawal of contracts from the guarantee scheme, two annexes were concluded with which banks renounced the State guarantee.

In 2016, SID Bank received four requests for the issued guarantees to be called. A total of three requests for calling were granted in 2016 by the Ministry of Finance to commercial banks having met the conditions under ZJShemRS, based on which a total of EUR 0.1 million was paid out. Between 2009 and 2016, the Ministry of Finance paid out a total of EUR 75.3 million to banks on the basis of 294 requests for calling.

At the end of 2016, 19 loan agreements secured by government guarantee were still active at commercial banks (2015: 41), with a stock of principal amounting to EUR 17.7 million as at 31 December 2016 (2015: EUR 46,6 million).

Guarantee Scheme for Natural Persons

The Act on the Natural Persons Guarantee Scheme of the Republic of Slovenia (hereinafter "ZJShemFO") allowed individuals to obtain a government guarantee for loans not exceeding EUR 100 thousand or EUR 10 thousand, depending on the category of borrowers. At the end of 2010, the statutory deadline for issuing government guarantees under ZJShemFO expired.

In 2016, SID Bank received two requests for guarantees to be called (bringing the total between 2010 and 2016 to 103). Having met the conditions under ZJShemFO, the Ministry of Finance paid out a total of EUR 6 thousand in 2016 to commercial banks based on two requests for calling. In both cases, the guarantees paid out referred to a group of unemployed borrowers.

SID Bank initiates a recovery procedure for the guarantees paid out, provided that the conditions have been met. If a borrower fails to fulfil its obligations within eight days of receiving the call, SID Bank refers the matter for enforcement to the Financial Administration of the Republic of Slovenia (FURS).

The number of loans as at 31 December 2016 amounted to 114 (2015: 141), while the total stock of principal amounted to EUR 4.4 million (2015: EUR 4.9 million).

Guarantees for Investments

The purpose of the Republic of Slovenia Guarantees for Financial Investments by Companies Act (hereinafter "ZPFIGD") is to ease corporate access to working capital and to funds for investments. As prime credit protection, a government guarantee is an instrument for improving access to funding for corporate development projects.

The amendment to ZPFIGD laid down a restriction on the issue of guarantees until 31 December 2015, which is why there was no new issue of guarantees in 2016.

The total stock of loans supported by government guarantee reached EUR 12.2 million at the end of 2016 (2015: EUR 18.3 million), within the scope of which the government guarantee amounted to EUR 9.4 million (2015: EUR 13.9 million).

Management of Emission Allowances and Kyoto Units

Pursuant to Article 127 of the Environmental Protection Act (ZVO-1), SID Bank continued acting as the official auctioneer of greenhouse gas emission allowances in 2016 in accordance with Commission Regulation (EU) No. 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community, amended by Commission Regulation (EU) No. 1210/2011.

In auctions organised by the joint auctioning system of 24 EU Member States (the European Energy Exchange), SID Bank sells quantities of emission allowances (set out by the aforementioned regulation, the relevant European Commission decisions and the auction timetable) on behalf of the Republic of Slovenia and transfers the proceeds to the account of the Republic of Slovenia.

As an official auctioneer of emission allowances (code: EUA), SID Bank participated in 133 auctions in 2016. There were 3,556,000 allowances sold at auction, with the purchase consideration of EUR 18.7 million.

In 2016, there were five auctions of emission allowances for airlines (EUAA) scheduled. There were 5,000 rights or emission allowances sold, with the purchase consideration of EUR 26 thousand.

Transparency of Financial Relations between SID Bank and the Republic of Slovenia

Activity EUR thousand	Income	Expenses
Insurance against non-marketable risks	1,718	(1,704)
Guarantee scheme for Corporates	34	(112)
Guarantee scheme for Private Individuals	5	(17)
Guarantees for Investments	-	(19)
Auctions of Emission Allowances	19	(19)

The table discloses the total (direct and indirect) revenues and expenses for individual activities that were generated in 2016. Revenues for a particular activity mandated by the State represent fees that SID Bank receives for pursuing the activity based on contracts or legal provisions. Indirect expenses for a particular activity are determined on the basis of the criteria set forth in the Criteria for allocating indirect costs of activities under Republic of Slovenia authorisation by-law.

Separate financial statements are compiled for insurance against non-marketable risks, where the Bank also manages the assets allocated to management.

8.3 Performance of the SID Bank Group

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

EUR thousand	31 Dec 2016 or 1-12/2016	31 Dec 2015 or 1-12/2015	Index 2016/2015
Total assets	55,853	56,850	98.2
Total equity	28,392	26,773	106.0
Gross claims paid	7,605	11,915	63.8
Loss ratio	53%	77%	
Net profit	1,690	932	181.4

Economic conditions on the markets relevant to PKZ, other than Russia, improved. In 2016, PKZ continued to act in a highly competitive environment due to increased activities of insurance brokers (pressure on reducing premium rates), which affected the sales activities of PKZ and the search for new insurance sales and monitoring approaches. All that reflected in an increased volume of insurance operations, decreased premium rates and reduced premium written. Low premium rates and hence premium volume as well as a highly competitive environment were also affected by favourable loss ratios from previous years, which PKZ were taken into account while setting premium rates. On the other hand, increased sales activities of PKZ also increased the cost of acquisition and provision of insurance.

Due to the mentioned conditions, PKZ achieved a 6.7% lower premium in 2016 than in the previous year (gross written premium in 2016: EUR 14,434 thousand), thus falling behind its plan for the category. The written premium was lower than planned due to lower premium rates and a smaller volume of insurance operations deriving from new insurance. The total volume of insurance operations grew, but not as much as expected. On the other hand, the loss ratios for previous years, including 2016, were more favourable than expected, as were also the recoveries received for the claims paid out.

PKZ achieved a favourable loss ratio through sound risk management in the assessment of assumed risks (buyers) and due to favourable economic and political conditions on markets where PKZ provides coverage. Furthermore, the claims trend was more favourable than estimated in previous years, which is why estimates of claim provisions for previous years improved in 2016, which significantly improved the final operating result.

As a result of a steady claims experience, the share of gross premiums paid with respect to gross written premium fell from 76.9% in 2015 to 52.6% in 2016. Claims paid in 2016 fell by 36.3% compared to 2015 (they amount to EUR 7,587 thousand), as did the number of claims. Due to the above, net expenses for claims in 2016 fell by EUR 442 thousand or 20.4% compared to 2015. As a result, net premium income exceeded net expenses for claims in 2016 by EUR 4,108 thousand, which is a 5.7% growth (2015: EUR 3,888 thousand), despite the drop in gross written premium.

In 2016, revenues from reinsurance commissions rose by EUR 458 thousand or 17.8% compared to 2015. Premiums ceded to reinsurers decreased, but the commission rate increased in 2016 and, furthermore, PKZ was entitled to an additional commission or profit participation from these years due to good results. Operating costs increased in 2016, which, along with the low premium, contributed to an increased cost rate. Investment income fell by EUR 61 thousand or 15.7% compared to 2015 as a result of declining interest rates. In 2016, all investment income derived from interest (in 2015, 93.1% of investment income derived from interest). Securities issued or guaranteed by EU Member States accounted for 60.2% (2015: 64.6%) of total investments. PKZ otherwise invests exclusively in debt instruments and deposits with Slovenian banks.Net profit or loss of the accounting period amounts to EUR 1,690 thousand and increased by almost EUR 759 thousand compared to 2015.

Due to the planned growth of the volume of insurance operations for 2017, PKZ plans to increase the premium compared to 2016. It is estimated that claims paid in the following year will slightly increase in comparison to 2016, but remain under the level achieved in 2015. Due to certain high claims paid in the past, recovery will continue to be intensive. PKZ estimates that it sustains a stable loss ratio.

8.3.2 Prvi faktor Group

In 2016, Prvi faktor Group conducted activities to reorganise its operations and management by placing emphasis on cost reduction and limitation of its operations or controlled termination of its operations.

In 2016, the factoring volume at Prvi faktor Group totalled at EUR 74,826 thousand. With regard to 2015, the realized volume decreased by 78,4%, which is the result of the winding-up or exit from the portfolio. In the second half of the year, there was almost no turnover generated.

Prvi faktor, Ljubljana EUR thousand	31 Dec 2016 or 1-12/2016	31 Dec 2015 or 1-12/2015	Index 2016/2015
Total assets	22,511	83,338	27.0
Total equity	2,650	1,060	250.0
Net profit/loss	(22,825)	(897)	2,544.6
Purchased receivables	26,350	109,567	24.0

Prvi Faktor Group EUR thousand	31 Dec 2016 or 1-12/2016	31 Dec 2015 or 1-12/2015	Index 2016/2015
Total assets	45,523	173,860	26.2
Total equity	6,386	(2,437)	-
Net profit/loss	(11,045)	(4,359)	253.4
Purchased receivables	74,826	347,121	21.6

On the consolidated level, total assets amounted to EUR 45,523 thousand as at 31 December 2016 and decreased by 73.8% compared to the end of the previous year. In terms of total assets, the largest company of the Group is Prvi faktor Beograd, with total assets amounting to EUR 26,555 thousand. It is followed by Prvi faktor Ljubljana with EUR 22,511 thousand, Prvi faktor Zagreb with EUR 8,704 thousand, and Prvi faktor Sarajevo with EUR 374 thousand in total assets.

In 2016, all companies within the Group operated at a loss. The loss generated by Prvi faktor Ljubljana amounted to EUR 22,825 thousand. Prvi faktor Zagreb operated at a loss of EUR 4,521 thousand, Prvi faktor Sarajevo at a loss of EUR 5,283 thousand, and Prvi faktor Belgrade at a loss of EUR 95 thousand. Furthermore, the consolidated loss generated by the Group amounted to EUR 11,045 thousand as a result of the mentioned losses of Group companies. Such loss was also the result of winding up and refinancing costs.

At the end of 2016, positive equity was disclosed by Prvi faktor Ljubljana in the amount of EUR 2,650 thousand, Prvi faktor Zagreb in the amount of EUR 1,447 thousand, and Prvi faktor Beograd in the amount of EUR 2,286 thousand. Prvi faktor Sarajevo disclosed equity equalling zero at the end of 2016. At Prvi faktor Group level, equity was positive and amounted to EUR 6,386 thousand. As at the end of December 2016, both owners made additional payments into Share premium for each company within the Prvi faktor Group pursuant to the exit strategy, the projections made by the management of Prvi faktor Ljubljana, as the parent company, and the Prvi faktor Group, and the analysis made by an external consulting firm. The proportionate share of the payments made by SID Bank as a 50% owner amounted to EUR 12.2 million. Taking into account the costs planned for the 2017-2021 period, balances in accounts and in the live portfolio, and payments made in Share premium, all companies made repayments to lenders.

8.3.3 Centre for International Cooperation and Development

EUR thousand	31 Dec 2016 or 1-12/2016	31 Dec 2015 or 1-12/2015	Index 2016/2015
Operating revenues	388	352	110.2
Gross profit/loss	8	9	88.9
Total assets	2,225	1,379	161.3

In 2016, CMSR's priority was the implementation of international development cooperation. Multi-annual programmes contributed considerably to the realisation of projects in international development cooperation, since donation providers and recipients see the predictability of available assets as the key feature in the implementation of the procedures required to organise all legal acts allowing the realisation of development projects.

By acquiring new transactions, CMSR generated a profit in 2016.

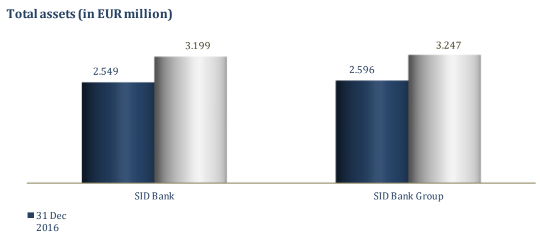
CMSR maintained and spread a network of contacts with countries receiving development aid (primarily sectoral ministries and municipalities) and Slovenian operators (companies and selected institutions and experts), potential providers of development aid. Based on successful realisation of the programme set and by establishing a comprehensive normative basis, CMSR strengthened its position of a core provider of development aid.

CMSR developed a methodology for the implementation of environmental projects deriving from the Convention on Climate Change and performance of suitable analyses, thus commencing the implementation of development projects relating to environmental adaptation, financed from climate change fund.

In publishing and law, CMSR continued issuing the *Mednarodno poslovno pravo* (International Business Law) magazine in 2016. The promotional business publication *Doing Business in Slovenia 2016* was issued in printed form in the first half of 2016, while the electronic version is regularly updated on the Slovenian Business Portal.

8.4 Operations Reflected in the Statement of Financial Position

Total assets

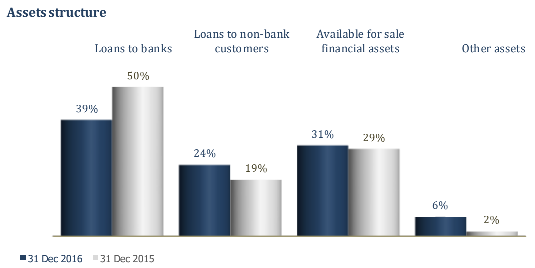


SID Bank's total assets at the end of 2016 amounted to EUR 2,548,643 thousand, which is 20.3% less than at the end of 2015.

Considering SID Bank's predominant influence in SID Bank Group, the specific nature of the Group and mutual relationships within the Group, the total assets of SID Bank Group were only 1.9% higher than the total assets of SID Bank. As a result, the structure of the Group's assets and liabilities is very similar to that of the Bank.

The SID Bank Group's total assets at the end 2016 totalled EUR 2,596,076 thousand, accounting for 79.9% of total assets as at the end of 2015.

SID Bank's assets



Loans to banks accounted for a majority share of all investments in the Bank's total assets in 2016. Loans to banks include loans and deposits at banks; these totalled EUR 996,368 thousand as at the end of the year, which is 38% less that at the end of 2015. Long-term loans account for 81% of loans to banks, while the rest is short-term deposits at banks. Loans to banks account for 39.1% of the Bank's total assets (in 2015: 50.2%).

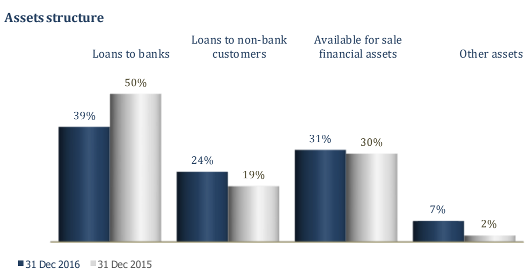
Loans to non-bank customers increased by 0.8% in 2016, amounting to EUR 610,563 thousand at end of the year. Loans to non-bank customers accounted for 24% of SID Bank's total assets at the end of 2016 or 5 percentage points more than at the end of 2015.

As at the end of 2016, SID Bank had EUR 147,668 thousand of assets in accounts at commercial banks and the central bank. These account for 5.8% (in 2015: 0.4%) of the Bank's total assets.

Investments in securities totalled at EUR 777,676 thousand and fell by EUR 160,927 thousand in 2016. Their share in the structure of total assets increased from 29.3% to 30.5%.

Other assets amounting to EUR 16,368 thousand comprise:
- investments in the equity of subsidiaries and joint ventures (EUR 8,413 thousand), which remain unchanged in 2016;
- property, plant and equipment and intangible assets in the amount of EUR 6,092 thousand, which decreased by EUR 310 thousand with respect to the end of 2015;
- other financial assets in the amount of EUR 1,527 thousand and other assets in the amount of EUR 336 thousand.

Assets of the SID Bank Group



Loans to banks totalled EUR 1,002,502 thousand at the end of 2016 and decreased by 37.8% compared to the end of 2015. Regardless, they have preserved the largest share in the structure of the Group's total assets, i.e. a 38.6% (in 2015: 49.7%).

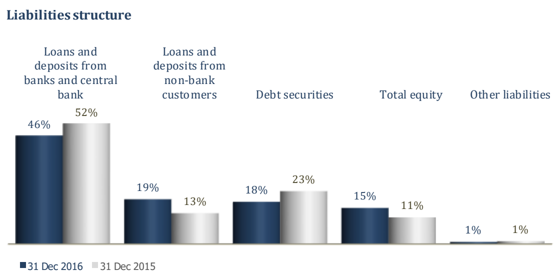
Loans to non-bank customers are in terms of value equivalent to the same item in the Bank's balance sheet (EUR 610,563 thousand), while their share in the Group's total assets increased from 18.6% to 23.5%.

As at the end of 2016, the SID Bank Group had EUR 153,355 thousand or 5.9% of total assets in assets on hand and in accounts at commercial banks and the central bank (in 2015: 0.5%).

Investments in securities fell by EUR 160,609 thousand at the end of 2016 compared to the end of 2015. At the end of 2016, they reached EUR 801,044 thousand and their share in the structure of total assets increased from 29.6% to 30.9%.

Other assets amounting to EUR 28,612 thousand include:
- reinsurers' assets and receivables from insurance operations in the amount of EUR 17,807 thousand, down 12.7% on year-end 2015;
- property, plant and equipment, and intangible assets in the amount of EUR 8,783 thousand, down EUR 582 thousand on year-end 2015;
- other assets in the amount of EUR 2,022 thousand.

Liabilities and Equity of SID Bank



SID Bank's liabilities and equity as at the end of 2016 comprised liabilities in the amount of EUR 2,154,814 thousand and equity in the amount of EUR 393,829 thousand. Liabilities account for 84.5% of total liabilities (2015: 88.6%), while equity accounts for 15.5% (2015: 11.4%).

Deposits and borrowings from banks and liabilities to the central bank accounted for the majority of liabilities at the end of 2016. This share amounted to 46.5% (in 2015: 51.7%) of the Bank's liabilities. Liabilities to banks and the central bank totalled EUR 1,184,865 thousand. The liabilities decreased by EUR 468,956 thousand or 28.4%.

Liabilities to non-bank customers stood at EUR 487,427 thousand, i.e. 19.1% of the structure of total liabilities as at the end of 2016 (in 2015: 13.1%), increasing by EUR 66,889 thousand or 15.9%.

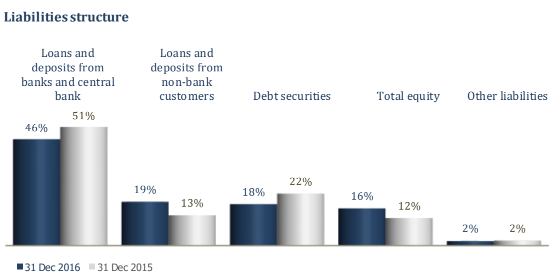
Liabilities from issued securities decreased in 2016 from 22.6% to 18.1%. The debt securities balance stood at EUR 460,652 thousand as at the end of the year, decreasing by 36.3% or EUR 262,875 thousand compared to the end of 2015. The decrease is the result of the maturity of two bond issues in the total nominal amount of EUR 260 million.

Provisions amounting to EUR 15,546 thousand decreased by EUR 19,375 thousand in comparison to end of 2015. Provisions for off-balance-sheet liabilities amounted to EUR 15,077 thousand, while provisions for payables to employees amounted to EUR 469 thousand.

Other liabilities in the total amount of EUR 6,324 thousand comprise corporate income tax liabilities amounting to EUR 4,105 thousand, other financial liabilities amounting to EUR 2,079 thousand and other liabilities amounting to EUR 140 thousand.

The Bank's total equity increased by 8.1% or EUR 29,664 thousand and amounted to EUR 393,829 thousand as at the end of 2016. Profit reserves increased by EUR 16,202 thousand, accumulated other comprehensive income in relation to financial assets held for sale by EUR 8,301 thousand, and retained earnings, including net profit for the financial year, including retained earnings, increased by EUR 5,161 thousand compared to the previous year.

Liabilities and Equity of the SID Bank Group



Liabilities of the SID Bank Group are similar to liabilities of SID Bank. Liabilities amounting to EUR 2,182,268 thousand accounted for 84.1% of total liabilities (2015: 88.2%), while equity amounting to EUR 413,808 thousand accounted for a 15.9% share of balance sheet liabilities (2015: 11.8%).

The Group's borrowings and deposits from banks and liabilities to the central bank equalled those of the Bank. As at the end of 2016, they amounted to EUR 1,184,865 thousand, accounting for 45.6% of the Group’s liabilities and equity (in 2015: 50.9%). Liabilities decreased by EUR 468,965 thousand compared to the previous year.

The Group’s liabilities to non-bank customers amounting to EUR 487,427 thousand accounted for 18.8% in liabilities and equity (in 2015: 13%) and equalled the liabilities of SID Bank.

The Group’s liabilities from issued securities amounting to EUR 460,652 thousand were also the same as those of the Bank, with their share accounting for 17.7% in the structure as at the end of 2016 (in 2015: 22.3%).

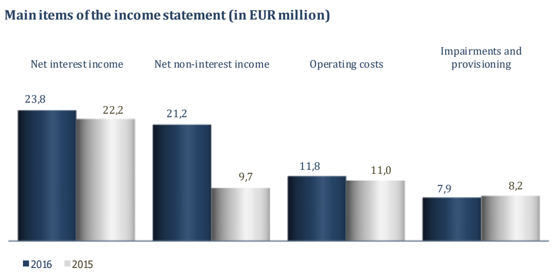
Provisions amounting to EUR 38,957 thousand decreased by EUR 21,715 thousand compared to the end of 2015. The largest proportion, i.e. EUR 23,241 thousand, derives from liability trends from insurance contracts, provisions for off-balance-sheet liabilities amounted to EUR 15,077 thousand, while provisions for payables to employees amounted to EUR 639 thousand.

Other liabilities in the total amount of EUR 10,367 thousand related to corporate income tax liabilities (EUR 4,568 thousand) other financial liabilities (EUR 2,809 thousand), accrued liabilities from reinsurance (EUR 2,506 thousand) and other liabilities (EUR 484 thousand).

The SID Bank Group’s total equity increased by 8.2% or EUR 31,283 thousand in terms of value in 2016. Profit reserves increased by EUR 11,869 thousand, accumulated other comprehensive income in relation to financial assets held for sale increased by EUR 8,442 thousand, while retained earnings, including net profit for the financial year increased in terms of value by EUR 10,972 thousand.

8.5 Operations Reflected in the Income Statement

Financial Results of SID Bank



SID Bank recorded a profit before tax of EUR 25,317 thousand in 2016, which was EUR 12,649 thousand more than in 2015. Net profit amounted to EUR 21,363 thousand, which is a EUR 10,864 thousand increase compared to the previous year. Increased profit is also the result of one-off effects of the sale of non-performing assets, which increased interest income and released expenses for impairments made in the past.

Net interest income stood at EUR 23,841 thousand in 2016 and increased by 7.2% compared to 2015. The Bank's interest income amounted to EUR 37,501 thousand in 2016 and decreased by 30.1% with respect to 2015 (2015: EUR 53,641 thousand), while interest expenses reached EUR 13,660 thousand, which is 56.5% less than in the previous year (2015: EUR 31,395 thousand). Measured to average assets, the interest margin was 0.85% (2015: 0.69%). Net interest income accounted for 52.9% of the total net income (2015: 69.7%).

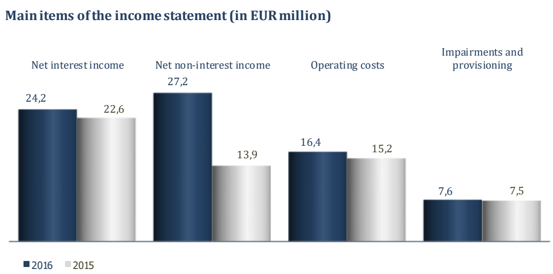
Net non-interest income amounted to EUR 21,213 thousand in 2016, increasing by 119.6% compared to the total net non-interest income in 2015 (2015: 9,659 thousand). Gains from financial assets and liabilities, recognised at fair value through profit or loss, in the amount of EUR 11,151 thousand accounted for the largest part of non-interest income, followed by gains from financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 6,183 thousand, fees for providing operations under State authorisation in the amount of EUR 1,811 thousand, and net fee and commission income amounting to EUR 1,171 thousand. Other net non-interest income totalled EUR 897 thousand. Net profit from financial assets and liabilities recognised at fair value through profit or loss relate to revaluation income deriving from negative operations of loan funds. In line with the contract, a negative operating result is as a priority covered from national budget funds by reducing SID Bank's liabilities to the Ministry of Economic Development and Technology.

The Bank's financial intermediation margin in 2016 stood at 1.6% (in 2015: 1%).

The Bank's operating costs achieved EUR 11,823 thousand in 2016, thus increasing by 7.3% with respect to 2015. Labour costs amounted to EUR 8,062 thousand or 8.2% more than in 2015. Costs of material and services totalled EUR 2,956 thousand, thus increasing those of the previous year by 6.4%. Depreciation and amortisation costs increased by 2%, amounting to EUR 805 thousand. The cost-to-income ratio (CIR) amounted to 26.4%, which is 8.1 percentage points less than in 2015 (2015: 34.5%).

Net impairment and provisioning costs amounted to EUR 7,914 thousand in 2016, which represents 96.3% of net impairments and provisions from 2015. Net impairments totalled at EUR 9,574 thousand and the Bank realised net income for provisions in the amount of EUR 1,660 thousand.

Financial results of SID Bank Group



SID Bank Group disclosed a profit before tax of EUR 27,336 thousand in 2016, which increased by EUR 13,530 thousand compared to 2015, while net profit reached EUR 22,956 thousand (in 2015: EUR 11,395 thousand).

Interest income amounted to EUR 37,829 thousand in 2016 and decreased by 30%

compared to 2015 (2015: EUR 54,003 thousand), while interest expenses amounting to EUR 13,663 thousand decreased by 56.5% (2015: EUR 31,395 thousand). Net interest amounting to EUR 24,166 thousand increased by 6.9% compared to 2015. Net interest accounted for 47.1% of total net income (in 2015: 62%).

Net non-interest income amounted to EUR 27,192 thousand, increasing by 96.3% compared to 2015 and including gains on financial assets and liabilities recognised at fair value through profit or loss in the amount of EUR 11,151 thousand, net income from insurance operations amounting to EUR 6,815 thousand, realised gains on financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 6,183 thousand, the fee for the performance of operations under State authorisation in the amount of EUR 1,811 thousand, net commissions in the amount of EUR 1,154 thousand, and other net non-interest income in the amount of EUR 78 thousand.

SID Group's operating costs amounted to EUR 16,403 thousand in 2016 (2015: EUR 15,198 thousand), EUR 15,288 thousand of which were administrative expenses (2015: EUR 14,084 thousand) and EUR 1,115 thousand were depreciation and amortisation costs (2015: EUR 1,114 thousand). Labour costs amounted to EUR 11,121 thousand (in 2015: EUR 10,283 thousand), while the costs of material and services amounted to EUR 4,167 thousand (in 2015: EUR 3,801 thousand).

Net impairment and provisioning costs of the SID Bank Group totalled EUR 7,619 thousand and increased by 2.2% compared to 2015 (2015: EUR 7,454 thousand). While net impairment expenses amounted to EUR 9,980 thousand, SID Bank generated net income for provisions in the amount of EUR 2,361 thousand.

8.6 Important Events in 2016

Significant Business Events

In February 2016, SID Bank successfully concluded the procedure to sell the entire shareholding in the subsidiary Pro Kolekt Ljubljana by signing the sales and purchase agreement and receiving full purchase consideration.

In February 2016, SID Bank established a new loan fund under the contract on financing and implementing a financial engineering measure to promote investments, operations and capital strengthening of SMEs, within the scope of which it introduced two new credit lines, i.e. the Development Promotion Programme of SID Bank for financing operations and capital strengthening of SMEs and the Development Promotion Programme of SID Bank for financing investments and capital strengthening of SMEs, each amounting to EUR 100 million.

In March 2016, SID Bank repaid the issued bonds SEDABI Float 03/29/2016 in the amount of EUR 200 million and SEDABI 4.12 03/31/2016 in the amount of EUR 60 million, whereby the issued promissory notes also fell due in 2016 totalling EUR 280 million. The Bank repaid the mentioned due liabilities from surplus liquid assets, while maintaining robust liquidity for future periods.

At the end of March 2016, the procedure to sell Trimo company, where SID Bank had an equity stake deriving from a debt-to-equity swap made in the process to restructure the company, was successfully completed.

In June 2016, SID Bank terminated all concluded interest rate swaps in order to manage the Bank’s interest rate position.

In July and September 2016, SID Bank signed two new loan agreements with EIB, i.e. a contract amounting to EUR 50 million for financing infrastructure, energy efficiency and the environment and one in the amount of EUR 50 million for financing the projects and operations of SMEs and mid cap companies.

In order to satisfy additional and special needs of instruments tailored to municipalities, SID Bank developed a development promotion programme of long-term financing for the promotion of investments in local public infrastructure, local energy efficiency measures and local housing for vulnerable population groups. The programme is carried out in cooperation with the European Investment Bank (EIB) and Council of Europe Development Bank (CEB) in a total amount not exceeding EUR 100 million.

Governing Bodies

At its 146th regular session held on 19 May 2016, the Supervisory Board of SID banka d.d., Ljubljana, appointed a 2-member Management Board for a new term of office that commenced on 1 January 2017. Sibil Svilan, MSc, was appointed the Chairman of the Board of SID Bank for a period of 5 years. Goran Katušin, Executive Director for Risk Management at SID Bank, was appointed a Member of the Board of SID Bank for a period of 5 years, replacing Jožef Bradeško, MSc, former Member of the Board who did not run for a new term of office.

At its session held on 28 July 2016, the Government of the Republic of Slovenia appointed Marko Tišma as a new Member of the Supervisory Board.

Credit Rating

At the end of 2015, SID Bank decided to cancel cooperation with Moody's Investors Service, which is why the latter withdrew its credit rating scope of Baa3 with stable outlooks for SID Bank in April 2016.

In June 2016, Standard & Poor's Rating Services raised SID Bank's credit rating score from A- to A as a result of upgrading the credit rating for the Republic of Slovenia. Future outlooks for SID Bank's credit rating remain to be stable. The short-term credit rating is A-1.

In December 2016, Standard & Poor's changed the outlooks for SID Bank's credit rating from stable to positive. The credit rating remained unchanged (A/A-1). The change of credit rating or future outlooks for SID Bank followed the change of credit rating or future outlooks for the Republic of Slovenia, making them equal.

Other Events

At the autumn assembly of EAPB, the European Association of Public Banks, of which SID Bank is a member, Sibil Svilan, MSc, Chairman of the Board of SID Bank, was appointed a new member of the governing board responsible for Central and East Europe.

8.7 Events after the Statement of Financial Position Date

SID Bank initiated a procedure to select an advisor for examining the interest in the purchase of subsidiary SID – PKZ.

FINANCIAL REPORT

Statement of the Management Board on the Financial Statement of SID Bank and SID Bank Group

As at 2 March 2017, the Management Board confirms the separate financial statements of SID Bank and consolidated financial statements of SID Bank Group as well as the annual report for the year ended on 31 December 2016. The financial statements have been compiled in line with International Financial Reporting Standards as established in the EU.

The Management Board duly believes that SID Bank and SID Bank Group have sufficient business resources to continue operations in future.

The management is responsible for:

- the appropriacy of the accounting policies used and their consistent application,
- making business estimates and assessments under the principle of prudence and diligence,
- compiling the financing statements under the assumption of a going concern of SID Bank and SID Bank Group.

The Management Board is responsible for keeping books of account and records that disclose with reasonable accuracy the financial position of SID Bank and SID Bank Group. The Management Board is also responsible for compiling the financial statements pursuant to the legislation and regulations of the Republic of Slovenia. The Management Board is required to do everything to insure the assets of SID Bank and SID Bank Group, including all relevant procedures to prevent or detect any fraud or other irregularity.

The tax authority may inspect the Bank's operations at any time within a period of 5 years following the expiry of the year in which tax assessment is due, which could result in additional tax liabilities, default interest and penalties arising from corporate income tax and other taxes and duties. The Bank's Management Board has no knowledge of any circumstances that may result in a major tax liability in that respect.

SID banka d. d. Management Board

Goran Katušin

Member

Sibil Svilan, MSc

President

Independent Auditor’s Report on the Financial Statements of SID Bank and SID Bank Group

Deloitte.

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INDEPENDENT AUDITOR’S REPORT
to the owners of SID banka d.d.

Opinion

We have audited the accompanying financial statements of SID banka d.d. (hereinafter ‘the Company’), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter ‘IFRSs’).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Loan portfolio impairment</td></tr>
<tr><td>Accounting policies are disclosed in Note 2.3.11, while the information on exposures and impairment is described in Note 2.4.3.

The bank management's decision as to when and to what extent loan portfolio impairment should be recognised requires high level of judgement/assessment. Due to the importance of the said assessment and of the quantity of the loan portfolio and the relative impairments for the financial statements, this accounting estimate is considered a key audit matter. As at 31 December 2016, the gross exposure of loan portfolio amounts to EUR 1,791,561 thousand, while the relevant impairment is recognised in the amount of EUR 184,630 thousand. The basis for impairment calculation and recognition is determined in the bank's accounting policies, i.e. financial assets arising from loans and guarantees are classified in individually or collectively impaired assets.

Individually impaired items comprise:
☐ Individually significant items where the total exposure to a single client exceeds EUR 20 thousand for classification purposes;
☐ Financial assets that should be impaired individually based on the bank's judgement.
If during the individual assessment of a financial asset an objective evidence 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 is measured collectively.

Exposures not subject to individual impairment are classified into groups of exposures to debtors with comparable risks, which mostly involve the debtor's activity, geographical location and features of financing products.</td><td>During the performance of our audit procedures, we examined the structure and efficiency of key controls regarding impairment of loan portfolio:
- control over client classification adequacy,
- control over regular creation of individual impairments,
- control over obtaining the latest valuations as the basis for determining the value of collateral.

In line with the sampling methodology, we tested a sample of clients from the loan portfolio to assess whether impairment occurred for those clients and whether it was identified on time and in the right amounts.

The adequacy of impairment methodology and policies was independently assessed for individually impaired exposures from the sample. We have prepared an independent assessment of impairment based on the information on individual clients and on the applied impairment methodology (expected discounted cash flows from operations or realisation of collateral). Where necessary, auditor's experts (certified appraisers) were engaged to assess the adequacy of provided collateral. During the procedures, we were focused also on any indicators of potential bias or errors on the side of management.

For exposures subject to group impairment, we examined if the methodology used to assess credit losses for the discussed portfolio was adequate. We examined internal policies, methodologies and work instructions. We tested the sample to assess whether the bank exercises the group impairment policy consistently and whether appropriate parameters are used for individual transactions. The adequacy of level of group impairment was assessed based on the assumptions and comparable values (benchmarks) for PD parameters, cure rate and collateral hair cut. The benchmarks were obtained either from system parameters published by the Bank of Slovenia or from the reports of international credit rating agencies on historical default and loss rates by individual credit ratings, and were then evaluated accordingly.</td></tr>
</table>

Other Information

The other information comprises the Business Report, which is an integral part of the Annual Report, and disclosures Risk and Capital Management in line with Regulation (EU) No 575/2013, which are an Appendix to the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, the Supervisory Board and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
The Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With the Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

We also provide the Supervisory Board and the Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

Among the matters we communicate with the Supervisory Board and the Audit Committee, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified Auditor

For signature please refer to the original Slovenian version.

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 27 March 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

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INDEPENDENT AUDITOR'S REPORT
to the owners of SID banka d.d.

Opinion

We have audited the accompanying consolidated financial statements of the company SID banka d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	**How our audit addressed the key audit matter**
Loan portfolio impairment	
Accounting policies are disclosed in Note 2.3.11, while the information on exposures and impairment is described in Note 2.4.3. The bank management's decision as to when and to what extent loan portfolio impairment should be recognised requires high level of judgement/assessment. Due to the importance of the said assessment and of the quantity of the loan portfolio and the relative impairments for the financial statements, this accounting estimate is considered a key audit matter. As at 31 December 2016, the gross exposure of loan portfolio amounts to EUR 1,791,561 thousand, while the relevant impairment is recognised in the amount of EUR 184,630 thousand. The basis for impairment calculation and recognition is determined in the bank's accounting policies, i.e. financial assets arising from loans and guarantees are classified in individually or collectively impaired assets. Individually impaired items comprise: ☐ Individually significant items where the total exposure to a single client exceeds EUR 20 thousand for classification purposes; ☐ Financial assets that should be impaired individually based on the bank's judgement. If during the individual assessment of a financial asset an objective evidence 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 is measured collectively. Exposures not subject to individual impairment are classified into groups of exposures to debtors with comparable risks, which mostly involve the debtor's activity, geographical location and features of financing products.	During the performance of our audit procedures, we examined the structure and efficiency of key controls regarding impairment of loan portfolio: - control over client classification adequacy, - control over regular creation of individual impairments, - control over obtaining the latest valuations as the basis for determining the value of collateral. In line with the sampling methodology, we tested a sample of clients from the loan portfolio to assess whether impairment occurred for those clients and whether it was identified on time and in the right amounts. The adequacy of impairment methodology and policies was independently assessed for individually impaired exposures from the sample. We have prepared an independent assessment of impairment based on the information on individual clients and on the applied impairment methodology (expected discounted cash flows from operations or realisation of collateral). Where necessary, auditor's experts (certified appraisers) were engaged to assess the adequacy of provided collateral. During the procedures, we were focused also on any indicators of potential bias or errors on the side of management. For exposures subject to group impairment, we examined if the methodology used to assess credit losses for the discussed portfolio was adequate. We examined internal policies, methodologies and work instructions. We tested the sample to assess whether the bank exercises the group impairment policy consistently and whether appropriate parameters are used for individual transactions. The adequacy of level of group impairment was assessed based on the assumptions and comparable values (benchmarks) for PD parameters, cure rate and collateral hair cut. The benchmarks were obtained either from system parameters published by the Bank of Slovenia or from the reports of international credit rating agencies on historical default and loss rates by individual credit ratings, and were then evaluated accordingly.

Technical provisions	
Technical provisions are explained in Note 2.3.18 (accounting policies) and Note 2.4.11 (value and assumptions). The Group recognises the following technical provisions through its subsidiary SID PKZ d.d.: unearned premiums, provisions for claims outstanding, provisions for bonuses, provisions for unexpired risks. As an accounting estimate, provisions are subject to high level of judgement/assessment. Consequently, this accounting estimate is considered a key audit matter.	We obtained an understanding and tested key controls and management of the process of analysing economic and non-economic assumptions. We also assessed the design, implementation and functioning of key controls in determining assumptions, including experience analysis. Actuarial specialists were engaged to assess the actuarial assumptions, including the consideration and challenge of management's rationale for the judgements and any reliance placed on industry information. Our assessment includes reference to our independent benchmarking data which considers each of these principal areas.

Other Information

The other information comprises the Business Report, which is an integral part of the Annual Report, and disclosures Risk and Capital Management in line with Regulation (EU) No 575/2013, which are an Appendix to the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.
Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, the Supervisory Board and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With the Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

We also provide the Supervisory Board and the Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

Among the matters we communicate with the Supervisory Board and the Audit Committee, we select those matters that were of most significance in our audit of the consolidated financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified Auditor

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

For signature please refer to the original Slovenian version.

Ljubljana, 27 March 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

1 Financial statements of SID Bank and SID Bank Group

1.1 Statement of financial position

		SID Bank		SID Bank Group	
In EUR thousand	Note	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Cash, cash balances at central bank and demand deposits at banks	2.4.1	147,668	13,786	153,355	17,459
Available-for-sale financial assets	2.4.2	777,676	938,603	801,044	961,653
Derivatives hedge accounting	2.4.4	0	14,312	0	14,312
Loans and advances	2.4.3	1,608,458	2,212,014	1,614,591	2,218,645
Loans and advances to banks		996,368	1,606,153	1,002,502	1,612,787
Loans and advances to non-bank customers		610,563	605,465	610,563	605,465
Other financial assets		1,527	396	1,526	393
Non-current assets classified as held for sale		0	197	0	197
Property, plant and equipment	2.4.5	5,287	5,665	7,491	8,032
Intangible assets	2.4.5	805	737	1,292	1,333
Investments in subsidiaries, associates and joint ventures	2.4.6	8,413	8,413	0	0
Tax assets	2.4.7	31	4,861	31	4,861
Current tax assets		0	4,861	0	4,861
Deferred tax assets		31	0	31	0
Other assets	2.4.8	305	379	18,272	20,905
TOTAL ASSETS		**2,548,643**	**3,198,967**	**2,596,076**	**3,247,397**
Financial liabilities held for trading	2.4.9	312	0	312	0
Financial liabilities measured at amortised cost	2.4.10	2,134,711	2,799,577	2,135,441	2,800,189
Deposits from banks		31,740	14,913	31,740	14,913
Deposits from non-bank customers		30,000	6	30,000	6
Loans from banks and central banks		1,153,125	1,638,908	1,153,125	1,638,908
Loans from non-bank customers		457,427	420,532	457,427	420,532
Debt securities issued		460,652	723,527	460,652	723,527
Other financial liabilities		1,767	1,691	2,497	2,303
Provisions	2.4.11	15,546	34,921	38,957	60,672
Tax liabilities	2.4.7	4,105	120	4,568	253
Current tax liabilities		4,105	0	4,430	42
Deferred tax liabilities		0	120	138	211
Other liabilities	2.4.12	140	184	2,990	3,758
TOTAL LIABILITIES		2,154,814	2,834,802	2,182,268	2,864,872
Share capital		300,000	300,000	300,000	300,000
Share premium		1,139	1,139	1,139	1,139
Accumulated other comprehensive income		13,335	5,034	14,039	5,597
Profit reserves		70,531	54,329	83,188	71,319
Treasury shares		(1,324)	(1,324)	(1,324)	(1,324)
Retained earnings (including net profit for the year)		10,148	4,987	16,766	5,794
Equity attributable to owners of the parent		393,829	364,165	413,808	382,525
TOTAL EQUITY	2.4.13	393,829	364,165	413,808	382,525
TOTAL LIABILITIES AND EQUITY		**2,548,643**	**3,198,967**	**2,596,076**	**3,247,397**

Notes form a component part of the financial statements.

1.2 Income statement

		SID Bank		SID Bank Group	
In EUR thousand	Note	2016	2015	2016	2015
Interest income		37,501	53,641	37,829	54,003
Interest expenses		(13,660)	(31,395)	(13,663)	(31,395)
Net interest	2.5.1	23,841	22,246	24,166	22,608
Dividend income	2.5.12	27	0	27	0
Fee and commission income		1,921	3,097	1,921	3,097
Fee and commission expenses		(750)	(911)	(767)	(925)
Net fees and commissions	2.5.2	1,171	2,186	1,154	2,172
Realised gains from financial assets and liabilities not measured at fair value through profit or loss	2.5.3	6,183	2,807	6,183	2,834
Net profit/loss from financial assets and liabilities held for trading		(307)	3	(307)	3
Net gains from financial assets and liabilities designated at fair value through profit or loss	2.5.4	11,151	3,244	11,151	3,244
Change of fair value in hedge accounting	2.5.5	377	(70)	377	(70)
Net gains from foreign exchange differences	2.5.6	689	6	685	2
Other net operating profit	2.5.7	1,670	1,448	7,758	5,665
Administrative expenses	2.5.8	(11,018)	(10,227)	(15,288)	(14,084)
Depreciation and amortisation	2.5.9	(805)	(789)	(1,115)	(1,114)
Provisions	2.5.10	1,660	551	2,361	2,032
Impairments	2.5.11	(9,574)	(8,772)	(9,980)	(9,486)
Share of the profit of investments in subsidiaries, associates and joint vantures	2.5.12	88	35	0	0
Net profit from non-current assets classified as held for sale	2.4.6	164	0	164	0
Profit before tax from continuing operations		**25,317**	**12,668**	**27,336**	**13,806**
Income tax on continuing operations	2.5.13	(3,954)	(2,169)	(4,371)	(2,411)
Net profit for the financial year		**21,363**	**10,499**	**22,965**	**11,395**
Attributable to owners of the parent		21,363	10,499	22,965	11,395
Basic earnings per share in EUR	2.5.14	**6.88**	**3.38**	**7.40**	**3.67**
Diluted earnings per share in EUR		**6.88**	**3.38**	**7.40**	**3.67**

Notes form a component part of the financial statements.

1.3 Statement of comprehensive income

		SID Bank		SID Bank Group	
In EUR thousand	Note	2016	2015	2016	2015
Net profit for the financial year after tax		21,363	10,499	22,965	11,395
Other comprehensive income after tax		8,302	(1,610)	8,447	(1,537)
Items that will not be reclassified to profit or loss		0	0	(7)	3
Actuarial gains/losses on defined benefit pension plans		0	0	(10)	4
Income tax relating to items that will not be reclassified to profit or loss	2.4.7	0	0	3	(1)
Items that may be reclassified subsequently to profit or loss		8,302	(1,610)	8,454	(1,540)
Available-for-sale financial assets	2.4.2	10,399	(1,940)	10,604	(1,856)
Valuation gians taken to equity		16,629	821	16,835	932
Transferred to profit or loss		(6,230)	(2,761)	(6,231)	(2,788)
Income tax relating to items that may be subsequently reclassified to profit or loss	2.4.7	(2,097)	330	(2,150)	316
Total comprehensive income for the financial year after tax		**29,665**	**8,889**	**31,412**	**9,858**
Attributable to owners of the parent		29,665	8,889	31,412	9,858

Notes form a component part of the financial statements.

1.4 Statement of changes in equity

SID bank

2016 In EUR thousand	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the year)	Treasury shares	Total equity
OPENING BALANCE AS AT 1 Jan 2016	300,000	1,139	5,034	54,328	4,987	(1,324)	364,164
Net profit for the financial year	0	0	0	0	21,363	0	21,363
Other comprehensive income	0	0	8,301	0	0	0	8,301
Total comprehensive income for the financial year after tax	0	0	8,301	0	21,363	0	29,665
Allocation of net profit to profit reserves	0	0	0	16,203	(16,203)	0	0
CLOSING BALANCE AS AT 31 Dec 2016	**300,000**	**1,139**	**13,335**	**70,531**	**10,148**	**(1,324)**	**393,829**

Notes form a component part of the financial statements.

2015 In EUR thousand	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the year)	Treasury shares	Total equity
OPENING BALANCE AS AT 1 Jan 2015	300,000	1,139	6,644	46,658	2,158	(1,324)	355,275
Net profit for the financial year	0	0	0	0	10,499	0	10,499
Other comprehensive income	0	0	(1,610)	0	0	0	(1,610)
Total comprehensive income for the financial year after tax	0	0	(1,610)	0	10,499	0	8,889
Allocation of net profit to profit reserves	0	0	0	7,670	(7,670)	0	0
CLOSING BALANCE AS AT 31 Dec 2015	**300,000**	**1,139**	**5,034**	**54,328**	**4,987**	**(1,324)**	**364,164**

Notes form a component part of the financial statements.

SID Bank Group

2016 In EUR thousand	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the year)	Treasury shares	Equity attributable to owners of the parent	Total equity
OPENING BALANCE (before adjustment) AS AT 1 Jan 2016	300,000	1,139	5,597	71,319	5,794	(1,324)	382,525	382,525
Effects of accounting policy amendments*	0	0	0	(5,232)	5,102	0	(130)	(130)
OPENING BALANCE AS AT 1 Jan 2016	300,000	1,139	5,597	66,087	10,896	(1,324)	382,395	382,395
Net profit for the financial year	0	0	0	0	22,965	0	22,965	22,965
Other comprehensive income	0	0	8,447	0	0	0	8,447	8,447
Total comprehensive income for the financial year after tax	0	0	8,447	0	22,965	0	31,412	31,412
Allocation of net profit to profit reserves	0	0	0	17,100	(17,100)	0	0	0
Other	0	0	(5)	0	5	0	0	0
CLOSING BALANCE AS AT 31 Dec 2016	**300,000**	**1,139**	**14,039**	**83,187**	**16,766**	**(1,324)**	**413,807**	**413,807**

* adjustment due to the cancellation of equalisation provisions (ZZavar-1)

Notes form a component part of the financial statements.

2015 In EUR thousand	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the year)	Treasury shares	Equity attributable to owners of the parent	Total equity
OPENING BALANCE AS AT 1 Jan 2015	300,000	1,139	7,132	63,749	1,970	(1,324)	372,666	372,666
Net profit for the financial year	0	0	0	0	11,395	0	11,395	11,395
Other comprehensive income	0	0	(1,537)	0	0	0	(1,537)	(1,537)
Total comprehensive income for the financial year after tax	0	0	(1,537)	0	11,395	0	9,858	9,858
Allocation of net profit to profit reserves	0	0	0	7,570	(7,570)	0	0	0
Other	0	0	2	0	(2)	0	0	0
CLOSING BALANCE AS AT 31 Dec 2015	**300,000**	**1,139**	**5,597**	**71,319**	**5,794**	**(1,324)**	**382,525**	**382,525**

Notes form a component part of the financial statements.

1.5 Cash flow statement

		SID Bank		SID Bank Group	
In EUR thousand	Note	2016	2015	2016	2015
A. CASH FLOWS FROM OPERATING ACTIVITIES					
a) Net profit or loss before tax		25,317	12,668	27,336	13,806
Depreciation/amortisation	2.5.9	805	790	1,115	1,114
Impairments to available-for-sale financial assets	2.5.11	0	313	0	313
Impairments/(reversal of impairment) to loans	2.5.11	(2,676)	8,213	(2,676)	8,213
Impairments to property, plant and equipment, investment property, intangible assets and other assets	2.5.11	0	0	406	714
Impairments to equity investments in subsidiaries and associated and jointly controlled companies	2.5.11	12,250	245	12,250	245
Net (gains) from equity investments in subsidiaries and associated and jointly controlled companies	2.5.12	(88)	(35)	0	0
Net (gains) from foreign exchange differences		(689)	(6)	(685)	(2)
Other (gains)/losses from investment activity		(27)	0	(27)	0
Net unrealised gains from non-current assets held for sale and winding-up and related liabilities		(164)	0	(164)	0
Other adjustments of net profit or loss before tax		(1,725)	(484)	(2,433)	(1,960)
Cash flows from operating activities		33,003	21,704	35,122	22,443
b) Decreases in operating assets		793,908	380,746	794,024	381,520
Net (increase)/decrease in available-for-sale financial assets		169,670	(229,417)	169,504	(230,327)
Net loan decrease		607,095	601,274	605,222	597,018
Net decrease in hedging derivatives		16,708	9,045	16,708	9,045
Net (increase)/decrease in non-current assets classified as held for sale		361	(197)	361	(197)
Net decrease in other assets		74	41	2,229	5,981
c) (Decrease) in operating liabilities		(685,265)	(377,557)	(687,513)	(383,022)
Net increase in financial liabilities held for trading		1	0	1	0
Net (decrease in) deposits and loans hired measured at amortised cost		(402,638)	(175,572)	(402,520)	(175,558)
Net (decrease in) issued debt securities measured at amortised cost		(264,894)	(201,859)	(264,894)	(201,859)
Net (decrease in) other assets		(17,734)	(126)	(20,100)	(5,605)
d) Cash flows from operating activities (a+b+c)		141,646	24,893	141,633	20,941
e) (Paid)/refunded corporate income tax		4,861	(13,935)	4,644	(13,695)
f) Net cash flows from operating activities (d+e)		146,507	10,958	146,277	7,246
B. CASH FLOW FROM INVESTING ACTIVITIES					
a) Receipts from investing activities		115	35	27	0
Other receipts from investing activities	2.5.12	115	35	27	0
b) Cash disbursements for investing activities		(12,745)	(289)	(12,785)	(388)
(Cash disbursements to acquire property, plant and equipment and investment property)		(181)	(57)	(199)	(78)
(Cash disbursements to acquire intangible assets		(314)	(232)	(336)	(310)
(Cash disbursements to acquire equity investments in associated and jointly controlled companies and subsidiaries)		(12,250)	0	(12,250)	0
c) Net cash flows from investing activities (a-b)		(12,630)	(254)	(12,758)	(388)
D. Effects of exchange rate changes on cash and cash equivalents		5	31	5	31
E. Net increase in cash and cash equivalents (Af+Bc+Cb)		133,877	10,704	133,519	6,858
F. Cash and cash equivalents at the beginning of the period	2.4.1	13,786	3,051	19,831	12,942
G. Cash and cash equivalents at the end of the period (D+E+F)	2.4.1	147,668	13,786	153,355	19,831

Notes form a component part of the financial statements.

The Statement of cash flows of SID Bank and SID Bank Group has been compiled using the indirect method.

Net profit or loss before tax has been used as the basis for the compilation of cash flow of SID Bank and SID Bank Group.

Net cash flows from operating activities, which are calculated using the indirect method, are determined by adjusting net profit or loss before tax to the effects of changes in operating receivables and liabilities, the effects of non-cash items, such as depreciation and amortisation, provisions, impairments, fair value adjustments in hedge accounting, exchange rate differences and the effects of cash flow from investing activities. SID Bank and SID Bank Group include the effects of changes in the issued debt securities in net cash flows from operating activities.

Cash flows from investing activities are determined using the direct method and include dividends received under receipts from investing activities, while cash disbursements to acquire property, plant and equipment, investment property and intangible assets under cash disbursements for investing activities.

Cash flows from interest and dividends

	SID Bank		SID Bank Group	
In EUR thousand	2016	2015	2016	2015
Interest and dividend cash flows				
Interest received	70,919	70,240	71,458	70,738
Interest paid	(18,567)	(40,211)	(18,567)	(40,211)
Dividends received	115	35	27	0
Total	**52,467**	**30,064**	**52,918**	**30,527**

2 Notes to the financial statements

Items 1.1 to 1.5 of the financial report present the Statement of financial position as at 31 December 2016, Income statement for the 2016 financial year, Statement of comprehensive income for the 2016 financial year, Statement of changes in equity for the 2016 financial year and Cash flow statement for the 2016 financial year for SID Bank (separate accounts) and SID Bank Group (consolidated statements). Statements also include comparable data as at 31 December 2015 or for the 2015 financial year.

Where figures for the Bank and Group are identical, they are only disclosed once.

2.1 Basic information

SID Bank Group (hereinafter "SID Bank Group" or "Group") consists of SID – Slovenska izvozna in razvojna banka d. d., Ljubljana (hereinafter "SID Bank" or "Bank") as the parent company, subsidiary, joint ventures and associates. The Group is presented in detail in Note 2.4.6.

SID Bank Group provides banking services in accordance with the licenses granted by the Bank of Slovenia, transactions under the authority of the Republic of Slovenia, credit insurance and factoring. In banking transactions, the major part consists of granting loans to promote development, environmental and energy projects. A detailed description of transactions under the authority of the Republic of Slovenia is presented in Note 2.3.22.

SID Bank maintains its registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia.

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

2.2 Statement of compliance

The financial statements of SID Bank and SID Bank Group are compiled in line with the International Financial Reporting Standards and the corresponding notes as adopted by the European Union (hereinafter "IFRS"), also taking into account the Companies Act, the Banking Act and regulations of the Bank of Slovenia.

2.3 Significant accounting policies

Significant accounting policies that provide 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 separate and consolidated financial statements are indicated below.

Given their lack of material significance, the accounting policies relating to insurance contracts are not disclosed in detail.

The approved accounting policies were consistently applied in both reporting periods.

2.3.1 Bases for the compilation of financial statements

The financial statements of SID Bank and SID Bank Group have been compiled under the assumption of a going concern, based on historical cost, except for financial assets held for trading, derivatives, available-for-sale financial assets and the investment property measured at fair value.

The accounting policies may only be changed if the change:
- is mandatory under a standard or note or
- results in the provision of more reliable or relevant information in the financial statements.

2.3.2 Use of estimates, judgements and material uncertainty

The compilation of the financial statements pursuant to IFRS at SID Bank and SID Bank Group requires the use of estimates and judgements that affect the carrying amounts of the assets and liabilities reported, the disclosure of contingent assets and liabilities as at the reporting date, and the amount of revenue and expenses in the reporting period. Financial instruments are assigned to a category upon initial recognition with respect to the policy of SID Bank and SID Bank Group. Estimates and judgements were used for:
- impairments of loans and receivables, provisions for contingent liabilities and impairments of available-for-sale financial assets (notes in point 2.3.11 entitled Impairments of financial assets),
- estimate of the fair value of financial assets and liabilities (notes in point 2.3.11 entitled The principles used in the valuation at fair value),
- the valuation of derivatives (notes in point 2.3.12 Derivatives and hedge accounting),
- amortisation/depreciation period for property, plant and equipment and intangible assets (notes in point 2.3.14 Property, plant and equipment and intangible assets),
- potential tax items (notes in point 2.3.23 Taxes), and
- provisions for employee benefit payables (notes in point 2.3.24 Employee benefits).

Although the estimates used are based on the best knowledge of current developments and activities, the actual results may differ from the estimates. SID Bank and SID Bank Group regularly revise the estimates and assumptions used, and recognise their effects in the period of the revision.

2.3.3 Consolidation

Companies included in consolidation

The following are included in the consolidated financial statement:
- full consolidation method: parent company SID Bank and subsidiary SID – Prva kreditna zavarovalnica d.d., Ljubljana, and
- equity method: Prvi faktor Group (joint venture).

A subsidiary is a company that is directly or indirectly controlled by SID Bank.

The consolidation procedure using the full consolidation method excludes all receivables and liabilities between the companies within the Group and the revenues and expenses generated within SID Bank Group. There are no unrealised gains or losses arising from mutual transactions. There is no non-controlling share.

A joint venture is an undertaking jointly controlled by SID Bank Group based on a contractual agreement. A joint venture investment is disclosed in consolidated financial statements using the equity method. The pertaining profit or loss is recognised in consolidated income statement. The pertaining effects included in other comprehensive income of a joint venture are recognised in other comprehensive income. A joint venture investment is adjusted to the recognised effects. When the pertaining loss exceeds the investment value in the consolidated statement of financial position, the loss is no longer recognised, unless a liability derives from it that should be settled by SID Bank Group. The Group again recognises its share of the profit from a joint venture equity investment when the profit share reaches the amount of non-recognised loss.

Companies excluded from consolidation

Given the lack of material significance to a true and fair overview of the financial statements, SID Bank did not include the Centre for International Cooperation and Development (hereinafter "CMSR"), public institute, in consolidation. SID Bank is the co-founder of CMSR, in which it has no financial investment and holds 33% of voting rights.

An associates is an undertaking in which SID Bank holds, directly or indirectly, 20% or more voting rights and important influence, but does not control it.

The total assets of CMSR institute amount to less than 1% of SID Bank's total assets. Furthermore, the revenues of CMSR institute amount to less than 1% of SID Bank's revenues. On the basis of the mentioned indicators, CMSR institute is not of material significance to SID Bank Group, and is therefore excluded from consolidation. CMSR is also excluded from prudential consolidation pursuant to CRR Regulation.

Assessments for decision-making on control

The principles of management and assessment of the following factors are used as a basis for consolidation: purpose and form of the investee, significant activities and related decision-making, existence of investors' rights of influence over significant activities, exposure of an investor to variable returns and an investor's influence on return.

2.3.4 Functional and presentation currency

The financial statements of SID Bank and SID Bank Group are compiled in Euro (EUR) currency, which is the functional and presentation currency of SID Bank and SID Bank Group.

All amounts in the separate and consolidated financial statements and their notes are expressed in "euro thousands", unless stated otherwise.

2.3.5 Translation of transactions and items in foreign currency

Transactions in foreign currency are translated into the functional currency as at the transaction date. Exchange rate differences are recognised in the income statement as exchange rate gains or losses.

Items in assets and liabilities denominated in foreign currency are converted in the Bank and Group's financial statements using the European Central Bank reference exchange rate as applicable on the reporting date. Translation effects are disclosed in the income statement as exchange rate gains or losses.

Foreign exchange differences arising in the settlement of monetary items or in the translation of monetary items at exchange rates other than those at which they were translated upon initial recognition in the period or in previous financial statements are recognised in the income statement in the period in which they arise. They are disclosed under the item Exchange rate gains or losses.

Exchange differences from the principal and interest on debt instruments are recognised in the income statement, while exchange rate differences arising in valuation (the effect of a market price change in a foreign currency) to fair value are disclosed in other comprehensive income.

Exchange rate differences arising from non-monetary items, such as equities classed as available-for-sale financial assets, are recognised in the accumulated other comprehensive income together with the effect of valuation at fair value in other comprehensive income.

The translation of the financial statements of investees whose functional currency differs from the presentation currency is reflected in exchange rate differences from consolidation, which are disclosed in a separate equity adjustment and are not recognised in the income statement until the investment is disposed of.

2.3.6 Cash equivalents

Cash equivalents in the cash flow statement include cash, balance in the settlement account and bank accounts, deposits and loans to banks and available-for-sale securities with original maturity of no more than three months.

All cash equivalent items are short-term, highly liquid investments that are readily convertible to predetermined cash amounts.

2.3.7 Interest income and expenses

Interest income and expenses include income and expenses for interest on loans granted and received, interest on derivatives, interest on available-for-sale financial assets and other interest.

Interest income and expenses on loans granted and received and for other interest are recognised in the income statement in the relevant period using the effective interest rate method.

Accrued interest on impaired loans has been excluded from income by the Bank, and it will only be recognised if and when payment is effected.

Interest income from available-for-sale financial assets is calculated based on return to maturity as per the calculation of amortised cost using the effective interest rate method.

2.3.8 Commissions/fees receivable and payable

Fee and commission income primarily includes fees and commissions on loans and guarantees granted, while fee and commission expenses include fees and commissions on borrowings.

Fees and commissions are generally recognized in the income statement when a service is rendered.

2.3.9 Dividend income

Dividend income is recognised in the income statement when the right to disbursement is obtained.

Dividends from subsidiaries are included in SID Bank's statements under net gains/losses from equity investments in subsidiaries, associates and joint ventures. Other dividends are included in the statements of SID Bank and SID Bank Group under dividend income.

2.3.10 Other net operating gains/losses

Other net operating gains or losses disclosed in the income statement include revenues from non-banking services, revenues from insurance operations and expenses from insurance operations.

Revenues from non-banking services include revenues from credit rating assessment information, fees for the services rendered under authorisation and other services. These are recognised in the income statement when the service is rendered and the receivable recognised.

2.3.11 Financial instruments

Classification

Financial assets

The Group classifies financial assets upon initial recognition with regard to the purpose of acquisition, the time held in possession and the type of financial instrument into one of the following categories:

– loans and receivables are financial assets with fixed or determinable payments not traded on an active market;
– financial assets held to maturity are listed financial assets with fixed and determinable payments and fixed maturity that the Group intends and is able to hold to maturity;
– available-for-sale financial assets are assets not purchased for the purpose of trading. The item includes equity and debt securities. Debt securities are classified in this category for the purpose of being held indefinitely, having been purchased for the management of current liquidity;
– financial instruments measured at fair value through profit or loss, which are further broken down to financial assets held for trading, derivatives held for hedging and financial assets recognised at fair value through profit or loss. The Group classifies derivatives not used to hedge against risk as financial assets held for trading. Derivatives held for hedging include interest rate swaps and serve to hedge against interest rate risk that the Bank faces in its daily operations in financial markets.

Financial liabilities

Upon initial recognition, financial liabilities are classified with regard to the purpose of acquisition, the time held in possession and the type of financial instrument.

Financial liabilities measured at fair value through profit or loss are:

– financial liabilities held for trading, which include derivatives not held for hedging, in
– derivatives held for hedging, which include derivatives that meet the criteria for hedge accounting.

Net gains or losses based on changes in the fair value of financial liabilities are disclosed in the income statement.

All other financial liabilities are classified in the category of liabilities at amortised cost, which comprise liabilities from deposits and loans from banks, central banks and non-bank customers, issued debt securities and other financial liabilities.

Measurement, recognition and derecognition

Financial assets other than financial assets at fair value through profit or loss are initially measured at fair value plus transaction costs.

Financial assets at fair value through profit or loss are initially measured at fair value, while the transaction costs are recognised in the income statement.

Purchases and sales of financial assets other than loans and receivables are recognised as at the transaction date. Loans and receivables are recognised as at the settlement date.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Loans and receivables are disclosed in the amount of the outstanding principal plus outstanding interest and fees minus impairments.

Financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value.

Financial liabilities measured at amortised cost are recognised in the amount of the cash received minus directly attributable transaction costs.

After initial recognition, financial liabilities are measured at amortised cost, while the difference between the initially recognised amount and the amount upon maturity is recognised in the income statement using the effective interest rate method.

Financial liabilities measured at amortised cost which use interest rate swaps as hedges against interest risk are revalued at fair value for the purposes of hedging against risks.

Income from fees and commissions charged on loan approvals and expenses for fees and commissions on borrowings are allocated on a straight-line basis over the loan repayment term.

A financial asset is derecognised when the right to receive cash flows expires or when the financial asset has been transferred and the transfer meets the criteria for derecognition (the transfer of all risks and specific benefits deriving from the financial asset).

A financial liability is derecognised when the corresponding obligation has been discharged, cancelled or has expired. The difference between the carrying amount of a financial liability and the consideration paid is recognised in the income statement.

The principles used in valuation at fair value

The fair value of financial instruments recognised at fair value which are traded on an observed market is based on their quoted market price as at the measurement date. When prices for the same asset or liability can not be monitored on a market, fair value is measured using the valuation technique.

Fair value for financial instruments that are recognised and measured at amortised cost is determined using a model that calculates the net present value of cash flows using the interest rates applicable in new contracts for the same products.

Valuation methods and the assumptions used are also disclosed in Note 3.7, where the fair value hierarchy is also described and disclosed.

Gains and losses

Gains and losses deriving from changes in the fair value of financial instruments measured at fair value through profit or loss are recognised in profit or loss for the period in which they occur.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for impairment losses. On derecognition, cumulative gains and losses disclosed in equity are recognised in the income statement. Interest on available-for-sale debt securities, calculated using the effective interest rate method, is recognised directly in the income statement.

Impairments of financial assets

Loans and receivables

The Group regularly, or at least upon the close of each reporting period, checks whether there is objective evidence for any impairment of loans, other financial assets, and factoring receivables.

Loans and receivables are impaired if events have occurred that reduce expected future cash flows and the reduction can be reliably estimated. Objective evidence for impairments of financial assets includes relevant information relating to a client's financial difficulties, breaches of contract, such as failure to fulfil obligations or a breach in the payment of interest and principal, asset restructuring due to economic or legal reasons relating to a client's financial difficulties, the likelihood of a client's bankruptcy or financial reorganisation, and an adverse economic situation in the local environment.

Significant adverse developments occurring in the technological, market, economic or legal environment in which a debtor operates and indicating that the value of the financial assets given will not be recovered are also taken into account.

Assessment of credit risk losses is explained in detail in Chapter 3.1 Risk management.

Impairments and provisions for loans and guarantees

Financial assets deriving from loans and guarantees are broken down to individually or collectively impaired assets. Individually impaired items comprise:

– individually significant items where the total exposure to a single client exceeds EUR 20 thousand for classification purposes,
– financial assets that are assessed by the Bank as requiring individual impairment.

If there is objective evidence of impairment during an individual assessment of a financial asset, it is required to asses the recoverable amount of such financial asset. Impairment is measured for each individually significant financial asset. Impairment of financial assets that are not individually significant is measured collectively.

Total exposures not subject to individual impairment are classified into groups of exposures to debtors with comparable risk, which are mainly related with a debtor's activity, geographical location and characteristics of financing products.

The estimated losses for collective impairment are based on a three-year average of estimated losses from financial assets in the relevant group, which are adjusted to current economic conditions. The calculation of losses arising from a debtor's geographical location takes into account the risk of sovereign (both national or state guaranteed) debt, where premium rates for loan collateral for risk classes from 2 to 7 are taken into account according to the rate of minimum export insurance premiums (MEIP) as laid down in accordance with the OECD methodology. SID Bank formed a separate methodology for the calculation of collective impairments and provisions for special financing programmes of SID Bank with the status of state aid.

If there is objectve evidence of impairment, individual impairments and provisions are measured on the basis of an assessment of repayment from the debtor's operating cash flow and disposal of financially unviable assets and cash flow from the liquidation of collateral, where appropriate deductions are considered for each type of collateral. The assessment of repayment from the debtor's cash flow operations and disposal of financially unviable assets is calculated by taking into account different quantitative and qualitative indicators. Whether or not individual types of repayment are taken into account in the calculation of individual impairments and provisions depends on the identification of a debtor as a going or gone concern.

The calculation of the credit risk losses of an individually significant financial asset takes account of prime eligible collateral and other credit securities that fully meet the conditions laid down in Article 12 of the Decision on the assessment of credit risk losses of banks and savings banks.

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

Provisions for contingent liabilities are made using the same procedure as for loan impairments. When dormant loans or guarantees are drawn, the provisions formed are cancelled.

Impairment of factoring receivables

Impairments for financial assets arising from factoring transactions (factored receivables, receivables from reverse factoring; hereinafter "factoring receivables") are created whenever it is assessed that specific receivables cannot be redeemed in accordance with the contractual provisions and a loss is expected.

The amount of loss is the difference between the carrying amount of factoring receivables and its recoverable amount, which comprises expected future payments, including repayments from guarantees and collateral, discounted at the interest rate applicable when the loan was raised.

Factoring receivables are impaired individually if they are individually significant items with evidence of impairment of such assets, while other factoring receivables are impaired collectively. If no evidence of impairment is found in individually assessed factoring receivables, they are included in a group of factoring receivables with similar credit risk characteristics and impaired collectively.

Evidence of impairment includes major financial difficulties of a debtor, breach of contractual obligations by a debtor, restructuring of financial assets due to financial difficulties of a debtor, probability or the existence of bankruptcy or financial reorganization of a debtor, adverse changes to debt settlement and aggravated economic conditions affecting the settlement of financial assets.

Adjustment or impairment is to be assessed for each receivable that is individually relevant based on an individual assessment of its recoverability.

Restructured loans

Restructured loans are loans incurred as a result of a debtor's inability to repay a debt under the originally agreed terms, with modified terms and conditions of the original contract or a new contract in which the contracting parties agree to a partial or full repayment of the original debt.

The Bank assesses financial difficulties or debt repayment ability in loan restructuring at the level of the debtor. A debtor is deemed to include all related parties within a group that are subject to accounting consolidation. The Bank assesses debt repayment ability of a debtor primarily by considering the restructuring impact on operating cash flow adequacy or the possibility of controlling those companies within a group that is able to generate cash flow from operating activities, in addition to considering the possibility of seizing other assets or being repaid credit collateral.

The Bank restructures loans to a debtor by carrying out one or more activities that would otherwise not be considered upon a normal economic and financial position of a debtor. Possible activities or types that may occur individually or in combination are laid down by a statutory instrument as issued by the Bank of Slovenia, i.e.:

(a) deadline extension or grace period for the repayment of receivables,
(b) decrease in interest rate and/or other costs,
(c) decrease in receivables as a result of a contractually agreed debt remission and/or equity restructuring,
(d) debt-to-equity swap,
(e) seizure of other assets (including the liquidation of loan collateral) for partial or full repayment of receivables,
(f) other activities.

All differences arising from restructuring are recognised in the income statement.

The Bank documents all decisions made in relation to the restructuring of loans exceeding EUR 100,000 with a suitable analysis of alternative solutions with economic effects (from drawing collateral, selling a financial asset, terminating a contract and any other activities).

The Bank keeps an analytical record of restructured loans in its books of account, including data on the restructuring method (with an annex or a new contract), types of restructuring, dates of restructuring and effects on the change of loan value, including effects from write-downs or derecognition from the statement of financial position, change of loss probability, change of a debtor's credit rating score and any change of the return on restructured loans.

Available-for-sale financial assets

Equity instruments are impaired if there is objective evidence of impairment as a result of a loss event or events occurring after initial recognition. Objective evidence of impairment is assumed to have arisen when the fair value falls under the original cost for a prolonged period. When impairment assessment criteria has not been met, but the Bank's credit committee believes that there is sufficient information indicating solid and objective evidence of the impairment of equity instruments, impairment is made under the individual assessment of the relevant financial asset.

Individual assessment of the application of impairment on the basis of solid and objective evidence also applies to debt instruments.

Objective evidence of impairment includes non-payment of interest or principal, major financial difficulties on the part of the issuer, the likelihood of the issuer's bankruptcy or financial reorganisation, the disappearance of an active market as a result of financial difficulties, and other significant information indicating that there is a measurable reduction in estimated future cash flows, including the economic situation in the issuer's country or local environment.

Impairment losses that are recognised in the income statement for equity instruments may not be reversed through profit or loss.

If the fair value of a debt instrument increases in a subsequent period and the increase can be objectively connected to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed and the amount of the reversal is recognised in the income statement.

2.3.12 Financial derivatives and hedge accounting

Financial derivatives are broken down to derivatives held for trading and derivatives held for hedging. They are recognised in the statement of financial position as an asset in case of positive fair value or as a liability if its fair value is negative.

Derivatives held for trading include financial derivatives, such as futures and options that serve to hedge against foreign exchange risk, which the Bank faces in its daily operations on financial markets.

Financial derivatives held for trading are initially recognised at fair value in the statement of financial position. After initial recognition, they are valued at fair value, taking into account market prices, through profit or loss.

Financial derivatives held for hedging include derivatives that meet the conditions for hedge accounting.

Hedge accounting implies keeping accounts of a hedging relationship between the hedging instrument (usually a derivative) and the hedged item (usually an asset or liability, or a group of assets or group of liabilities with similar risk attributes) for the purpose of mutually neutralising the effects of measuring the two instruments in the income statement, which would otherwise not be recognised in profit or loss at the same time. In so doing, the hedging relationship should be formally noted and appropriately documented.

At the inception of a hedge, the Bank must compile a formal document describing the relationship between the hedged item and the hedging instrument, the risk management objective, the valuation methodology and the hedging strategy. It must also document the assessment of the effectiveness of hedging instruments when faced with exposure to changes in the fair value of the hedged item.

These criteria must be met to qualify hedge relations as appropriate. The Bank assesses the effectiveness of the hedge when the transaction is concluded and throughout the life of the hedging relationship, whereby the effectiveness should always range between 80 and 125%. Hedge accounting discontinues if the hedging instrument expires or is sold, or when the hedge no longer satisfies the aforementioned criteria for hedge accounting.

Changes in the fair value of derivatives used as fair value hedges are recognised in the income statement together with the change in the fair value of the hedged item that can be attributed to the hedge. When hedging is effective, changes in the fair value of hedging instruments and therewith related hedged items are disclosed in the income statement under the item of changes of fair value in hedge accounting.

2.3.13 Non-current assets classified as held for sale

Non-current assets classified as held for sale include those assets whose carrying amount will be settled through sale rather than through continued use. This prerequisite is met only in case of a highly probable sale and for an asset that is available for sale in its present condition. A non-current asset is reallocated to the said group in case there exists an intention by the owner in written form postulating that the asset will be sold and enclosing the timeline of sales procedures. The sale must be carried out within one year from the date of asset classification.

Non-current assets classified as held for sale are disclosed at carrying value before classification or at fair value less selling costs, whichever is lower. The effects of sales are disclosed in the income statement under net gains/losses from non-current assets classified as held for sale and related liabilities.

2.3.14 Property, plant and equipment and intangible assets

Property, plant and equipment

Property, plant and equipment comprises real estate, equipment, and small items.

Property, plant and equipment are valued at original cost upon initial recognition. The original cost comprises the purchase price, import duties and non-refundable purchase taxes, as well as the costs that can be directly attributed to making the asset fit for its intended use. Subsequently incurred costs in connection with with an item of property, plant and equipment are disclosed as cost in the income statement. Investment in the existing property, plant and equipment which increase the future economic benefits increase the value of these assets.

After initial recognition a cost model is applied, which means that an item of property, plant or equipment is disclosed at its original cost, reduced by any accumulated depreciation and any accumulated impairment losses.

Land and buildings are treated separately, even if acquired together.

Property, plant and equipment become subject to depreciation when the asset is available for use. Amortisation is calculated on a straight-line basis. The following depreciation rates are applied in 2016 and 2015:

	SID Bank and SID Bank Group (%)
Buildings and parts of buildings	2 – 5
Computer Equipment	25 – 50
Cars	12.5 – 20
Furniture	11 – 20
Other equipment	20 – 25
Small inventory	20 – 100

Property, plant and equipment are impaired when their carrying amount exceeds the recoverable amount. The impairment loss is recognised as an expense in the statement of profit or loss. At the end of each financial year, on the reporting date, it is assessed whether there are any indications of impairment. If

such indications exist, the recoverable amount of the asset is estimated according to whichever is larger:
– the fair value less cost to sell, or
– the value in use.

The carrying amount of an individual item of property, plant and equipment is derecognised upon its disposal if future economic benefits are no longer expected from its use or disposal.

Intangible assets with a definite useful life

This item includes investments in software and other property rights. In 2016 and 2015, 20% to 25% amortisation rates are used for software and 12% to 20% for other property rights. Amortisation is calculated on a straight-line basis.

Intangible assets with definite useful life are impaired when their carrying amount exceeds the recoverable amount. The impairment loss is recognised as an expense in the statement of profit or loss. At the end of each financial year, on the reporting date, it is assessed whether there are any indications of impairment of intangible assets. If such indications exist, the recoverable amount of the asset is estimated according to whichever is larger:
– the fair value less cost to sell, or
– the value in use.

After initial recognition, intangible assets with definite useful life are disclosed using the cost model at the original cost less the accumulated amortisation and any accumulated impairment losses.

Amortisation ceases either on the day when the asset is classified as available-for-sale, or on the day when it is derecognised, whichever is earlier.

Goodwill

Goodwill arises in the acquisition of investments in subsidiaries when the original cost exceeds the fair value.

The Group examines annually whether there exist grounds for the impairment of goodwill. Should the recoverable amount be lower than the carrying amount, impairment is recognised. The recoverable amount is taken into account as the value in use.

2.3.15 Investment property

Investment property is real estate that the Group does not use directly in the pursuit of its activities but instead holds for the purpose of renting in an operating lease.

Investment property is measured at fair value, which is determined by a certified appraiser. The fair value is based on current market prices.

Any gain or loss arising on remeasurement to fair value is recognised by the Group in profit or loss in the period in which it occurs.

2.3.16 Investments in subsidiaries and joint ventures

Interests in subsidiaries and joint ventures are recognised in separate financial statements using the cost method, and dividends are recognised in the statement of profit or loss when the right to receive the dividend arises.

When there is evidence of the need for the impairment of an interest in a subsidiary or joint venture, the Bank assesses the recoverable amount for each investment separately. In the case of interests in subsidiaries where there was no goodwill at acquisition, indications of impairment are judged at the reporting date, and where such indications exist an impairment test is conducted. In the case of an interest in a joint venture, impairment testing is conducted on the basis of a test of impairment of goodwill for a cash generating unit that includes goodwill. In the consolidated financial statements a test of impairment of goodwill is conducted for cash generating units on each reporting date.

Impairment tests are made in accordance with the commercial expectations of the individual interest. The basis for the test is the valuation of the interest. The input data for valuation comprises commercial expectations supported by the individual investee's business plan and the impact that SID Bank has on the individual investee's performance. The valuation model is based on the measurement of discounted cash flows. The discount factor is calculated in accordance with the risks to which the individual interest is exposed.

2.3.17 Other assets

Other assets include receivables from insurance contracts, prepayments, tax assets and advances.

Other assets are recognised in the amounts arising from the relevant documents under the assumption that they will be repaid. The fair, i.e. recoverable, amount is checked on the balance sheet date for other assets used according to different methods. If there is objective evidence of an impairment of other assets carried at amortized cost, the amount of the impairment loss is disclosed under impairment in connection to other assets; the carrying amount of other assets is decreased in a separate allowance account.

2.3.18 Provisions for liabilities and costs

Provisions are created for potential loss in connection with risks deriving from off-balance-sheet liabilities (approved but unused loans and credit lines, guarantees), for retirement and jubilee benefits, and for liabilities from insurance contracts.

Provisions for liabilities and costs are recognised when there is a present commitment (legal or constructive) as a result of a past event, and it is likely that in the settlement of the commitment there will be an outflow of resources yielding economic benefits and that a reliable estimate can be made of the commitment. The disposal of provisions occurs when excessive provisions are identified or when the potential losses related to risk are decreased.

SID Bank recognises provisions for off-balance-sheet liabilities on the basis of the risk level of the client and the transaction that are based on assessments similar to the assessments for loan impairments. They are calculated under the procedures stated in point 2.3.11 under the title Impairments of financial assets.

Provisions for liabilities from insurance contracts arise from credit insurance held by the subsidiary PKZ The insurance technical provisions consist of unearned premium, provisions for outstanding claims, and provisions for bonuses and rebates. Provisions for unearned premiums represent the unearned portion of the charged premium. They are calculated for each invoice separately (i.e. the invoice issued by the insurance policy-holder to its buyer). The unearned premium calculation takes into account the estimated probability distribution of the occurrence of loss event over time. Provisions for outstanding claims are formed in the amount of estimated liabilities which the insurance company is obliged to pay on the basis of insurance contracts where the insurance case occurred by the end of the accounting period, namely irrespective of whether the insurance case has already been entered or not, including all the costs that were charged to the insurance company on the basis of such contracts. Provisions for bonuses are formed for those insurance contracts which include an article on the reimbursement of a part of the premiums. They are calculated by individual insurance contracts according to the premium earned in the contract year and in relation to the estimated loss result according to the insurance contract up to the reporting date.

2.3.19 Other liabilities

Other liabilities include liabilities from insurance contracts, accruals and deferred income, tax liabilities and advances received.

2.3.20 Equity

Equity consists of share capital, the share premium account, profit reserves, the revaluation surplus in connection with financial assets, the equity adjustment (treasury shares) and net profit for the financial year.

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

The share premium account may be used in accordance with the law to cover losses and to increase capital.

Profit reserves are recognised when created by the body that compiles the annual report or via a resolution by the competent body, and they are used in accordance with the articles of association and with law. Reserves under articles of association may be used to cover net loss for the financial year, to cover losses brought forward from previous years, to increase the share capital, to create reserves for treasury shares and for the rehabilitation of major losses arising from the operations or exceptional events. Other profit reserves are earmarked for strengthening capital adequacy.

Accumulated other comprehensive income includes revaluations in connection with available-for-sale financial assets.

Acquisition of treasury shares is disclosed in the amount of the paid purchase price debited against share capital.

2.3.21 Contingent liabilities and financial liabilities

Assumed financial liabilities disclose financial and service guarantees, undrawn approved loans and credit lines.

Contingent liabilities for guarantees comprise an irrevocable commitment for when a client fails to meet its liabilities to third parties.

The risks related to contingent liabilities and assumed financial liabilities are assessed on the basis of current accounting policies and internal regulations concerning risk management, as described in item 2.3.11 Impairment of financial assets. Any increase in liabilities dependent on risks is reflected in the item Provisions.

2.3.22 Operations on behalf of and for the account of the Republic of Slovenia

The insurance operations that SID Bank provides on behalf of and for the account of the Republic of Slovenia are disclosed in separate items, as determined by the Bank of Slovenia for the administration of transactions under authorisation. The assets and liabilities relating to these transactions are not included in the Bank's statement of financial position. Notes on the operations under authorisation of the Republic of Slovenia can be found under item 8.2.3 of Business report.

2.3.23 Taxes

Accounting of corporate income tax is performed by the investees in SID Bank Group in accordance with local legislation.

Accounting of deferred taxes are done using the statement of financial position liability method for all temporary differences arising between the tax values of assets and liabilities with their carrying amounts. Deferred taxes are calculated using the tax rates that were either applicable as at the reporting date, are expected to apply when the deferred tax asset is realised or when the deferred tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences, if it is likely that available taxable profit will arise against which it will be possible to apply deductible temporary differences.

Deferred taxes in connection with the measurement of financial instruments available for sale at fair value are disclosed directly in other comprehensive income.

2.3.24 Employee benefits

Employee benefits include current and non-current employee benefits.

Obligations for current employee benefits are recognised as non-discounted amount and are disclosed under expenses when the work of employees in relation to short-term benefits has been performed.

Non-current employment benefits include provisions for retirement and jubilee benefits.

Legislation stipulates that employees generally retire after 40 years of service, and are then entitled to a lump sum payment on retirement provided that the stipulated conditions are met. Employees are also entitled to jubilee or other long-service benefits in accordance with the collective agreements of individual investees in the Group. The aforementioned commitments and all corresponding gains or losses are included in the statement of profit or loss, except for actuarial gains and losses arising from severance payments, which are recognised in the statement of comprehensive income.

The requisite provisions on this basis are calculated in the amount of the present value of future expenses, specific assumptions being taken into account. The major assumptions are: a discount factor of 40% of the weighted average interest rate on government securities published by the Ministry of Finance for the purposes of pension insurance, the headcount on the final day of the year, and average wage of Employment employees in the final quarter. Provisions of this type are calculated every year; in the Prvi Faktor Group alone they are calculated for a three-year period.

2.3.25 Calculation of earnings per share

Earning per share are calculated as the ratio of net profit disclosed in the Bank's statement of profit or loss to the number of shares comprising the share capital of the bank. Own shares held in treasury are not included in the calculation.

2.3.26 Segment reporting

Allocation and disclosure by operating segment is carried out on the basis of the attributes of individual business activities of SID Bank Group. Under IFRS 8, the operating segments of SID Bank Group are banking, credit and investment insurance and factoring.

Banking represents a single operating segment, as the operations at the Bank do not vary significantly in terms of risk or return.

2.3.27 New standards and interpretations in the reporting period and issued/ approved standards and interpretations not yet effective and applied

The initial application of the new amendments to existing standards and interpretations are applicable from 1 January 2016 and which were issued by the International Accounting Standards Board (IASB) and adopted by the EU:

- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations that was adopted by the EU on 24 November 2015, effective for annual periods beginning on or after 1 January 2016;
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income that was adopted by the EU on 18 December 2015, effective for annual periods beginning on or after 1 January 2016;
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation, adopted by the EU on 2 December 2015, effective for annual periods beginning on or after 1 January 2016;
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants, adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 19 "Employee benefits" – Defined Benefit Plans: Employee Contributions adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements, effective for annual periods beginning on or after 1 January 2016;
- Annual Improvements to IFRSs 2010–2012 Cycle comprising of the amendments and interpretations of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) thereby eliminating inconsistencies and ambiguous interpretations (amendments shall apply for annual periods beginning on or after 1 February 2015);
- Amendments to different standards such as "Improvements to IFRS – 2012–2014 Cycle)" resulting from the annual improvements project of the IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) mainly for the purpose of eliminating inconsistencies and interpretation of the text which the EU adopted as at 15 December and shall apply for annual periods beginning on or after 1 January 2016.

Adoption of these amendments of the existing standards and notes did not have any material impact on the bank's financial statements.

At the date of the approval of these financial statements, the following new standards and amendments of the existing ones issued by the IFRS and adopted by the EU were already issued:

- IFRS 9 "Financial Instruments" adopted by the EU as of 22 November 2016 shall apply for annual periods beginning on or after 1 January 2018.

  The International Financial Reporting Standard 9 (hereinafter "IFRS 9") is a new accounting standard issued by the International Accounting Standards Board (IASB) in July 2014 replacing the standard

IAS 39. With the Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, the European Commission adopted IFRS 9 which shall apply as at 1 January 2018.

Activities of SID Bank in the field of implementation of IFRS 9

In 2016, SID Bank set up an IFRS 9 task force consisting of staff from the Accounting Department, Risk Management Department, Product Development, Research and Strategy Department, Back Office and Payment Department, Technology Department, IT Department and Distressed Investment Department and, where appropriate, staff from other departments. The task force leader is the Executive Director of support operations. The work of the task force shall be conducted in accordance with the action plan for the introduction of IFRS 9, which defines the holders of individual activities, participants and deadlines for the implementation of individual activities. The Management Board, the Audit Committee and the Supervisory Board are regularly informed of the progress of activities in the field of introduction of IFRS 9 and are, where necessary, involved in individual activities.

In the second half of the year 2016, the gap analysis and the impact analysis of the introduction of IFRS 9 on SID Bank and SID Bank Group were conducted by an external consultant. The gap analysis with proposals of possible solutions was performed for the following segments: classification and measurement of financial assets, impairments and provisions, hedge accounting, processes/procedures in the field of classification and measurement of financial assets, calculation of impairments, provisions and hedge accounting, accounting schemes and chart of accounts as well as disclosures. In accordance with the request of the Bank of Slovenia, the banks had to prepare the analysis of effects the transition to the new standard would have on financial statements and capital adequacy by the end of September 2016 according to the balance sheet data as of 31 December 2015. SID Bank prepared the analysis of effects in cooperation with an external consultant. The analysis of effects of the introduction of IFRS 9 has shown a different impact on the change in the amount of impairments and provisions for individual segments of the credit portfolio. The greatest impact on the increase in impairment and provisions was estimated on the portfolio of exposures to banks, namely from the title on classification of exposure to Group 2 and consequently the calculation of lifetime expected credit losses. However, it has been assessed for the portfolio of exposure to companies that impairments and provisions decreased, mainly from the title on loan funds (products including elements of state aid), where the change in the methodology used to calculate impairments and provisions will have a significant impact. Exposure of SID Bank from the title on loan funds are classified under balance sheet items of SID Bank. Regardless of the aforementioned, the operating results of loan funds shall be determined separately and a possible negative outcome of loan funds shall be covered from with the invested funds of the Ministry of Economic Development and Technology as a reduction of liabilities to the said Ministry. The subsequent positive result from this title is also initially attributed to an increase in liabilities to the Ministry of Economic Development and Technology such that the previously reduced liability from the title on negative results of the loan fund is again increased. This means, consequently, that the release of impairments and provisions from the title on exposures to loan funds has a neutral effect on the profit or loss of SID Bank. A significant impact on the level of impairments and provisions was also assessed from the title on debt securities for which, in accordance with the new standard, it is necessary to calculate the expected credit losses in the event that the said financial assets are not measured at fair value through profit or loss. The overall result analyses of the effects of the capital adequacy of SID Bank, but not in a significant manner, which means that capital adequacy of SID Bank still remains at a high level.

Main innovations of IFRS 9

IFRS 9 consists of the following three substantive sections: classification and measurement, impairment and hedge accounting.

1. Classification and measurement

In terms of the classification and measurement the new standard requires that all financial assets, with the exception of capital instruments and derivative financial instruments, need to be assessed on the basis of a business model for managing the assets and features of the contractual cash flows.
It is possible to measure financial assets at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). The possibility of an irrevocable selection of measurement for equity instruments is available at fair value through other comprehensive income (FVOCI) without subsequent redistribution of profit or losses in the profit and loss statement.

Accounting for financial liabilities is largely equivalent to IAS 39, except for those financial liabilities recognised at fair value through the profit and loss statement, where it is necessary to recognise change in fair value, which refers to the change of own credit risk, in other comprehensive income. Such trends will be presented in the second comprehensive income without any subsequent re-classifications into the profit and loss statement, unless this increases the accounting mismatch.

2. Impairment

Most of the changes that the new standard brings in the field of forming impairments and provisions exist where the incurred loss model is expected to be replaced with an expected loss model. In addition to historical data on enforceability, it will be necessary to integrate the macroeconomic forecasts and other internal and external factors that indicate the debtor's solvency in the future with the model of expected credit losses.

IFRS 9 stipulates that for the purpose of assessing the credit losses of financial assets measured at amortised cost, the Bank should classify the financial assets measured at fair value through other comprehensive income, receivables from leases and off-balance sheet exposures from assumed credit liabilities and financial guarantee contracts for which requirements related to impairments are used according to the balance as of the date on which the bank is reporting, in one of the following groups:

- Group 1: the financial assets where the credit risk from the beginning of recognition has not increased significantly and for which the value adjustments or provisions for credit losses are measured on the basis of expected credit losses in the 12-month period;
- Group 2: the financial assets where the credit risk, in the period from the beginning of recognition until the date as of which the bank is reporting, has significantly increased and for which the value adjustments or provisions for credit losses are measured on the basis of expected credit losses over the entire duration of the financial asset;
- Group 3: financial assets in the default position.
  Those financial assets which the bank, for the purpose of internal credit risk management, defined as default exposures are classified under Group 3, including exposures which are classified as default exposures already upon initial recognition, i.e. purchased or originated as credit-impaired financial assets.

In the event that the financial asset is not defined as having default exposure already upon initial recognition, i.e. purchased or originated as credit-impaired financial assets, it shall be considered among the ones the bank upon initial recognition classifies under Group 1. Upon subsequent measurement, the bank assesses whether the credit risk of the financial asset in the period from initial recognition to the date as of which the bank is reporting has increased significantly or not. If the credit risk has not increased significantly or in case it is a financial asset with low credit risk, the latter remains classified under Group 1. If the credit risk increased significantly and the financial asset has not been yet been defined as default exposure, the bank classifies the financial asset under Group 2.

Significant increase in credit risk

When assessing significant increase in credit risk of a financial asset, the bank shall compare the risk of default on the financial asset as of the date for which it reports with the risk of default on the financial asset on the date of initial recognition, whereby the bank must consider all the comparable and provable information, including future-oriented information which is available without undue cost and effort and is relevant for the financial asset which is being assessed and which may indicate a significant increase in the credit risk from the initial recognition of the financial asset. Regardless of the manner in which the bank assesses a significant increase of credit risk, there exists a disputable assumption that the credit risk of the financial asset increased significantly since the initial recognition in the case of contractual payment delays of more than 30 days. If the Bank assesses that the credit risk of the financial asset has increased significantly prior to the delay of contractual provision performance of more than 30 days, the disputable assumption shall not apply. The bank may assume that the credit risk related to the financial asset has not significantly increased since the initial recognition if concluded that as of the date of reporting the financial asset in question had low credit risk. To assess a significant increase in credit risk, the banks will have to form appropriate methodologies which will be based on clearly defined quantitative and qualitative criteria and have been set in advance.

Measurement of the expected credit losses

The bank shall measure the expected credit losses of the financial asset in a manner which considers the following:

– impartial and with a probability weighted amount which is determined by evaluating a range of possible outcomes;
– the time value of money, and
– appropriate and provable information about past events, current conditions and forecasts regarding future economic circumstances which are without any undue cost and effort available as of the date of reporting.

When measuring the expected credit losses, it will not be necessary to define all the possible scenarios; however, it will be necessary to consider the risk or probability that a credit loss might arise, namely by considering the possibility that a credit loss will occur and the possibility that a credit loss will not occur, even though the likelihood of credit loss may be small.

One of the three key principles of the expected credit loss model is integration of macroeconomic factors, including the future-oriented forecasts about economic circumstances. The forecast trend of the macroeconomic environment will have to be consistently incorporated into the expected credit loss model. The use of future-oriented information will therefore enable unbiased assessments of the expected credit loss amounts and prevention of delays in recognition of expected credit losses. Neither IFRS 9 nor the Basel Committee prescribe a comprehensive list of macroeconomic factors which should be considered in the expected credit loss model or specific methods on how they should be considered. An expert assessment is expected which will be based on a reasonable and justified basis. Any used assumptions will have to be internally documented in detail and disclosed to the users of financial statements. The bank will have to collect and store macroeconomic data including forecasts originating from various sources and ensure the consistent use of future-oriented information within the bank (planning, pricing policy, etc.).

To meet the above mentioned conditions, the banks will have to form models for calculation of expected credit losses which include modelling lifetime Probability of Defaults (PDs), lifetime Loss Given Defaults (LGDs), Credit Conversion Factors (CCF) and Exposure at Default (EADs).

3. Hedge accounting

A new feature in hedge accounting is the abolition of the measurement of safeguard effectiveness, time value of options and forward points, and the establishment of common exposure of collateralised items, the possibility of safeguarding separate risk components, and the prohibition of voluntary termination of security relationships.

The appropriate instruments in hedge accounting are the following:

- derivative financial instruments, measured at fair value through profit or loss statement;
- non-derivative financial assets or financial liabilities, measured at fair value through profit or loss statement, and
- contracts concluded with clients outside the Group or Bank.

At the date of the approval of these financial statements, the following new standards and amendments to the existing ones issued by the IFRS and adopted by the EU (see continuation) were already issued but are not yet effective:

- IFRS 15 – "Revenue from Contracts with Customers" adopted by the EU as of 22 September 2016, is effective for annual periods beginning on or after 1 January 2018.

Standards and interpretations adopted by the EU but not yet effective or applied by the Group:

- IFRS 14 – "Regulatory Deferral Accounts" is effective for annual periods beginning on or after 1 January 2016;
- IFRS 15 – "Revenue from Contracts with Customers" and subsequent amendments are effective for annual periods beginning on or after 1 January 2018;
- IFRS 16 – "Leases" shall apply for annual periods beginning on or after 1 January 2019;
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and any subsequent amendments (whose date of entry into force was delayed for an indefinite period pending the completion of the research project in relation to the equity method);
- Amendments to IFRS 2 "Share-based Payment" shall apply for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 4 "Insurance Contracts" shall apply for annual periods beginning on or after 1 January 2018 or with the first application of IFRS 9 "Financial Instruments";
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative shall apply for annual periods beginning on or after 1 January, 2017;
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets shall apply for annual periods beginning on or after 1 January 2017;
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property shall apply for annual periods beginning on or after 1 January 2018;
- Amendments to different standards such as "Improvements to IFRS (2014–2016 period cycles)" resulting from the annual improvements project of the IFRS (IFRS 1, IFRS 12 and IFRS 28) mainly for the purpose of eliminating inconsistencies and interpretation of the text (IFRS 12 for annual periods beginning on or after 1 January 2017); however, amendments to IFRS 1 and IAS 28 shall apply for annual periods beginning on or after 1 January 2018;
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" shall apply for annual periods beginning on or after 1 January 2018.

The Group anticipates that the introduction of these new standards and amendments to the existing standards will not have a significant impact on the financial statements at the time of first adoption. The Group decided not to apply any standards before the date of mandatory application.

2.4 Notes to the statement of financial position

2.4.1 Cash

Cash, cash balances at central bank and demand deposits with banks

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Settlement account	145,393	13,224	145,393	13,224
Demand deposits at banks	2,275	562	7,962	4,235
Total	**147,668**	**13,786**	**153,355**	**17,459**

Cash equivalents

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Bank deposits	0	0	0	2,372
Cash and balances on settlement account	145,393	13,224	145,393	13,224
Demand deposits at banks	2,275	562	7,962	4,235
Total	**147,668**	**13,786**	**153,355**	**19,831**

The increase in cash equivalents of SID Bank from EUR 13,786 thousand at the end of 2015 to EUR 147,668 thousand as at 31 December 2016 is reflected in the cash flow statement.

2.4.2 Available-for-sale financial assets

Breakdown by type of available-for-sale financial asset

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Bonds	699,196	779,681	722,563	802,731
Governments	508,475	569,457	521,755	584,326
Republic of Slovenia	295,565	342,335	304,255	351,167
Other countries	212,910	227,122	217,500	233,159
Banks	113,523	146,368	117,852	149,889
Non-financial institutions	62,105	45,602	63,675	46,588
Financial organizations	15,093	18,254	19,281	21,929
Treasury bills	56,242	147,291	56,242	147,291
Certificates of deposit	10,002	3,015	10,002	3,015
Shares and participating interests at fair value	12,236	8,616	12,236	8,616
Total	**777,676**	**938,603**	**801,043**	**961,653**
Quoted	742,400	900,030	765,767	923,080
Unquoted	35,276	38,573	35,276	38,573
Total	**777,676**	**938,603**	**801,043**	**961,653**

Change in available-for-sale financial assets

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Balance as at 1 Jan	938,604	710,983	961,653	733,053
Recognition of new financial assets	314,129	653,453	317,001	660,023
Accrued interest	8,006	7,717	8,313	8,047
Interest paid	(28,225)	(19,351)	(28,745)	(19,827)
Net revaluation through equity	10,398	(1,940)	10,604	(1,856)
Net exchange differences	429	121	429	121
Derecognition of financial assets	(465,665)	(412,065)	(468,210)	(417,594)
Impairment through profit or loss	0	(314)	0	(314)
Balance as at 31 Dec	**777,676**	**938,604**	**801,044**	**961,653**

2.4.3 Loans and advances

Loans and advances to banks

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Loans	810,914	997,523	810,914	997,523
Deposits	192,786	615,106	198,920	621,740
Gross exposure	1,003,700	1,612,629	1,009,834	1,619,263
Value adjustments	(7,332)	(6,476)	(7,332)	(6,476)
Net exposure	**996,368**	**1,606,153**	**1,002,502**	**1,612,787**

Change in allowance account relating to impairment on loans to banks

	SID Bank and the SID Bank Group	
	2016	2015
Balance as at 1 Jan	6,476	8,804
Created value adjustments of loans	5,861	3,943
Elimination of value adjustments of loans	(4,988)	(6,271)
Other	(16)	0
Balance as at 31 Dec	**7,333**	**6,476**

Loans and advances to non-bank customers

	SID Bank and the SID Bank Group	
	31 Dec 2016	31 Dec 2015
Loans	782,456	799,600
Government	58,554	65,584
Companies	690,837	635,742
Financial organizations	33,065	98,274
Called guarantees	5,405	4,770
Gross exposure	787,861	804,370
Value adjustments	(177,298)	(198,905)
Net exposure	**610,563**	**605,465**

Measurement, recognition and derecognition of called guarantees is stated in Note 2.3.11 under the title Measurement, recognition and derecognition in the section concerning loans and receivables.

Change in allowance account relating to impairment on loans of clients other than banks

	SID Bank and the SID Bank Group	
	2016	2015
Balance as at 1 Jan	198,905	217,871
Created value adjustments of loans	63,324	63,988
Elimination of value adjustments of loans	(66,904)	(53,432)
Write-offs	(35,695)	(28,869)
Other	17,667	(653)
Balance as at 31 Dec	**177,298**	**198,905**

Other financial assets

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Gross exposure	1,564	422	1,563	419
Value adjustments	(37)	(26)	(37)	(26)
Total	**1,527**	**396**	**1,526**	**393**

Change in allowance account relating to impairment on other financial assets

	SID Bank and the SID Bank Group	
	2016	2015
Balance as at 1 Jan	26	29
Created value adjustments	75	13
Elimination of value adjustments	(44)	(16)
Other	(20)	0
Balance as at 31 Dec	**37**	**26**

2.4.4 Derivatives hedge accounting

	SID Bank and the SID Bank Group	
	31 Dec 2016	31 Dec 2015
Fair value	0	13,540
Net interest receivables	0	772
Total	**0**	**14,312**

2.4.5 Property, plant and equipment and intangible assets

Change in property, plant and equipment and intangible assets at SID Bank

2016	Land and building	Computers	Other equipment	Total property, plant and equipment	Intangible assets (software)
Original cost					
Balance as at 1 Jan	9,951	774	860	11,585	2,205
Additions	0	351	14	365	316
Disposals	0	(248)	(49)	(297)	(16)
Balance as at 31 Dec	9,951	877	825	11,653	2,505
Accumulated depreciation					
Balance as at 1 Jan	(4,511)	(724)	(685)	(5,920)	(1,469)
Depreciation and amortisation	(425)	(89)	(45)	(559)	(246)
Disposals	0	72	41	113	15
Balance as at 31 Dec	(4,936)	(741)	(689)	(6,366)	(1,700)
Carrying amount as at 31 Dec	**5,015**	**136**	**136**	**5,287**	**805**

2015	Land and building	Computers	Other equipment	Total property, plant and equipment	Intangible assets (software)
Original cost					
Balance as at 1 Jan	9,912	782	847	11,541	1,974
Additions	3,344	4	14	3,362	232
Disposals	(3,305)	(12)	(1)	(3,318)	0
Balance as at 31 Dec	9,951	774	860	11,585	2,206
Accumulated depreciation					
Balance as at 1 Jan	(4,056)	(655)	(639)	(5,350)	(1,262)
Depreciation and amortisation	(455)	(81)	(47)	(583)	(207)
Disposals	0	12	1	13	0
Balance as at 31 Dec	(4,511)	(724)	(685)	(5,920)	(1,469)
Carrying amount as at 31 Dec	**5,440**	**50**	**175**	**5,665**	**737**

Change in property– plant and equipment and intangible assets at SID Bank Group

2016	Land and building	Computers	Other equipment	Total property, plant and equipment	Intangible assets (software)
Original cost					
Balance as at 1 Jan	13,048	1,393	1,309	15,750	3,177
Additions	0	392	15	406	337
Disposals	0	(262)	(102)	(363)	(34)
Balance as at 31 Dec	13,048	1,523	1,222	15,793	3,479
Accumulated depreciation					
Balance as at 1 Jan	(5,475)	(1,314)	(932)	(7,721)	(1,844)
Depreciation and amortisation	(527)	(121)	(90)	(738)	(376)
Disposals	0	85	72	158	33
Balance as at 31 Dec	(6,003)	(1,349)	(950)	(8,302)	(2,187)
Carrying amount as at 31 Dec	**7,045**	**174**	**272**	**7,491**	**1,292**

2015	Land and building	Computers	Other equipment	Total property, plant and equipment	Intangible assets (software)
Original cost					
Balance as at 1 Jan	13,009	1,382	1,297	15,688	2,883
Additions	3,344	24	15	3,383	310
Disposals	(3,305)	(13)	(1)	(3,319)	(16)
Balance as at 31 Dec	13,048	1,393	1,310	15,752	3,178
Accumulated depreciation					
Balance as at 1 Jan	(4,458)	(1,165)	(835)	(6,458)	(1,565)
Depreciation and amortisation	(577)	(162)	(97)	(836)	(279)
Disposals	0	13	1	14	0
Impairment	(441)	0	0	(441)	0
Balance as at 31 Dec	(5,475)	(1,314)	(931)	(7,721)	(1,844)
Carrying amount as at 31 Dec	**7,573**	**79**	**379**	**8,031**	**1,334**

No items of property, plant and equipment were pledged by SID Bank and SID Bank Group at the end of 2016 and no assets were acquired under financial lease.

2.4.6 Investments in subsidiaries and joint ventures

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Investment in SID – PKZ Ljubljana	8,413	8,413	0	0
Total	**8,413**	**8,413**	**0**	**0**

In 2016, SID Bank transferred the investment to Prvi faktor, Ljubljana from non-current assets classified as held for sale under investments in subsidiaries, associates and joint ventures, due to the termination of the sales process.

In 2016, SID Bank recognised a gain from the title on sales of the subsidiary company Pro kolekt, Ljubljana under the item of net profits from non-current assets classified as held for sale and related liabilities, totalling EUR 164 thousand.

Subsidiaries' data

	SID Bank's holding in equity, %	Voting rights, %	*Nominal amount of participating interests	Equity	Profit or loss
31 Dec 2016					
SID – PKZ	100	100	8,413	28,392	1,690
31 Dec 2015					
SID – PKZ	100	100	8,413	26,773	932

Jointly ventures' data

	Voting rights held, %	Current assets	Non-current assets	Non-current liabilities	Long-term debt	Equity	Profit or loss	Total revenue
31 Dec 2016								
Prvi faktor Group	50	38,537	6,986	912	38,224	6,386	(11,045)	3,251
31 Dec 2015								
Prvi faktor Group	50	130,872	42,988	175,891	405	(2,436)	(4,359)	10,932

2.4.7 Tax assets and liabilities

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Current tax assets	0	4,861	0	4,861
Deferred tax assets	31	0	31	0
Total tax receivables	**31**	**4,861**	**31**	**4,861**
Current tax liabilities	4,105	0	4,430	42
Deferred tax liabilities	0	120	138	211
Total tax liabilities	**4,105**	**120**	**4,568**	**252**

Deferred taxes

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Deferred tax assets				
Expense for impairment of equity investments	2,914	566	2,914	566
Revaluation expense for impairment of available-for-sale financial assets	163	293	163	293
Provisions for pensions and jubilee or other long-service benefits	56	40	88	67
Valuation of available-for-sale financial assets	247	447	247	447
Depreciation and amortisation	26	11	26	11
Total	**3,406**	**1,357**	**3,438**	**1,384**
Deferred tax liabilities				
Valuation of available-for-sale financial assets	3,375	1,478	3,546	1,596
Total	**3,375**	**1,478**	**3,546**	**1,596**
Net deferred taxes	**31**	**(121)**	**(107)**	**(212)**
Included in the statement of profit or loss	2,248	109	2,250	112
Available-for-sale financial assets	(130)	53	(130)	53
Equity investments	2,347	42	2,347	42
Provisions for pensions and jubilee or other long-service benefits	16	3	18	6
Depreciation and amortisation	15	11	15	11
Included in the statement of comprehensive income	(2,097)	330	(2,147)	315

2.4.8 Other assets

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Other assets	305	379	465	507
Reinsurers' assets	0	0	12,542	14,191
Receivables from insurance operations	0	0	15,788	16,130
Gross exposure	305	379	28,795	30,828
Value adjustments of insurance operations	0	0	(10,523)	(9,923)
Net exposure	**305**	**379**	**18,272**	**20,905**

The largest items of Other assets of SID Bank Group consist of the technical reserves that are ceded to reinsurers, receivables from insurance operations (among them the largest are recourse receivables) and their value adjustments. In 2016, Reinsurers' assets decreased due to the decrease for provisions for outstanding claims. The latter decreased on the account of settled loss events to a more favourable development in the provisions for claims which have been made in the past. Receivables from insurance operations decreased primarily due to payments of recourses and additional impairments.

Value adjustment trend of insurance operations

	SID Bank Group	
	2016	2015
Balance as at 1 Jan	(9,923)	(9,680)
Value adjustments	(987)	(613)
Elimination of value adjustments	196	305
Write-offs	191	65
Balance as at 31 Dec	**(10,523)**	**(9,923)**

2.4.9 Financial liabilities held for trading

	SID Bank and the SID Bank Group	
	31 Dec 2016	31 Dec 2015
Financial liabilities held for trading	312	0
Total	**312**	**0**

Contractual value of currency exchange is specified in Note 2.6.1.

2.4.10 Financial liabilities measured at amortised cost

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Loans from banks and central banks	1,184,865	1,653,821	1,184,865	1,653,821
Loans	1,153,125	1,638,908	1,153,125	1,638,908
Deposits	31,740	14,913	31,740	14,913
Loans from non-bank customers	487,427	420,538	487,427	420,538
Loans	457,427	420,532	457,427	420,532
Deposits	30,000	6	30,000	6
Debt securities issued	460,652	723,527	460,652	723,527
Other financial liabilities	1,767	1,691	2,497	2,303
Total	**2,134,711**	**2,799,577**	**2,135,441**	**2,800,189**

In March 2016, SID Bank repaid the due bonds SEDABI Float 03/28/16 totalling EUR 200,000 thousand and SEDABI 4.12 03/31/16 totalling EUR 60,000 thousand. Under the contract with HSH Nordbank AG it carried out a partial buy-in of SSD (promissory note loans, Schuldscheindarlehen) totalling EUR 20,000 thousand. In 2016, SID Bank made an early repayment of EUR 170,500 thousand of liabilities to the EIB. For the purpose of loan funds, SID Bank drew funds of the Ministry of Economic Development and Technology totalling EUR 50,000 thousand.

2.4.11 Provisions

Change in provisions at SID Bank

	Provisions for off-balance-sheet liabilities – guarantees	Provisions for off-balance-sheet liabilities – undrawn loans	Provisions for pensions jubilee or other long-service benefits	Total
Balance as of 1 January 2016	31,459	3,111	351	34,921
Additions	1,265	19,511	264	21,040
Disposals	(326)	(22,269)	(104)	(22,699)
Utilised	(17,648)	0	(42)	(17,690)
Other	0	(26)	0	(26)
Balance as of 31 Dec 2016	**14,750**	**327**	**469**	**15,546**
Balance as of 1 January 2015	33,005	2,150	313	35,468
Additions	289	5,442	42	5,773
Disposals	(1,845)	(4,481)	0	(6,326)
Utilised	0	0	(4)	(4)
Other	10	0	0	10
Balance as at 31 Dec 2015	**31,459**	**3,111**	**351**	**34,921**

Change in provisions at SID Bank Group

	Provisions for off-balance-sheet liabilities – guarantees	Provisions for off-balance-sheet liabilities – undrawn loans	Provisions for retirement benefits and jubilee or other long-service benefits	Change in liabilities from insurance contracts	Total
Balance as of 1 January 2016	31,459	3,111	511	25,591	60,672
Additions	1,265	19,511	283	15,492	36,551
Disposals	(326)	(22,269)	(109)	(6,218)	(28,922)
Utilised	(17,648)	0	(45)	(11,625)	(29,317)
Other	0	(26)	0	0	(26)
Balance as of 31 Dec 2016	**14,750**	**327**	**639**	**23,241**	**38,957**
Balance as of 1 January 2015	33,005	2,150	464	31,816	67,435
Additions	289	5,442	62	16,418	22,211
Disposals	(1,845)	(4,481)	0	(12,545)	(18,871)
Utilised	0	0	(14)	(10,098)	(10,112)
Other	10	0	0	0	10
Balance as at 31 Dec 2015	**31,459**	**3,111**	**512**	**25,591**	**60,673**

In 2016, SID Bank used provisions for off-balance sheet liabilities – i.e. guarantees totalling EUR 17,648 thousand from the title on realisation of guarantees by the companies in the Prvi faktor Group.

SID Bank formed the provisions for retirement benefits and jubilee awards or other long-service benefits as of 31 December 2016 on the basis of its own calculation. It is assumed in the calculation that all 162 employees in SID Bank shall on 31 December 2016 (31 December 2015: 158) be employed at the bank until the payment of all associated jubilee awards or retirement benefits. The calculated amounts are as of 31 December 2016 discounted with a discount rate of 1.0216 (31 December 2015: 1.0375).

Liabilities from insurance contracts show gross insurance technical provisions.

2.4.12 Other liabilities

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Short-term deferred revenues	85	95	284	269
Deferred income	6	13	6	13
Included reinsurance liabilities	0	0	2,506	3,353
Liabilities from taxation	49	76	167	109
Other liabilities	0	0	27	13
Total	**140**	**184**	**2,990**	**3,758**

2.4.13 Equity

	SID Bank		SID Bank Group		
	31 Dec 2016	31 Dec 2015	31 Dec 2016	1 Jan 2016	31 Dec 2015
Share capital	300,000	300,000	300,000	300,000	300,000
Profit reserves	70,530	54,329	83,186	66,085	71,318
Legal and statutory reserves	11,005	9,937	11,861	10,792	10,792
Reserves for treasury shares	1,324	1,324	1,324	1,324	1,324
Reserves under articles of association	36,684	26,537	40,890	30,743	30,743
Other profit reserves	21,518	16,531	29,111	23,227	23,227
Credit risk equalisation reserves	0	0	0	0	5,232
Share premium	1,139	1,139	1,139	1,139	1,139
Accumulated other comprehensive income in connection with available-for-sale financial assets	13,336	5,034	14,041	5,598	5,598
Repurchased treasury shares	(1,324)	(1,324)	(1,324)	(1,324)	(1,324)
Net profit for the financial year (including retained earnings)	10,148	4,987	16,766	10,898	5,794
Total	**393,829**	**364,165**	**413,808**	**382,395**	**382,525**

In 2016, there were no changes in the treasury shares fund. As at 31 December 2016, SID Bank held 18,445 shares of SID Bank, ticker symbol SIDR, in a total amount of EUR 1,324 thousand. In accordance with a decree of the General Meeting of Shareholders of SID Bank, the undistributed profit of the year 2015 in the amount of EUR 4,987 thousand was allocated to other profit reserves.

The changes are disclosed in the statement of changes in equity.

As of 1 January 2016, the Insurance Act (ZZavar-1) entered into force which does not allow the formation of equalisation provisions, and this amendment affected the statement of financial position of the subsidiary company of SID Bank – Prva kreditna zavarovalnica and subsequently the SID Bank Group. The transition was carried out as of 1 January 2016 as an adjustment of the opening balance on equity and tax liabilities.

2.4.14 Distributable profit

	SID Bank	
	31 Dec 2016	31 Dec 2015
Net profit for the financial year	21,363	10,499
Portion of net profit allocated to statutory reserves	(1,068)	(525)
Portion of net profit allocated to reserves under articles of association	(10,148)	(4,987)
Distributable profit	10,148	4,987

From the net profit of SID Bank, which amounted to EUR 21,363 thousand for the year 2016, the Management Board in accordance with the articles of association formed statutory reserves in the amount of EUR 1,068 thousand and reserves under articles of association in the amount of EUR 10,148 thousand.

In accordance with the Slovene Export and Development Bank Act (hereinafter referred to as: ZSIRB), the distributable profit of SID Bank may not be used for allocation to shareholders but should be allocated to other profit reserves under a general meeting resolution.

2.5 Notes to the statement of profit or loss

2.5.1 Net interest income

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Interest income				
Loans and deposits	28,267	39,072	28,288	39,104
Banks	9,589	21,041	9,610	21,073
Non-bank customers	18,678	18,031	18,678	18,031
Derivatives hedge accounting	1,211	6,850	1,211	6,850
Available-for-sale financial assets	8,018	7,717	8,325	8,047
Financial assets held for trading, other	0	2	0	2
From liabilities	6	0	6	0
Total	37,502	53,641	37,830	54,003
Interest expense				
Debt securities issued	(8,000)	(20,969)	(8,000)	(20,969)
Loans and deposits	(5,222)	(9,770)	(5,222)	(9,770)
Banks	(1,587)	(4,862)	(1,587)	(4,862)
Non-bank customers	(3,634)	(4,908)	(3,634)	(4,908)
Derivatives hedge accounting	(127)	(517)	(127)	(517)
Financial liabilities held for trading, other	(3)	(139)	(6)	(139)
From assets	(308)	0	(308)	0
Total	(13,660)	(31,395)	(13,663)	(31,395)
Net interest income	**23,842**	**22,246**	**24,166**	**22,608**

In 2016, SID Bank generated EUR 23,842 thousand of net interest income, despite a balance sheet total 7.2% lower than in 2015. The reason for the increase lies in one-off effects totalling EUR 3,664 thousand at the completion of restructuring procedures when all paid interest was recognised in the profit or loss statement upon payment of non-performing assets.

In accordance with the explanation in Note 2.3.7, the interest in connection with impaired loans are excluded from income. The amount of accrued and excluded interest income as at 31 December 2016 totals EUR 10,603 thousand (EUR 14,273 thousand as at 31 December 2015). The effect of the accrued and excluded interest income relating to clients rated D and E as at 31 December 2016 amounts to EUR 10,471 thousand (the effect would have been EUR 14,190 thousand as at 31 December 2015).

2.5.2 Net fees and commissions

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Fee and commission income				
Fee and commission from loan operations	1,800	2,914	1,800	2,914
Fee and commission arising from guarantees given	121	183	121	183
Total	1,921	3,097	1,921	3,097
Fee and commission expense				
Fee and commission for loan operations	(376)	(575)	(376)	(575)
Other fees and commissions (stock exchange operations, other)	(374)	(336)	(391)	(350)
Total	(750)	(911)	(767)	(925)
Net fees and commissions	**1,171**	**2,186**	**1,154**	**2,172**

2.5.3 Gains/losses realised on financial assets and liabilities not measured at fair value through profit or loss

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Realised net gains in available-for-sale financial assets	6,230	2,760	6,230	2,787
Gains	6,238	2,760	6,238	2,787
Losses	(8)	0	(8)	0
Realised net losses on loans	(127)	(273)	(127)	(273)
Gains	18	0	18	0
Losses	(145)	(273)	(145)	(273)
Realised net gains from financial liabilities measured at amortised cost	80	320	80	320
Gains	80	320	80	320
Realised gains from financial assets and liabilities not measured at fair value through profit or loss	**6,183**	**2,807**	**6,183**	**2,834**

In 2016, apart from the usual gains related to the sale of debt securities held for sales, the realised gain originated from the sale of company shares which the bank acquired in the procedure of restructuring credits with the conversion to equity of this company. The net profit from this title totalled EUR 3,074 thousand.

2.5.4 Gains/losses on financial assets and liabilities designated at fair value through profit or loss

	SID Bank and the SID Bank Group	
	2016	2015
Realised gains	15,048	3,244
Realised losses	(3,897)	0
Gains on financial assets and liabilities designated at fair value through profit or loss	**11,151**	**3,244**

The above-mentioned gains and losses arise from the results of loan funds which SID Bank formed together with the Ministry of Economic Development and Technology. Funding for the establishment of funds was provided by the Ministry and SID Bank. Funds are managed by SID bank in its own name and for its own account and are recorded in the financial statements of SID Bank, with results of each fund also being noted currently. In accordance with the agreements with the Ministry, the potential negative financial result of each loan fund is covered primarily by the funds provided by the Ministry.

In 2016, a new loan fund was formed under the contract for financing and implementation of financial engineering for creating incentives for investments, operations and strengthening of capital within the context of which two credit lines were introduced, namely the Development-incentive programme of SID Bank for financing operations and strengthening of capital of SMEs and the Development-incentive programme of SID Bank for financing investments and strengthening of capital of SMEs. At the year-end, a negative business result was found on the new fund totalling EUR 14,211 thousand which is due to the formation of impairments for new loans. However, revenues in the same amount were recognised in the profit or loss statement from the title on losses of the new loan fund, while at the same time the credit liability on a loan received from the Ministry of Economic Development and Technology was reduced in accordance with the contract.

2.5.5 Changes in fair value in hedge accounting

	SID Bank and the SID Bank Group	
	2016	2015
Net gains/losses on derivative financial instruments held for hedging	2,396	(5,037)
Net gains/losses on hedged items (bonds, loans)	(2,019)	4,967
Total	**377**	**(70)**

In 2016, a negative effect totalling EUR 2,019 thousand was realised from the title on changes of fair value of individually hedged financial instruments, while a positive effect totalling EUR 2,396 thousand was realised from the title on changes of fair value of derivative financial instruments held for hedging. All in all, a positive effect totalling EUR 377 thousand was realised from the changes of fair value in hedge accounting.

2.5.6 Net gains/losses from exchange differences

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Gain on foreign exchange rate differences	5,653	9,820	5,657	9,821
Losses on foreign exchange rate differences	(4,964)	(9,814)	(4,972)	(9,819)
Net profits	**689**	**6**	**685**	**2**

2.5.7 Other net operating gains or losses

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Gains				
Income from activities under Republic of Slovenia authorisation	1,811	1,765	1,811	1,765
Insurance premium income	0	0	14,434	15,475
Income from reinsurance commissions	0	0	3,029	2,570
Reinsurance share in compensation, recourse and bonuses	0	0	3,325	6,050
Recourse income	0	0	2,196	2,361
Other operating revenues	130	95	930	760
Total	1,941	1,860	25,725	28,981
Losses				
Expense for reinsurance premiums	0	0	(8,564)	(9,159)
Expense for gross claims	0	0	(7,605)	(11,915)
Other operating expenses	(270)	(412)	(1,797)	(2,243)
Total	(270)	(412)	(17,966)	(23,317)
Net operating gains	**1,671**	**1,448**	**7,759**	**5,664**

In 2016, the Bank realized revenues totalling EUR 1,811 thousand from the title on performing operations under authorisation. From the title on security reserve asset management it realised EUR 1,740 thousand, while from the title on guarantee schemes it realised EUR 39 thousand and from the title on other operations under authorisation a total of EUR 32 thousand.

Insurance premium income in SID Bank Group contains gross premiums written; they decreased in 2016 mainly due to a further drop in premium rates. The latter are consequently decreasing due to the strong presence of competing insurance companies and insurance brokers in the market. Due to the aforementioned, the expenses for reinsurance premiums are consequently lower as well. Revenues from reinsurance commissions are higher despite the lower reinsurance premiums, namely due to the higher rate of reinsurance commission in 2016 and due to the additional commission to which the SID Bank Group was entitled in 2016 due to the good results in the recent years. Expenses on gross claims for damages are lower due to a smaller number of all loss events as well as due to a smaller number of major loss events. Furthermore, the reinsurance shares in compensation, recourses and bonuses are also lower compared to 2015.

2.5.8 Administrative expenses

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Labour costs	(8,062)	(7,450)	(11,121)	(10,283)
Gross wages and salaries	(6,105)	(5,731)	(8,298)	(7,832)
Pension insurance costs	(545)	(509)	(756)	(701)
Social security costs	(452)	(418)	(630)	(578)
Other labour costs	(960)	(792)	(1,437)	(1,172)
General and administrative expenses	(2,956)	(2,777)	(4,167)	(3,801)
Costs of material	(142)	(133)	(201)	(195)
Cost of services	(2,814)	(2,644)	(3,966)	(3,606)
Total	**(11,018)**	**(10,227)**	**(15,288)**	**(14,084)**

2.5.9 Depreciation and amortisation

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Depreciation of property, plant and equipment	(559)	(582)	(738)	(835)
Amortisation of intangible assets	(246)	(207)	(376)	(280)
Total	**(805)**	**(789)**	**(1,115)**	**(1,114)**

2.5.10 Provisions

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Provisions for off-balance-sheet liabilities – guarantees	(939)	1,555	(939)	1,555
Provisions for off-balance-sheet liabilities – undrawn loans	2,758	(961)	2,758	(961)
Provisions for liabilities from insurance and reinsurance contracts	0	0	702	1,496
Other provisions	(159)	(43)	(159)	(58)
Total	**1,660**	**551**	**2,361**	**2,032**

In 2016, SID Bank realized revenues in the amount of EUR 1,819 thousand from the title on formed provisions for off-balance-sheet liabilities. The balances of off-balance-sheet liabilities, for which provisions were created, are shown in the table in Note 2.6.1.

Other provisions include retirement benefits and jubilee or other long-service benefits.

2.5.11 Impairments

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Impairments of loans and receivables measured at amortised cost	2,676	(8,213)	2,676	(8,213)
Impairments of available-for-sale financial assets	0	(314)	0	(314)
Impairment of investments in subsidiaries, associates and joint ventures	(12,250)	(245)	(12,250)	(245)
Impairment of other assets	0	0	(406)	(714)
Total	**(9,574)**	**(8,772)**	**(9,980)**	**(9,486)**

In 2016, EUR 12,250 thousand of impairments from investments into equity were formed of the joint venture Prvi faktor, Ljubljana which pertain to the immediate impairment of the recapitalisation of the company. From the funds for capital increase, the Prvi faktor Group reduced the liabilities from the title on credits to SID Bank, while SID Bank consequently cancelled formed impairments on these credits. From this title SID Bank generated revenues from the elimination of impairments totalling EUR 14,909 thousand.

2.5.12 Gains on equity investments in subsidiaries, associates and joint ventures and revenues from dividends

The subsidiary SID – Prva kreditna zavarovalnica, d.d. (2015: EUR 35 thousand) credited to the account of SID Bank a dividend totalling EUR 88 thousand.

SID Bank received dividends from the EIF totalling EUR 27 thousand which are disclosed under Revenues from dividends.

2.5.13 Corporate income tax on ordinary operations

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Income tax	(6,202)	(2,278)	(6,621)	(2,522)
Deferred taxes	2,248	109	2,250	112
Total	**(3,954)**	**(2,169)**	**(4,370)**	**(2,411)**

The tax rate in Slovenia stood at 17% in 2016 and 2015.

An explanation of the tax rates applied in the calculation of deferred taxes is given in Note 2.3.23.

The income tax rate differs from tax calculated using the prescribed tax rate, and is disclosed in the table below.

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Profit	25,317	12,668	27,336	13,806
Income tax (at rates applicable in relevant countries)	(4,304)	(2,155)	(4,662)	(2,354)
Income deducted from taxable base	15	6	28	16
Income added to taxable base	0	(6)	0	(6)
Non-tax-deductible expenses	(2,194)	(193)	(2,306)	(279)
Tax-deductible expenses	193	0	210	9
Increase in taxable base	(1)	0	(131)	(2)
Tax allowances	88	68	111	93
Tax	**(6,202)**	**(2,279)**	**(6,750)**	**(2,523)**
Of which tax is in the income statement	(6,202)	(2,279)	(6,621)	(2,523)
Of which tax is included in the equity	0	0	(130)	0
Effective tax rate, %	24	18	25	18

2.5.14 Net earnings per share

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Number of ordinary registered no-par value shares	3,121,741	3,121,741	3,121,741	3,121,741
Treasury shares	18,445	18,445	18,445	18,445
Number of ordinary shares other than treasury shares	3,103,296	3,103,296	3,103,296	3,103,296
Net profit in period, EUR thousand	21,363	10,499	22,965	11,395
Earnings per share, EUR	**6.88**	**3.38**	**7.40**	**3.67**

2.6 Other notes to the financial statements

2.6.1 Contingent liabilities and commitments

Contractual obligations of off-balance sheet financial instruments arising from commitments

	SID Bank and the SID Bank Group	
	31 Dec 2016	31 Dec 2015
Guarantees	32,871	53,953
Other off-balance-sheet liabilities	23,570	111,442
Total commitments	**56,441**	**165,395**
Provisions for off-balance-sheet risks – guarantees	(14,750)	(31,459)
Provisions for off-balance-sheet risks – undrawn loans	(327)	(3,111)
Total provisions on commitments	**(15,077)**	**(34,570)**

SID Bank or the SID Bank Group shows under the commitments item the value of guarantees issued and the value of other off-balance-sheet liabilities which include the value of unused loans and the value of uncalled unpaid capital. In 2016, it decreased the value of guarantees issued, namely as a result of guarantees falling due or being realised. Loans granted to companies that have not been drawn as at 31 December 2016 total EUR 11,070 thousand, while loans granted to the bank sector total EUR 500 thousand. The value of uncalled unpaid capital totals EUR 12,000 thousand.

Contract value of derivatives

	SID Bank and the SID Bank Group	
	31 Dec 2016	31 Dec 2015
Derivative financial instruments held for trading		
Foreign exchange swaps	7,812	0
Derivative financial instruments held for hedging		
Interest rate swaps	0	374,832
Total	**7,812**	**374,832**

The contractual values of derivative financial instruments total EUR 7,812 thousand. The derivative financial instruments held for trading are used for hedging against currency risk.

The fair value and economic effects are disclosed in Note 2.4.4 in 2.5.5.

2.6.2 Related party disclosures

In ordinary operations specific banking transactions were also conducted with related parties, i.e. parties where one party controls the other or has a significant influence over its financial and business decisions.

Significant transactions between SID Bank and investees in SID Bank Group are disclosed below. They are mutually excluded from the consolidated financial statements.

Significant relations of SID Bank with subsidiaries and jointly controlled companies

	2016			2015		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Receivables						
Loans and advances	0	17,934	17,934	20	80,349	80,369
Other financial assets	7	0	7	8	0	8
Gross exposure	7	17,934	17,941	28	80,349	80,377
Value adjustments	0	(2,527)	(2,527)	(1)	(17,436)	(17,436)
Net exposure	7	15,407	15,414	27	62,913	62,940
Other financial liabilities	0	0	0	0	113	113
Provisions	0	14,618	14,618	2	31,375	31,377
Total liabilities	0	14,618	14,618	2	31,487	31,489

	2016			2015		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Interest income	0	754	754	1	2,480	2,480
Revenues from other services	67	0	67	88	0	88
Fee and commission expense	0	0	0	0	(113)	(113)
Expenses for other services	0	0	0	(1)	0	(1)
Provisions	0	(892)	(892)	(0)	251	250
Impairments	0	14,909	14,909	1	(3,379)	(3,379)
Net gains on equity investments in subsidiaries, associates and joint ventures	88	0	88	35	0	35
Total	155	14,771	14,926	123	(762)	(638)

Exposure to the Republic of Slovenia and to state-owned business entities

SID Bank and SID Bank Group have business relations with business entities which are owned by the state or in which the state has a significant influence.

	SID Bank		SID Bank Group	
Exposure to:	2016	2015	2016	2015
Bank of Slovenia				
Balance as at 31 Dec				
ASSETS				
Cash, cash balances at central bank and demand deposits with banks	145,393	13,224	145,393	13,224
LIABILITIES			0	0
Loans from banks and central banks	15,000	39,953	15,000	39,953
Other financial liabilities	120	67	120	67
For Period				
Interest expense	(328)	(161)	(328)	(161)
Republic of Slovenia				
Balance as at 31 Dec				
ASSETS				
Available-for-sale financial assets	335,444	472,333	344,134	480,970
Loans and advances to non-bank customers	48,898	62,816	48,898	62,816
Other financial assets	377	368	377	368
Tax assets	31	4,861	31	4,861
Other assets	52	57	52	57
LIABILITIES				
Loans from non-bank customers	128,095	89,162	128,095	89,162
Other financial liabilities	300	275	300	275
Tax liabilities	4,105	120	4,105	120
Other liabilities	49	76	49	76
For Period				
Interest income	3,659	3,943	3,814	4,129
Interest expense	(84)	(1,012)	(84)	(1,012)
Fee and commission income	20	8	20	8
Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	983	859	983	859
Net gains from exchange differences	106	121	106	121
Other net operating gains	1,694	1,578	1,694	1,578
Administrative expenses	(60)	(31)	(60)	(31)
Impairments and provisions	1,146	367	1,146	367
State-owned business entities				
Balance as at 31 Dec				
ASSETS				
Cash, cash balances at central bank and demand deposits with banks	2,230	163	2,230	163
Available-for-sale financial assets	145,400	89,314	146,412	90,539
Derivative financial instruments held for hedging	0	12,285	0	12,285
Loans and advances to banks	352,223	693,021	352,223	694,522
Loans and advances to non-bank customers	231,246	218,394	231,246	218,394
Other financial assets	8	11	8	11
Held-to-maturity financial assets	0	197	0	197
Investments in subsidiaries, associates and joint ventures	8,413	8,413	0	0
Other assets	7	6	7	6
LIABILITIES				
Deposits from banks	14,608	12,303	14,608	12,303
Deposits from non-bank customers	30,000	0	30,000	0
Loans from non-bank customers	20,751	20,749	20,751	20,749
Other financial liabilities	305	542	305	542
Provisions	1,749	4,128	1,749	4,128
Other liabilities	75	85	75	85
CONTINGENT LIABILITIES AND COMMITMENTS	29,601	52,746	29,601	52,746
For Period				
Interest income	12,461	24,703	12,503	24,756
Interest expense	(1,206)	(1,317)	(1,206)	(1,317)
Fee and commission income	711	1,666	711	1,666
Fee and commission expense	(1)	(1)	(1)	(1)
Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	2,938	(146)	2,938	(146)
Net gains on financial assets and liabilities held for trading	0	3	0	3
Changes in fair value in hedge accounting	1,771	(2,668)	1,771	(2,668)
Other net operating gains	72	87	136	1,186
Administrative expenses	(137)	(185)	(137)	(185)
Impairments and provisions	9,860	(9,599)	9,438	(9,771)

2.6.3 Remuneration system

(Article 450.a, b, c, d, e, f of the CRR Regulation)

The remuneration policy shall be adopted by the Supervisory Board after obtaining a prior opinion by the Supervisory Board's Committee in charge of remuneration and the Supervisory Board's Committee in charge of risks. The tasks of the Supervisory Board concerning the review of adequacy and implementation of the remuneration policy are carried out by the remuneration and HR committee, which with a view of realisation of this task in 2016 verified the changes of legislation or regulations, guidelines of the European Banking Authority (EBA) and decisions and policies of the Bank of Slovenia, governing remuneration policies, compliance with the principles and provisions of the policy in the payments of remunerations and information on the remuneration of the employees whose professional activity significantly influence the risk profile of the bank and especially the salaries of the heads of the internal control system and the heads of other independent control functions. In 2016, the HR and remuneration committee convened at nine meeting sessions, and discussed the policy and practical implementation of remunerations at three meeting sessions.

In 2016, the remuneration policy was amended twice. First, it was amended at the end of March 2016. The amendment was performed on the grounds of the harmonisation of SID Bank's remuneration policy with the Regulation 604/2014 and items 4 and 10 of the first paragraph of Article 170 of the Banking Act (ZBan-2). The second amendment was adopted in December 2016. The amendment was performed on the grounds of the guidelines of the Bank of Slovenia in relation with the application of the principle of proportionality in the implementation of remuneration policies.

No external contractor participated in the policy formulation.

The remuneration policy takes into account the size of the bank, its internal organization and nature, scope and complexity of activities performed by the bank. In accordance with the Slovene Export and Development Bank Act (ZSIRB), the bank's objective was not profit maximization but primarily conservation of capital, whereby all transactions of the bank shall be subject to the assessment of economic quality on the basis of international criteria that the bank in comparison to other commercial banks performs only services and transactions (corporate and bank funding) or does not perform most of the services performed by other banks (e.g. the bank does not accept public deposits or does not perform services to the general population, does not keep bank accounts of clients or does not perform payment services for clients, etc.) and that due to a specific business model characteristic of development banks the SID Bank may be classified in the category of banks with operations providing less complex transactions.

The remuneration policy shall apply at the level of SID Bank Group (in addition to SID – Prva kreditna zavarovalnica d.d.). The control of the consistent application of the policy at the level of subsidiary company is provided by the members of supervisory bodies who are employed at SID Bank.

In accordance with the Commission Delegated Regulation (EU) 604/2014 or Regulation (EU) No. 575/2013 and Article 169 of the Banking Act (ZBan-2) the remuneration policy specifically identifies significant business units and determines positions of employment of employees within the framework of their competences or job tasks and activities or on the basis of their membership in committees who significantly influence the bank's risk profile.

Under the remuneration policy, the fixed portion of earnings account for at least 75% of the average employee's total earnings for all types of employee. The remuneration policy stipulates that a variable portion of earnings is paid to employees for on-the-job performance which exceeds the percentage laid down in the Collective Agreement of the Slovenian Banking Sector, on-the-job performance, and other awards for outstanding achievements and other bonuses (e.g. project work) as well as other remunerations and benefits (e.g. severance pay exceeding the amount in accordance with the employment regulations).

The requirements from items 7 and 8 of the first paragraph of Article 170 of the Banking Act (ZBan-2) regarding the formation and payment of variable remunerations are not considered in cases when the overall variable remunerations of the employee whose work is of a special nature significantly influence the bank's risk profile, and in the individual year do not exceed the gross amount of EUR 50,000.00 (the application of lower threshold of variable remuneration).

For each employee whose work is of a special nature and significantly influences the bank's risk profile, the application of the lower threshold of variable remuneration is documented for the purposes from items 7 and 8 of this paragraph of Article 170 of the Banking Act (ZBan-2) with at least the indication of name and surname, position of employment and the total amount of variable remuneration in the year the lower threshold of variable remuneration was applied.

Taking into account the provisions of ZSIRB, that the Bank may have only one shareholder and that the guarantees for bank's liabilities are provided by the Republic of Slovenia, SID Bank is not allowed to pay the variable portion of the remuneration in the form of financial instruments. This means that SID Bank may, in cases when the total variable remuneration of the employee whose work is of special nature and significantly influences the bank's risk profile in a given year exceed the gross amount of EUR 50,000.00, consider the principles from item 7 of the first paragraph of Article 170 of the Banking Act (ZBan-2) only to a limited extent which stipulates that at least 50% of the variable remuneration of each individual must consist of ordinary or preferred shares of the bank or share-related instruments or equivalent non-cash instruments when the bank's shares are not listed on a regulated market. If the entire amount of variable remuneration of the employee, whose work is of a special nature and significantly influences the bank's risk profile, in a given year exceed the gross amount of EUR 50,000.00, the amount exceeding this figure is indexed to the growth of the book value of SID Bank's shares during the payment period, disregarding any transactions with the owner, increase/decrease of capital, pooling/division of shares).

1. The variable portion of earnings is paid to employees whose work is of a special nature in accordance with the provisions of the Collective Agreement for the Slovenian Banking Sector and the Corporate Collective Agreement on the basis of on-the-job performance of an employee above the percentage laid down in the Collective Agreement for the Slovenian Banking Sector, on-the-job performance, and also in the form of awards for outstanding achievements (e.g. for project work) or in the form of severance pay exceeding the amount in accordance with employment regulations. Business performance of an employee is monitored and once annually assessed by his or her direct superior whose assessment is drawn on the basis of the realisation of their commitments determined in respective annual development talks on the basis of tasks in the annual operational plan and on the basis of the achievement of the criteria of scale and quality of work, economy, relationship to colleagues and clients, diligence, willingness to work and development of competences. In accordance with the Tariff Annex to the Corporate Collective Agreement, 10% of funds allocated for the payment of basic monthly salaries of employees under collective agreements comprises the volume of funds allocated for salaries based on job performance. Irrespective of this, the percentage may be reduced if it is so determined in the Bank's remuneration policy.

On-the-job-performance payment depends on the results of the implementation of the annual operational plan at the level of the Bank and individual organizational units in terms of achieving the key performance indicators in implementing strategies for each year (the financial aspect, e.g. ROE, CIR; the market aspect, e.g. volume of new transactions, credit balance; the internal aspect, e.g. share of realised projects/tasks; the aspect of learning and development, e.g. implementation of development interviews, internal transfer of knowledge) and the achievement of key performance indicators and the performance of the tasks of individual organizational units (tasks defined by internal acts, the annual operational plans according to various aspects such as the above-mentioned criteria at the level of the entire bank, through individual decisions of the Management Board, the annual interviews with the managers, etc.). However, the equivalent to a maximum of one-month of the employee's salary will be paid.

The total variable part of earnings of employees cannot exceed 33% of the fixed part of earnings.

2. For employees who are under so-called individual employment contracts, the variable part of the earnings is paid once a year as remuneration for business performance based on achievement of predetermined objectives, tasks and liabilities that are each year set with a decision of the Management Board and/or business policy of the department/departments and/or objectives and tasks of the Executive Director as well as other tasks according to the decision of the Management Board. Alternatively, the variable part of earnings is paid taking into account the evaluation of the work of the Management Board by the Bank's Supervisory Board. Various aspects which have for example been listed under item 1 above or criteria which also apply to the Management Board are considered as criteria and benchmarks for all employees. As a rule, the provisions of individual contracts limit the amount of business performance up to a maximum of 25% of the basic annual salary.

3. For benchmarks (as a basis for determining the variable remuneration) of the members of the Management Board, the provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) apply. The amount of the variable part of remuneration of each member of the Management Board which must not exceed 30% of the basic salary is determined by the Supervisory Board on a proposal of the Nomination and Remuneration Committee, subsequent to the approval of the Bank’s annual report, depending on the fulfilment of the annual operational plan and other criteria or benchmarks. The fulfilment of the annual operational plan (AOP) is the basis for payment of the entire variable remuneration and in the event of a) partial realisation of the annual operational plan (AOP) or b) certain excess and other objectives which have not been met, the Supervisory Board adopts the decision on the amount of the variable payment taking into account the criteria of fulfilled objectives/tasks in comparison with all tasks as well as quantitative and qualitative criteria and benchmarks determined in the annual operational plan (AOP and their weight in accordance with the provisions of the articles of association and adopted strategies defining the purpose and mission of the company and the different circumstances in which the company operated in the past year.

Performance payment for all employee categories is paid after the approval of the annual report by the Bank's Supervisory Board. Business performance is not paid if the Bank does not disclose any profit during the financial year. In case of the recommendations of a shareholder of the Bank or other person responsible for such recommendations relating to restrictions on performance payments or other earnings from the employment relationship, the Management Board can pass a different decision than provided by the Collective Agreement.

Provisions with regard to performance payment shall not apply if in accordance with the remuneration policy of the Bank, especially with the provisions relating to the impact of variable remuneration to the Bank's financial position and provisions relating to the assessment of performance and the adjustment of remuneration to the risk, the variable component of remuneration should be reduced.

The accounting period is identical to the calendar year. The deferral period in which a portion of the variable remuneration is deferred starts after the end of the accounting period, and according to the remuneration policy, a three-year deferral period applies for employees whose work is of a special nature when the total variable remunerations of the employee in a given year exceed the gross amount of EUR 50,000.00 and is then deferred in a 40% share of the variable remuneration. In relation to the payment and deferral of variable remuneration for the president of the

Management Board and member of the Management Board, the provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) and remuneration policies where it is stipulated that a three-year deferral period shall apply, namely in the amount of 50% of the share of the variable remuneration.

Other non-cash benefits received by some employees whose work is of a special nature relate to the fringe benefits agreed in the employment contract (e.g. life insurance, use of a company vehicle for business and private purposes). Bonuses for these benefits were charged to the employees.

(Article 450 g, h, i, j of the CRR Regulation)

Quantitative information on remuneration in 2016

	Supervisory Board	Management Board	Financing and insurance	Investment banking	Retail banking	Portfolio management	Corporate functions	Independent control functions	Other
Members (number of employees)	7	2	not relevant	not relevant	not relevant	not relevant	not relevant	not relevant	not relevant
No. of identified FTE employees	not relevant	not relevant	6.0	0	0	5.4	10.7	3.7	2.0
No. of identified senior management employees	not relevant	not relevant	0	0	0	0	4	0	0
Total fixed remuneration (in EUR)	179,986	363,164	367,991	0	0	253,740	858,319	256,651	124,282
Of which: fixed remuneration in cash	179,986	363,164	367,991	0	0	253,740	858,319	256,651	124,282
Of which: fixed remuneration in ordinary shares and related instruments	0	0	0	0	0	0	0	0	0
Of which: fixed remuneration in other types of instruments	0	0	0	0	0	0	0	0	0
Total variable remuneration (in EUR)	0	76,563	30,415	0	0	17,724	84,502	26,964	11,952
Of which: variable remuneration in cash	0	76,563	30,415	0	0	17,724	84,502	26,964	11,952
Of which: variable remuneration in ordinary shares and related instruments	0	0	0	0	0	0	0	0	0
Of which: variable remuneration in other types of instruments	0	0	0	0	0	0	0	0	0
Total variable remuneration allocated and deferred in 2016 (in EUR)	0	39,031	3,955	0	0	0	34,823	0	0
Of which: deferred variable remuneration in cash in 2016	0	39,031	3,955	0	0	0	34,823	0	0
Of which: deferred variable remuneration in ordinary shares and related instruments in 2016	0	0	0	0	0	0	0	0	0
Of which: deferred variable remuneration in other types of instruments	0	0	0	0	0	0	0	0	0
Additional Information in relation to the total variable remuneration									
Total unpaid deferred variable remuneration allocated in previous periods and not in 2016 (in EUR); Article 450 h(iii) of the CRR Regulation	0	77,736	0	0	0	0	16,058	0	0
Total actual adjustment of allocated and deferred remuneration from previous years in 2016 according to past performance (in EUR); Article 450 h(iv) of the CRR Regulation	0	0	0	0	0	0	0	0	0
No. of beneficiaries of guaranteed variable remuneration (new contractual variable remuneration agreed in advance)	0	0	0	0	0	0	0	0	0
Total guaranteed variable remuneration (new contractual variable remuneration agreed in advance) (in EUR)	0	0	0	0	0	0	0	0	0
Total beneficiaries	0	0	0	0	0	0	0	0	0

	Supervisory Board	Management Board	Financing and insurance	Investment banking	Retail banking	Portfolio management	Corporate functions	Independent control functions	Other
Total remuneration paid in 2016 (in EUR); Article 450 h(vi) of the CRR Regulation	0	0	0	0	0	0	0	0	0
Highest remuneration amount paid to a single person (in EUR); Article 450 h(vi) of the CRR Regulation	0	0	0	0	0	0	0	0	0
No. of beneficiaries of contributions to special pension benefit schemes in 2016	0	0	0	0	0	0	0	0	0
Total contributions to special pension benefit schemes in 2016	0	0	0	0	0	0	0	0	0
Total variable remuneration allocated for a multi-year period within the framework of programmes that are not implemented at an annual level (in EUR)	0	0	0	0	0	0	0	0	0

All variable remuneration has been paid in cash, with no other types of variable remuneration.

All unpaid deferred past remuneration has not been assigned the right to payment.

No single person has been paid more than a EUR 1 million salary.

Remuneration of members of the Supervisory Board in 2016

in EUR

Person	Function	Remuneration	Cost allowance	Total	Other benefits (liability insurance)
Monika Pintar Mesarič	Chairwoman of the Supervisory Board	38,095	0	38,095	722
	Chairwoman of the Appointments and Remuneration Committee				
Janez Tomšič	Deputy Chairman of the Supervisory Board	27,965	0	27,965	722
	Deputy Chairman of the Appointments and Remuneration Committee				
Marjan Divjak	Member of the Supervisory Board Chairman of the Audit Committee	35,540	0	35,540	722
	Deputy Chairman of the Risk Committee				
Štefan Grosar	Member of the Supervisory Board	26,030	0	26,030	722
	Member of the Audit Committee				
Leo Knez	Member of the Supervisory Board Chairman of the Risk Committee	35,540	0	35,540	722
	Deputy Chairman of the Audit Committee				
Boris Škapin	Member of the Supervisory Board until 7 March 2016	4,309	0	4,309	722
	Member of the Appointments and Remuneration Committee until 7 March 2016				
Marko Tišma	Member of the Supervisory Board from 28 July 2016 Member of the Risk Committee from 31 August 2016 Member of the Appointments and Remuneration Committee from 31 August 2016	12,037	470	12,507	0
		179,516	470	179,986	4,332

Representatives of SID Bank on the supervisory bodies of subsidiaries did not receive session fees or other remuneration for supervisory duties by investees in SID Bank Group in 2016.

Remuneration of members of the Management Board in 2016

In 2016, SID Bank's Management Board was paid EUR 440 thousand, of which 363 thousand as fixed, EUR 40 thousand as current variable and EUR 37 thousand as deffered variable earnings from past years.

In 2016, the Chairman of the Management Board Sibil Svilan received a total of EUR 231 thousand (EUR 187 thousand as gross salary, of which net salary pay totalled EUR 80 thousand and EUR 4 thousand for voluntary supplementary pension insurance, voluntary health insurance and other benefits which in total represents EUR 191 thousand as fixed remuneration, EUR 21 thousand as current variable and EUR 19 thousand as deferred variable remuneration from past years), the Management Board Member Jožef Bradeško received a total of EUR 209 thousand in remuneration (EUR 168 thousand as gross salary, of which net salary pay totalled EUR 75 thousand and EUR 5 thousand voluntary supplementary pension insurance, voluntary health insurance and other benefits which in total represents EUR 172 thousand as fixed remuneration, EUR 19 thousand as current variable and EUR 18 thousand as deferred variable remuneration from past years). In addition to the above remuneration, the Management Board received additional non-cash benefits (the use of company vehicle, life insurance, liability insurance). Bonuses for these benefits were charged to the Board. For the Chairman of the Management Board Sibil Svilan, the above-mentioned benefits totalled EUR 8 thousand, while for Management Board Member Jožef Bradeško they totalled EUR 5 thousand.

2.6.4 Total amount spent on auditors

	SID Bank		SID Bank Group	
	2016	2015	2016	2015
Auditing of the annual report	47	47	77	77
Other auditing services	0	69	0	69
Other non-audit services	127	6	127	6
Total	174	122	204	152

2.6.5 Events after the reporting period

There were no business events after the reporting date that would have an impact on the separate and consolidated financial statements of SID Bank and SID Bank Group.

3 Risk management

The Risk Management system in the SID Bank Group is based on an effective risk management system which includes processes of risk identification, measurement or assessment, management and monitoring, as well as internal and external reporting concerning risk. For this purpose, SID Bank addopted a Risk Management Strategy which stipulates the fundamental principles of assuming and managing risk, in particular for SID Bank and, where appropriate, for the SID Bank Group and establishes a framework and basis for the preparation of documents which define in more detail the procedures of assuming and managing individual type of risks, including the organizational rules of the risk management process and rules of the internal control system as well as ensuring compliance and public disclosure of information about the Bank. The policies of managing individual types of risk and other internal documents regulating the business processes where the Bank assumes risk are formed on the basis of the Risk Management Strategy. The policies provide processes, methods and methodologies which the Bank or the Group uses in the process of identifying, assessing or measuring, monitoring, managing and reporting on risks for each individual type of risk.

The objective of the strategy is to establish effective risk management processes to identify, measure or assess, manage and monitor risks, including the reporting on risks to which the Bank is, or might be, exposed during its operations, namely according to the following definition:

– (internal) definitions of individual types of risk;
– risk-bearing capacity;
– risk appetite;
– the risk management action plan, i.e. the processes of identifying, measuring or assessing, managing and monitoring of risks;
– adequate internal control mechanisms and
– internal relations regarding responsibility.

The risk-bearing capacity represents the largest overall level of risk which SID Bank may still assume, taking into account the availability of capital, liquidity, risk management and control measures, stress test results and other restrictions in accordance with the assumption of risks.

In assessing the risk-bearing capacity SID Bank considers the following:

– assessment of the SID Bank and SID Bank Group risk profile within the framework of which the overall level of risk and type of individual major risks are identified at least annually;
– the result of the Internal Capital Adequacy Assessment Process (the ICAAP process), including the internal capital estimates and the internal assessment of capital level with regard to the level of assumed risks, which covers both normal and stressful circumstances in operations of the SID Bank Group;
– the expectations of the Bank of Slovenia after each completion of the supervisory review and evaluation process (hereinafter "SREP") regarding the maintenance of the Total Capital Ratio and Common Equity Tier1 Capital to cover the recognised assessment of capital requirements as prescribed by the Bank of Slovenia within the framework of SREP;
– its leverage ratio;
– the result of the Internal Liquidity Adequacy Assessment Process (the ILAAP process) or the Bank's liquidity according to its risk profile;
– the risk management action plan which, *inter alia*, identifies the available risk measures for managing identified measured or assessed risks;
– other restrictions including any restrictions arising from the internal SID Bank's acts, rules and standards as well as requirements of the Bank of Slovenia and other competent or supervisory authorities.

A comprehensive and risk-bearing adapted process of the assessment of risk-bearing capacity is carried out by SID Bank once a year and is reported to the management bodies, thus ensuring maintenance of assumed risks within SID Bank's risk-bearing capacity. The assessed risk-bearing capacity is taken into account during the preparation of its business strategy and objectives as well as risk appetite.

In accordance with the business strategy and objectives, risk-bearing capacity and Risk Management Strategy, SID Bank maintains an adequate capital level with regard to the level of assumed risks with the aim of ensuring a long-term sustainable target risk profile when carrying out its operations. It gives priority to the stability and safety of Bank's operations with the aim of maintaining or increasing the value of capital in the long run, maintaining the Bank's reputation and maximising the benefits of the users of SID Bank services and other stakeholders.

SID Bank's risk appetite is defined in the currently valid SID Bank Action Strategy, SID Bank Annual Operational Plan and within the framework of internally defined limits. SID Bank makes a risk profile assessment and a risk-bearing capacity assessment at least once a year or more frequently in the case of major changes in risk exposure.

The internal control mechanisms whose functioning is usually established for all business operations of SID Bank are intended for the management of risks that are more difficult to measure and include the following:

– internal controls over the implementation of organizational, business and working processes of the Bank;
– internal control functions (Internal Audit Department, compliance function including the function of ensuring information security that is organized within the Compliance Department, risk management function that is organized within the Risk Management Department and the responsible Executive Director).

The purpose of internal controls is to ensure systematic control over any important risk the Bank is exposed to and to ensure an independent and objective assessment of efficiency and compliance with regard to the establishment of internal bank management on the basis of reviewing and assessing the adequacy of risk strategy and policies, risk management processes and methodologies of the Bank and reporting on risks.

Organizational structure and working processes in SID Bank are in place so that it is possible to achieve business objectives and simultaneously take into account safe operation that is harmonised with regulations. When implementing risk management measures, the key objective is to achieve adequate awareness on risks at all levels of the Bank. The established structure of risk management includes an active role of the Supervisory Board and Management Board. The risk management function is centralized within the Risk Management Department and is separated from the risk-bearing business units in terms of organization. The Executive Director who is in charge of the area ensures adequate realisation of the risk management arrangement during bank operations on a daily basis and regularly informs the Management Board thereof. The Executive Director in charge for risk management has guaranteed regular participation in the meetings of the Supervisory Board regarding the part which pertains to the risk management issues and in meetings of the Risk Committee and have direct access to the Chairwoman of the Supervisory Board and Chairman of the Risk Committee for the purposes of informing the Board of significant circumstances which affect or might affect the Bank's risk profile.

Within range of their competences and duties on the basis of the Banking Act (ZBan-2), The Management Board and the Supervisory Board of the Bank are, within the range of their competences and duties on the basis of the Banking Act (ZBan-2), responsible for decision-making, adopting and regular reviewing of the Risk-bearing and management strategy and policies to which the bank is, or might be, exposed during its operations, including risk arising from the macroeconomic environment in which the bank operates with respect to each business cycle. The risk management strategy and policies include guidelines for assuming risks as well as risk management procedures, methodologies and tools. The risk management action plan shall be adopted by the Management Board of the bank with the consent of the Supervisory Board and after consulting with the Risk Committee.

The Management and Supervisory Boards of the Bank are fully aware of the substantive part in the field of risk management through quarterly reports on operations and risks which are prepared by the Controlling Department and the Risk Management Department, as well as through occasional reports prepared by the Treasury Department on the developments in the financial markets. Regular reports on risks include information about the exposure of SID Bank to credit, currency, liquidity and interest rate risk, including a more detailed analysis of individual and sectoral credit portfolio concentration and its structure by geographical regions, credit rating, etc. On an annual basis, the Management Board and the Supervisory Board confirm the results of the Internal Capital Adequacy Assessment Process (ICAAP) including the internal assessment of capital requirements and the internal assessment of capital with regard to the level of assumed risks, which covers both normal and stressful circumstances in operations of the SID Bank Group and the results of the Internal Liquidity Adequacy Assessment Process (the ILAAP process) or the liquidity of the Bank according to its risk profile. In addition, the management body is familiarized with risk management within the context of examination and adoption of the annual report of the SID Bank Group. In addition to the above-mentioned reporting to the management body, SID Bank also established regular reporting to the Management Board on operational risks and reporting to the Management Board and the Supervisory Board on the use of external contractors, in the case of the treatment of proposals aimed at obtaining relevant approvals by the management body or in case of detected major changes in risks or circumstances.

The Supervisory Board is assisted by the Risk Committee in the fulfilment of supervisory tasks in the field of risk management. The Risk Committee advises regarding the general risk appetite of the bank and regarding the risk management strategy, helps with the implementation of control of senior management regarding the risk management strategy and verifies whether risks were considered with incentives within the framework of remuneration and whether prices of products of the bank are compatible with the business model and risk management strategy.

SID Bank has not established a special Risk Management Committee. Risks in SID Bank are discussed and analysed by three committees which are of key importance for the risk management function: the Assets/Liabilities and Liquidity Committee, Credit Committee and Distressed Investment Management Committee. Normally, the committees convene on aweekly basis.

Guidance, controlling and monitoring of risk management within the Bank are performed by the Assets/Liabilities and Liquidity Committee, which is responsible for liquidity regulation and balance sheet management including risk management at the aggregate level of the Bank, balance sheet composition and capital adequacy. With the regulation of credit risk (in the case of treasury transactions), interest rate, market, operational, capital and revenue-related risk and other possible risks at the level of SID Bank and the SID Bank Group it is responsible for monitoring, analysing and assessing, particularly, the following:

- the results of bank operations in terms of realisation of business objectives (plan);
- balance sheet composition of the Bank;
- balance, changes and trends to the Bank's balance sheet;
- reports on capital adequacy;
- reports on the exposure of the Bank to interest, market, capital, revenue, credit and operational risk;
- Bank’s investments taking into account the profitability and risk in terms of achieving planned objectives;
- structure and performance of the Bank's products;
- proposals of the business plan and its changes in the case of significant change in operating conditions in individual fields and areas of Bank’s operations;
- accounting policies and guidance of the Bank;
- consolidated financial statements of the SID Bank Group;
- relationships with associates companies;
- volume of trading and fulfilment of capital requirements thereof;
- fulfilment of operating criteria in accordance with the regulations and business policy of the Bank;
- reports on outstanding transactions and their influence on the liquidity ratios and information on transactions which did not achieve the average or target interest margin;
- utilisation and/or limit breaches and implementation of general authorisations of employees in the Treasury Department.

The Credit Committee is responsible for credit risk management for transactions on behalf and for the account of the Bank. It adopts decisions on proposals which affect the exposure to credit risk at the level of SID Bank and the SID Bank Group and discusses various reports, *inter alia*, about findings of performed regular and in-depth monitoring, (non-) compliance with the commitments, notifying and collection, monitoring insurance and rate of impairments and provisions for existing and new investment transactions.

The Distressed Investment Management Committee is responsible for the management of non-performing receivables under the custody of the Distressed Investment Management Department and due to the financial problems of required restructuring and cancellations and the recall of investment transactions which are not regularly under the custody of the Distressed Investment Management Department. It is also responsible for the treatment of warning systems and reports on collection, insurance and fulfilment of financial and other contractual commitments of restructured transactions.

The general framework of risk management is described under section 4 of the business part of the Annual Report where other bodies and organizational units responsible for direct implementation of risk management are specified.

3.1 Credit risk

Credit risk is the risk of a loss as a result of the failure of a debtor to discharge its liabilities, irrespective of the reason for this failure.

The Credit risk management policy is the framework document covering the management of credit risk in the operations of SID Bank. The policy defines the risk appetite on credit risk in relation to business objectives and strategy of SID Bank, its risk appetite, mechanisms and procedures for monitoring, control and management of credit risk from operating activities and the powers and responsibilities for the management of credit risk.

The integral documents of a comprehensive credit risk management system in SID Bank include all applicable regulations and internal regulations which SID Bank uses in credit approval process, collateral management, in monitoring and managing the credit portfolio, in determining the credit rating of the debtor and the debtor country, classification of exposures, interest calculation, the recovery of non-performing exposures, etc.

In the case of credit and guarantee transactions credit risk entails the risk of default with regard to debtor's financial position and also the risk related to the the geographic location of the debtor's country. Credit risk from securities derives from the portfolio managed by SID Bank for the purpose of ensuring liquidity and balance sheet management. SID Bank manages credit risk arising from this type of activity primarily by seting appropriate exposure limits with regard to the issuer's credit rating, the issuer's loacation, the and the monitoring of market values of securities. SID Bank does not carry out trading business. Counterparty credit risk in the settlement of transactions in securities and in relation to derivatives is also taken into account.. Exposure to credit risk arising from derivative financial instruments is calculated by SID Bank using the method of the original exposure, whereby the value of the exposure represents a hypothetical amount of each instrument multiplied by the percentages reffered to in Article 275 of the CRR Regulation. Exposure is managed within the limits on exposure to credit risk, which are approved by the Credit Committee.

The management of credit risk begins before a contractual relationship is concluded with the determination of the client's creditworthiness and the establishment of eligible collateral. The occurrence of exposure is approved by the Credit Committee or any other competent body in accordance with the authorisations for approving transactions, which are defined by internal acts and the articles of association of SID Bank, according to the value of investment and existing exposure. Throughout the lifetime of an investment transaction the credit risk is managed by means of monitoring and managing the credit portfolio, the limitation of concentrations of credit risk in relation to individual clients, groups of connected clients, sectors and countries, the rating process and the creation of impairments and provisions for expected losses, and the provision of adequate capital for cases when losses exceed expectations.

Credit risk monitoring

SID Bank carries out regular and in-depth monitoring of credit risk. Regular monitoring of credit risk is carried out on the premises of SID Bank on the basis of the documentation received by the debtor and documentation which is available at SID Bank, namely credit risk assessment of the individual debtor and groups of connected clients, information from databases which SID Bank can access directly or indirectly, the mass media, contacts with the debtor and its business partners, representations of Slovenian companies abroad, credit ratings made by international credit rating agencies, information on non-compliance with the contractual obligations, audit reports, annual reports, interim financial statements, notices of diplomatic consular offices of the Republic of Slovenia and others. In the event of in-depth monitoring, a check is carried out on the premises of the debtor as well. SID Bank regularly carries out thorough monitoring on the basis of a list approved by the Credit Committee. SID Bank regularly carries out in-depth monitoring when it detects a serious breach of contractual obligations, the deterioration of the financial and economic situation of the debtor or other circumstances which affect or may affect the business of the debtor and the successful conclusion of the credit transaction. When the watch list on the amount and maturity of loan transactions is prepared, the debtor's credit rating and other factors that affect credit risk shall be taken into account. The overview of the business operations of the debtor and the purposeful use of the loan (an overview of the books of account, records and other documents related to the operations of the debtor), overview of the subject of credit transaction and assets of credit transaction collateral are subject to in-depth monitoring. Through thorough monitoring SID Bank obtains soft information on the debtor and its operations and other circumstances that are relevant to the successful conclusion of the credit transaction. Responsibilities of individual organizational units and description of the procedures for in-depth monitoring of credit operations and the duty of mutual communication and cooperation of individual organizational units are defined in the internal regulations.

Early Warning System

SID Bank has formed an early warning system (the so-called "EWS"), which allows early detection of increased credit risk for each exposure and further efficient actions to prevent the client from defaulting. On the basis of the Early Warning System SID Bank classifies clients accordingly. SID Bank monitors exposures with increased credit risk with watch lists, namely the potential list that is dealt on a weekly basis by the Credit Committee. Indicators for the classification of exposures with an increased credit risk in the potential list are defined in the internal regulations. After a certain period, the clients may be returned to normal treatment or are reclassified under non-performing exposures. Indicators for reclassification of exposures to non-performing exposures are determined in the internal regulations.

Management of non-performing exposures

Criteria for determining the non-performing exposures are defined in the internal regulations and are consistent with the Basel and EBA guidelines. In the event that exposure with increased risk will obtain the status of a non-performing exposure based on the decision of the Credit Committee, the exposures will be assigned to a specific organizational unit, the Distressed Investment Management Department, which carries out economic and legal reviews of exposure and on the basis of appropriate analysis and begins either with the process of restructuring of the exposure or the realisation of collection. SID Bank monitors exposures on watch lists after the classification of transactions under non-performing exposures, namely the potential list, the list of restructured exposures or the insolvency list, which are dealt with on a weekly basis by the Distressed Investment Management Committee.

In the field of the management of non-performing exposures, SID Bank has addopted a strategy for managing non-performing exposures. In addition, SID Bank formed a plan of reducing non-performing exposures for a period of three years, which shows a reduction in non-performing exposures and which SID Bank shall realize through active management of its non-performing exposures. When preparing the plan for reducing non-performing exposures, SID Bank, inter alia, takes into account the expectations of write-offs, repayments from collateral, disposal of the exposure, repayments from ordinary operations and other factors. In the segmentation of the portfolio of non-performing exposures, SID Bank considers, *inter alia*, the assessment of the sustainability of the business model of the debtor and the type of insurance exposure. Among debtors with a sustainable business model SID Bank identifies those that have the ability to generate cash flow from core business while simultaneously being capable of servicing financial debt, thus further classifying non-performing exposures as restructured or as those which have not (yet) been restructured. Regarding debtors with unsustainable business models, SID Bank identifies those that have the ability to generate cash flow from core operations, while they are further classified based on the expected and current status of the debtor, namely based on the fact of whether bankruptcy proceedings, elimination from the judicial record or regular procedure or compulsory liquidation is conducted against the debtor.

Foreclosure procedure

Foreclosure procedures and collection of receivables have been recorded in the internal rulebook by SID Bank. Foreclosure takes place in accordance with internal procedures and may vary from case to case. The type of foreclosure depends largely on the type of collateral, the duration of the delay, cooperation of the debtor and the amount due and outstanding exposures of SID Bank to the debtor.

Each foreclosure, irrespective of the method and the person conducting the foreclosure starts with an oral and written reminder to the debtor. Reminders shall be carried out by telephone, electronic mail, with written reminders, enforcement for carrying out other activities which contribute to a rapid, effective and successful repayment of the overdue exposure. The method of reminding shall be decided according to the experience of conducting business with the debtor and other circumstances of the case, with the objective of achieving the fulfilment of obligations. The reminder prompts the debtor to fulfil the obligations, and by a specified deadline.

In the event of an unsuccessfully finished reminder procedure, if the exposure could not be restructured or if the Credit Committee dismisses a proposal for restructuring, it may initiate the procedures of repayment of overdue and unpaid exposures from liquidation of collateral instruments which are negotiable without previous processes and the conclusion of agreements with debtors on a different mode of repayment of the debt, as is clear from the basic loan agreement.

If out-of-court collection settlement is not successful, a judicial foreclosure is initiated headed by the Distressed Investment Management Department. It starts by sending out reminders before action, contacting debtors, filing claims, presenting proposals for the execution and performance of other activities of judicial foreclosure and the reporting of receivables from the debtor in compulsory liquidation procedure, bankruptcy, liquidation or other suitable proceedings.

Credit collateral

The types of credit collateral used by SID Bank are defined in the internal rulebook. The rulebook defines the general categories and principles of credit collateral, the criteria for individual types of collateral, minimum ratios between the value of collateral and exposure, operational procedures for establishing, recording, monitoring/evaluating and exercising collateral or termination of collateral as well as the responsibilities of organizational units related to credit collateral.

SID Bank accepts different forms of funded and unfunded credit security as loan collateral. All collateral must comply with the minimum requirements of legal certainty laid down in the CRR Regulation. SID Bank treats acquired collateral as a secondary source of loan repayment and not a substitute for primary assessment of a borrower's credit worthiness.

SID Bank values collateral at fair (market) value. Financial assets listed on a stock exchange are valued using the closing rate. However, assets not listed on a stock exchange are valued on the basis of comparable transactions or internal models. The market value of real estate is obtained from valuation reports prepared by independent certified appraisers according to international valuation standards (IVS). Market or liquidation value may also be used for valuation of real estate. In addition, the transaction price from sales agreements not older than one year obtained in a transaction with unconnected entities may also be used. Throughout the existence of exposure SID Bank regularly monitors the value of assets pledged and forms the value assessment for business and residential real estate at least twice annually using statistical methods. In the case of exposure which exceeds EUR 3 million collateralised with real estate or when the value of real estate pledged as collateral exceeds EUR 3 million, SID Bank obtains the evaluation of an independent certified appraiser every 3 years.

Throughout the existence of exposure SID Bank regularly monitors the debtor's credit rating and the coverage of the investment (loan) by collateral. Should the collateral value decline, additional collateral is established as appropriate.

The collateral for exposures of other companies of the SID Bank Group are monitored in subsidiary account records of individual companies. For the purpose of reporting to external institutions or fulfilment of liabilities of SID Bank on a consolidated basis, the required data is collected directly from the companies in the SID Bank Group.

Classification of financial assets and off-balance sheet liabilities by rating classes

SID Bank classifies financial assets and commitments under off-balance-sheet items according to the classification of the Bank of Slovenia in grades from A to E, in which case the parties of the highest quality are A-rated and the lowest are E-rated on the basis of the assessment of the financial situation of each debtor, its ability to ensure sufficient cash flow for the regular fulfilment of obligations to SID Bank in the future, the type and extent of the insurance of a financial asset or commitments under off-balance-sheet items to the debtor and the debtor's track record of fulfilment of the obligations to SID Bank. The basis for the classification represents an internal rating based on an evaluation of qualitative and quantitative elements and criteria of the Bank of Slovenia for the classification of financial assets, commitments and contingencies in individual grades. SID Bank has formed a separate methodology for assessing credit risk for companies and entrepreneurs, banks and savings banks, municipalities, and investment projects. The methodology for the credit risk assessment of banks and savings banks is validated by the agency S&P Capital IQ, London. SID Bank has established 21 internal grades, where each grade defines, inter alia, the financial situation of the debtor, efficiency and profitability of its operations, as well as future trends. The Bank for the duration of the credit transaction monitors the debtor's performance and reviews the appropriateness of the classification on a daily basis.

SID Bank and SID Bank Group have internally developed guidance on the classification of debtors in individual grades, setting exposure limits and approval processes for credit transactions. The working guidelines shall include all necessary information, the criteria and the method of classification of financial assets and liabilities according to the off-balance sheet items.

Assessment of credit risk losses

For the evaluation of losses from the credit risk, SID Bank formed its own methodology that adequately covers the expected losses originating from credit risk. In accordance with IFRS, the debtors are classified individually or in groups as part of the collective assessment of credit risk losses. They are formed on the basis of groups of debtors with comparable risk which are mainly related to the debtors' activities, geographical location and characteristics of financing products.

For the calculation of the replacement value, SID Bank and the SID Bank Group consider the present value (discounted value) of the expected future cash flows. The amount of the impairment or the difference between the carrying amount and the replacement value represents the value of a financial asset or off-balance sheet commitment. The policy of forming impairments and provisions is further described under item 2.3.11.

Maximum exposure to credit risk

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Gross exposure of balance-sheet items	**2,706,232**	**3,375,506**	**2,741,419**	**3,408,860**
Balances with the central bank and demand deposits with banks	147,668	13,786	153,355	17,459
Available-for-sale financial assets	765,440	929,988	788,807	953,038
Debt securities	765,440	929,988	788,807	953,038
Gross exposure	765,440	929,988	788,807	953,038
Impairments (individual)	0	0		0
Loans and advances	1,608,458	2,212,013	1,614,591	2,218,644
Loans and advances to banks	996,368	1,606,153	1,002,502	1,612,787
Gross exposure	1,003,700	1,612,629	1,009,834	1,619,263
Impairments (individual)	0	0	0	0
Impairments (group)	(7,332)	(6,476)	(7,332)	(6,476)
Loans and advances to non-bank customers	610,562	605,465	610,562	605,465
Gross exposure	787,860	804,370	787,860	804,370
Impairments (individual)	(125,110)	(163,057)	(125,110)	(163,057)
Impairments (group)	(52,188)	(35,848)	(52,188)	(35,848)
Other financial assets	1,528	395	1,527	392
Gross exposure	1,564	421	1,563	418
Impairments (individual)	(5)	(26)	(5)	(26)
Impairments (group)	(31)	0	(31)	0
Derivative financial instruments held for hedging	0	14,312	0	14,312
Gross exposure of off-balance-sheet items	**56,441**	**165,395**	**56,441**	**165,395**
Guarantees	18,121	22,494	18,121	22,494
Gross exposure	32,871	53,953	32,871	53,953
Provisions (individual)	(14,618)	(31,375)	(14,618)	(31,375)
Provisions (group)	(132)	(84)	(132)	(84)
Other off-balance-sheet liabilities	23,244	108,331	23,244	108,331
Gross exposure	23,570	111,442	23,570	111,442
Provisions (individual)	0	(397)	0	(397)
Provisions (group)	(326)	(2,714)	(326)	(2,714)
Total gross exposure to credit risk	**2,762,673**	**3,540,901**	**2,797,860**	**3,574,255**
Total net exposure to credit risk	**2,562,931**	**3,300,924**	**2,598,118**	**3,334,278**

The table illustrates the maximum exposure to credit risk of SID Bank and the SID Bank Group deriving from balances at the central bank, loans, investments in financial instruments and off-balance-sheet liabilities, without taking into consideration collateral or credit quality. As of 31 December 2016, SID Bank's exposure to credit risk has increased in comparison to 31 December 2015 due to balances at the central bank, while the exposure from loans, derivative financial instruments held for hedging, debt securities available for sale and off-balance sheet liabilities decreased.

Credit risk at the insurance company PKZ, which is a part of the SID Bank Group, mostly consists of available-for-sale financial assets and insurance-technical provisions that are ceded to reinsurers (totalling 79% of the exposure to credit risk or EUR 42,044 thousand in 2016).

The technical provisions transferred to reinsurers are not due or impaired. All reinsurers on the current private reinsurance contract and all reinsurers that are no longer on the contract, yet are included in the insurance-technical provisions that are ceded to reinsurers (provisions for previous years) are rated in the range from A- to AA (S&P rating) or as A3 to Aa3 (Moody's rating), while the credit rating of SID Bank, which acts as reinsurer in a smaller portion of the portfolio, is Baa3 (according to S&P).

Due to specific nature of business operations of SID-PKZ and the insignificant exposure from loans, certain disclosures below are only reported for SID Bank.

Exposure of loans – breakdown by type of collateral

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Carrying amount of secured loans	**346,132**	**389,908**	**346,132**	**389,908**
Secured by Slovenian government guarantee	5,640	16,761	5,640	16,761
Securities collateral	52,092	24,814	52,092	24,814
Commercial real estate collateral	91,925	138,585	91,925	138,585
Residential real estate collateral	1,275	1,781	1,275	1,781
Movable property collateral	53,277	104,691	53,277	104,691
Cession of claims as collateral	60,075	85,369	60,075	85,369
Pledged stock as collateral	58,137	0	58,137	0
Other forms of credit protection	23,711	17,907	23,711	17,907
Carrying amount of unsecured loans	**1,262,326**	**1,822,105**	**1,268,459**	**1,828,736**
Carrying amount of loans	**1,608,458**	**2,212,013**	**1,614,591**	**2,218,644**

The table illustrates the breakdown of loan exposures by type of credit collateral. Secured loans comprise loans where the fair value of collateral is larger than or equal to the carrying amount of the loan. Where the fair value of the collateral is larger than the carrying amount of the loan, the amount of the loan is included in secured loans. Where the fair value of the collateral is lower than the carrying amount of the loan, the loan is included in the amount of the fair value of the collateral in secured loans, while the remainder of the loan is included in unsecured loans. For loan agreements where not all disbursements have been made, collateral is taken into account proportionately with regard to the disbursed and undisbursed loan amounts.

The majority of SID Bank's credit portfolio comprises loans to banks established in Slovenia which transfer the funding to the final beneficiaries in accordance with ZSIRB. The aforementioned loans are generally unsecured.

Total collateral value for exposures from loans at SID Bank and SID Bank Group amounted to EUR 824,016 thousand as at 31 December 2016, compared with EUR 816,551 thousand as at 31 December 2015. In the breakdown of collateral the largest value represents movable property collateral, followed by commercial real estate collateral, cession of claims as collateral, collateral in the form of participating interests, a limited subsidiary guarantee of the Republic of Slovenia, equities collateral, corporate guarantees by corporates rated BBB- or higher (according to SID Bank's internal methodology), SID Bank insurance policy for the account of the Republic of Slovenia and other types of collateral.

On 31 December 2016 SID Bank undertook a revaluation of real estate collateral that was appraised before 1 July 2016 using a statistical method.

Loan exposure and off-balance sheet liabilites – breakdown by rating

SID Bank	31 Dec 2016 Loans and off-balance-sheet liabilities		31 Dec 2016 Impairments and provisions		31 Dec 2015 Loans and off-balance-sheet liabilities		31 Dec 2015 Impairments and provisions	
Total	**1,849,565**	**100.00%**	**(199,743)**	**100.00%**	**2,582,816**	**100.00%**	**(239,978)**	**100.00%**
A-rated	314,008	16.98%	(9,353)	4.68%	665,880	25.78%	(11,578)	4.82%
B-rated	1,178,019	63.69%	(40,370)	20.21%	1,471,066	56.96%	(32,620)	13.59%
C-rated	122,046	6.60%	(10,287)	5.15%	62,932	2.44%	(924)	0.39%
D-rated	195,826	10.59%	(101,654)	50.89%	330,132	12.78%	(143,505)	59.80%
E-rated	39,666	2.14%	(38,079)	19.06%	52,806	2.04%	(51,351)	21.40%

As at 31 December 2016, SID Bank disclosed a gross exposure of loans and off-balance-sheet liabilities in the amount EUR 1,849,565 thousand, a decrease of 28.4% compared to 31 December 2015. As at 31 December 2016, 80.7% of total loans and off-balance-sheet liabilities were rated A or B, compared with 82.7% as at 31 December 2015. The proportion of loans and off-balance-sheet liabilities rated A decreased from 25.8% as at 31 December 2015 to 17.0% compared to 31 December 2016. The decrease was the result of a decrease in exposure of SID Bank towards foreign banks. There were minor changes in the structure of the credit portfolio in all credit rating categories. Reduction of exposure in credit rating category B is mainly from regular and early repayments of loans to banks established in the Republic of Slovenia. Despite the fact that the number of defaults in 2016 increased, the exposure in rating categories D and E decreased. The partial repayment of loans from the disposal of business unviable assets, redeeming of collateral and cash flow from operations as a result of successfully implemented restructuring procedures affected the decrease in exposure in credit rating categories D and E. The reclassification of non-performing exposure to performing exposure also had an impact on the reduction where SID Bank appropriately considered the rules laid down in the EBA guidance.

The average coverage of exposure to credit risk by impairments and provisions for clients other than banks stood at 22.5% as at 31 December 2016 (31 December 2015: 24.7%). The coverage of exposure to D- and E-rated clients by impairments and provisions to these clients stood at 56.7% as at 31 December 2016 (31 December 2015: 46.7%).

Exposure of loans – breakdown by maturity and impairment

SID Bank	31 Dec 2016 Loans and advances to banks	31 Dec 2016 Loans and advances to non-bank customers	31 Dec 2016 Other financial assets	31 Dec 2016 Total loans and advances	31 Dec 2015 Loans and advances to banks	31 Dec 2015 Loans and advances to non-bank customers	31 Dec 2015 Other financial assets	31 Dec 2015 Total loans and advances
Gross loans	**1,003,700**	**787,860**	**1,564**	**1,793,124**	**1,612,629**	**804,370**	**421**	**2,417,420**
Non-past due and individually non-impaired loans	1,003,700	565,325	1,557	1,570,582	1,612,629	451,802	394	2,064,825
Past due and individually non-impaired loans	0	1,793	0	1,793	0	3,575	0	3,575
Individually impaired loans	0	220,742	7	220,749	0	348,993	27	349,020
of which are D- and E-rated loans	0	220,742	7	220,749	0	348,993	27	349,020
Impairments	**(7,332)**	**(177,298)**	**(36)**	**(184,666)**	**(6,476)**	**(198,905)**	**(26)**	**(205,407)**
Individual impairment	0	(125,110)	(5)	(125,115)	0	(163,057)	(26)	(163,083)
of which impairments are of D- and E-rated loans	0	(125,110)	(6)	(125,116)	0	(163,057)	(26)	(163,083)
Collective impairments	(7,332)	(52,188)	(31)	(59,551)	(6,476)	(35,848)	0	(42,324)
Net loans	**996,368**	**610,562**	**1,528**	**1,608,458**	**1,606,153**	**605,465**	**395**	**2,212,013**
Fair value of collateral	**3,640**	**820,376**	**0**	**824,016**	**15,538**	**801,013**	**0**	**816,551**

As at 31 December 2016, SID Bank formed a total of EUR 199,743 thousand of impairments and provisions, which is EUR 40,235 thousand less than after the balance as at 31 December 2015. The impairments of granted loans and other financial assets totalled EUR 184,666 thousand, and the provisions for off-balance sheet liabilities totalled EUR 15,076 thousand.

Impairments and provisions from collective and individually assessed crdit losses, whereby losses in exposures classified under credit rating categories D or E are assessed individually.

In 2016, individual impairments compared to 2015 decreased by EUR 37,968 thousand from the partial repayment of non-performing exposures and reclassification of non-performing exposures among performing exposure. The coverage of the exposure classified in the rating categories D and E with impairments and provisions rose by 10.0 percentage points.

Due to the increase in percentage points of collective impairments for banks and due to changes in credit portfolio structure, the collective impairments increased by EUR 1,346 thousand.

The majority of SID Bank's loan portfolio is classified in the group of banks from countries which fall into risk class 0 or 1 on the scale of minimum export insurance premiums (MEIP), since in accordance with the ZSIRB, SID Bank grants loans to banks established in Slovenia which transfer the funding to the final beneficiaries.

	31 Dec 2016				31 Dec 2015			
SID Bank Group	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances
Gross loans	**1,009,834**	**787,860**	**1,563**	**1,799,257**	**1,619,263**	**804,370**	**418**	**2,424,051**
Non-past due and individually non-impaired loans	1,009,834	565,325	1,556	1,576,715	1,619,263	451,802	391	2,071,456
Past due and individually non-impaired loans	0	1,793	0	1,793	0	3,575	0	3,575
Individually impaired loans	0	220,742	7	220,749	0	348,993	27	349,020
of which are D- and E-rated loans	0	220,742	7	220,749	0	348,993	27	349,020
Impairments	**(7,332)**	**(177,298)**	**(36)**	**(184,666)**	**(6,476)**	**(198,905)**	**(26)**	**(205,407)**
Individual impairment	0	(125,110)	(5)	(125,115)	0	(163,057)	(26)	(163,083)
of which impairments are D- and E-rated loans	0	(125,110)	(6)	(125,116)	0	(163,057)	(26)	(163,083)
Collective impairments	(7,332)	(52,188)	(31)	(59,551)	(6,476)	(35,848)	0	(42,324)
Net loans	**1,002,502**	**610,562**	**1,527**	**1,614,591**	**1,612,787**	**605,465**	**392**	**2,218,644**
Fair value of collateral	**3,640**	**820,376**	**0**	**824,016**	**15,538**	**801,013**	**0**	**816,551**

Loans neither past-due nor individually impaired

	31 Dec 2016				31 Dec 2015			
SID Bank	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances
Total	**1,003,700**	**565,325**	**1,557**	**1,570,582**	**1,612,629**	**451,802**	**395**	**2,064,826**
A-rated	166,622	125,002	385	292,009	509,960	129,710	394	640,064
B-rated	829,188	329,891	1	1,159,080	1,052,818	310,580	1	1,363,399
C-rated	7,890	110,432	1,171	119,493	49,851	11,512	0	61,363
D-rated	0	0	0	0	0	0	0	0
E-rated	0	0	0	0	0	0	0	0
Fair value of collateral	**3,640**	**727,547**	**0**	**731,187**	**15,538**	**602,849**	**0**	**618,387**

Loans past-due but not individually impaired

SID Bank and the SID Bank Group	31 Dec 2016				31 Dec 2015			
	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances
Total	**0**	**1,793**	**0**	**1,793**	**0**	**3,575**	**0**	**3,575**
Receivables past-due up to 30 days	0	1,692	0	1,692	0	2,332	0	2,332
Receivables past-due from 30 to 90 days	0	101	0	101	0	1,243	0	1,243
Receivables past-due more than 90 days	0	0	0	0	0	0	0	0
Fair value of collateral	**0**	**5,261**	**0**	**5,261**	**0**	**8,358**	**0**	**8,358**

Individually impaired loans

SID Bank and the SID Bank Group	31 Dec 2016				31 Dec 2015			
	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances
Total	**0**	**220,742**	**7**	**220,749**	**0**	**348,992**	**27**	**349,019**
Outstanding receivables	0	149,821	0	149,821	0	260,771	0	260,771
Receivables past-due up to 30 days	0	29,538	0	29,538	0	1,089	0	1,089
Receivables past-due from 30 to 90 days	0	1,759	0	1,759	0	1,181	0	1,181
Receivables past-due more than 90 days	0	39,624	7	39,631	0	85,951	27	85,978
Fair value of collateral	**0**	**87,567**	**0**	**87,567**	**0**	**189,806**	**0**	**189,806**

The gross exposure to receivables past-due from loans (collective and individually impaired) as at 31 December 2016 amounted to EUR 72,721 thousand at SID Bank and the SID Bank Group; it comprises loans to 68 companies from Slovenia, one from Bosnia and Herzegovina, one from Croatia and three companies from Serbia.

SID Bank's past-due exposures from loans are secured by commercial and residential real estate, movable property collateral, cession of claims as collateral andSID Bank insurance policies for the account of the Republic of Slovenia.

Restructured loans

SID Bank and the SID Bank Group	31 Dec 2016				31 Dec 2015			
	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances	Loans and advances to banks	Loans and advances to the non-bank customers	Other financial assets	Total loans and advances
Gross loans	**0**	**210,411**	**0**	**210,411**	**1,761**	**316,488**	**0**	**318,249**
Non-past due and individually non-impaired loans	0	6,940	0	6,940	1,761	7,379	0	9,140
Past due and individually non-impaired loans	0	0	0	0	0	7	0	7
Individually impaired loans	0	203,471	0	203,471	0	309,102	0	309,102
of which are D- and E-rated loans	0	203,471	0	203,471	0	309,102	0	309,102
Impairments	**0**	**(111,231)**	**0**	**(111,231)**	**(7)**	**(138,497)**	**0**	**(138,504)**
Individual impairment	0	(111,044)	0	(111,044)	0	(138,206)	0	(138,206)
of which impairments are of D- and E-rated loans	0	(111,044)	0	(111,044)	0	(138,206)	0	(138,206)
Collective impairments	0	(187)	0	(187)	(7)	(291)	0	(298)

The carrying value of restructured loans (gross exposure minus impairments) at SID Bank and the SID Bank Group amounted to EUR 99,180 thousand as at 31 December 2016 (31 December 2015: EUR 227,535 thousand). In 2016, a new agreement on repayment terms was reached with seven companies, of which five are registered in Slovenia and two are foreign companies. Loans were restructured mainly by the extension or postponement of the due date of repayment. In one case SID Bank also wrote off part of the loan. SID Bank is in most cases a member of the core group of banks, which actively collaborates with the Management Boards of debtors and external consultants. Good business relationships have been developed and constructive practices designed with banks and the The Bank Assets Management Company (BAMC), where SID Bank participates in complex projects of restructuring. SID Bank has struggled for consistent implementation of the principles of Slovenian financial restructuring of debt in the economy, which, were prepared by the Bank Association of Slovenia together with the Bank of Slovenia. Good practice is reflected in faster organisation of banks when dealing with problematic exposure, faster processing procedures in accordance with the established principles and more efficient programs and projected development of companies, and in particular the proportion of successfully completed restructuring.

Available-for-sale debt securities by issuer's rating

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
	765,440	**929,988**	**788,808**	**953,038**
AAA	0	20,121	2,026	22,139
AA- to AA+	17,360	29,856	20,593	31,909
A- to A+	109,375	134,681	127,055	144,400
Below A-	607,688	720,715	607,688	729,352
Unrated	31,017	24,615	31,446	25,239

The table illustrates the breakdown of the carrying amount of available-for-sale debt securities classified according to the credit rating of the issuer in accordance with the methodology of SID Bank.

A detailed breakdown of the securities portfolio as at 31 December 2016 is given in Note 2.4.2.

Exposure to credit risk from derivatives held for hedging

	SID Bank and the SID Bank Group	
	31 Dec 2016	31 Dec 2015
Derivatives held for hedging	**0**	**14,312**
Interest rate swaps	0	14,312

As at 31 December 2016, SID Bank held no interest rate swaps as fair value hedges used in hedge accounting or interest rate swaps held for trading.

Exposure to credit risk by geographical region

SID Bank	Slovenia	Other members of the EU	SE and E Europe (excluding EU members)	Other countries	Total
Financial assets as at 31 Dec 2016	**2,137,256**	**352,044**	**14,518**	**17,748**	**2,521,566**
Balances with the central bank and demand deposits with banks	147,668	0	0	0	147,668
Available-for-sale financial assets	490,296	262,528	2,928	9,688	765,440
Debt securities	490,296	262,528	2,928	9,688	765,440
Loans and advances	1,499,292	89,516	11,590	8,060	1,608,458
Loans and advances to banks	916,865	74,673	4,831	0	996,369
Loans and advances to non-bank customers	580,900	14,843	6,759	8,060	610,562
Other financial assets	1,527	0	0	0	1,527
Financial assets as at 31 Dec 2016	**2,137,256**	**352,044**	**14,518**	**17,748**	**2,521,566**
Off-balance-sheet liabilities as at 31 Dec 2016	**29,365**	**12,000**	**0**	**0**	**41,365**
Guarantees	18,121	0	0	0	18,121
Gross exposure	19,601	0	13,270	0	32,871
Provisions	(1,480)	0	(13,270)	0	(14,750)
Other off-balance-sheet liabilities	11,244	12,000	0	0	23,244
Gross exposure	11,570	12,000	0	0	23,570
Provisions	(326)	0	0	0	(326)
Total exposure as at 31 Dec 2016	**2,166,621**	**364,044**	**14,518**	**17,748**	**2,562,931**
Financial assets 31 as at Dec 2015	2,241,737	878,525	40,373	9,464	3,170,099
Off-balance-sheet liabilities as at 31 Dec 2015	109,731	12,000	384	0	130,825
Total exposure as at 31 Dec 2015	**2,351,468**	**890,525**	**40,757**	**9,464**	**3,300,924**

The table illustrates the breakdown of net exposure to credit risk by geographical region as defined by the registered office of the debtor.

As at 31 December 2016, exposure of SID Bank to Slovenia totals 84.5% of total exposure from Financial assets and Off-balance sheet liabilities and fell by EUR 184,847 thousand compared to the balance as at 31 December 2015. This is followed by exposure to other EU Member States which has also decreased, namely by EUR 526,481 thousand. Decreases are due to the decrease of total assets of SID Bank. The greatest exposure of the credit portfolio to foreign countries represents exposures from Available-for-sale financial assets (debt securities) and loans to banks, among which exposures to other EU Member States prevail. As at 31 December 2016, exposure to credit risk to countries of Southeast and East Europe (Southeast and East Europe excluding EU Member States) represents 0.6%, while exposure to other countries represents 0.7% of financial assets and off-balance sheet liabilities. The major part of exposures to credit risk to foreign countries at the level of SID Bank Group arise from the exposures of SID Bank.

SID Bank uses internal exposure limits to apply a maximum allowable exposure to individual geographical regions. A more detailed presentation of the largest exposures to credit risk by countries is shown in the table of exposures to credit risk by countries. As at 31 December 2016 as compared to the balance as at 31 December 2015, greater change in exposure of SID Bank to other countries is shown due to the decrease in the deposit balance with foreign banks.

SID Bank Group	Slovenia	Other members of the EU	SE and E Europe (excluding EU members)	Other countries	Total
Financial assets as at 31 Dec 2016	**2,159,830**	**362,996**	**14,518**	**19,410**	**2,556,754**
Balances with the central bank and demand deposits with banks	153,355	0	0	0	153,355
Available-for-sale financial assets	501,050	273,480	2,928	11,350	788,808
Debt securities	501,050	273,480	2,928	11,350	788,808
Loans and advances	1,505,425	89,516	11,590	8,060	1,614,591
Loans and advances to banks	922,999	74,673	4,831	0	1,002,503
Loans and advances to non-bank customers	580,900	14,843	6,759	8,060	610,562
Other financial assets	1,526	0	0	0	1,526
Off-balance-sheet iabilities as at 31 Dec 2016	**29,365**	**12,000**	**0**	**0**	**41,365**
Guarantees	18,121	0	0	0	18,121
Gross exposure	19,601	0	13,270	0	32,871
Provisions	(1,480)	0	(13,270)	0	(14,750)
Other off-balance-sheet liabilities	11,244	12,000	0	0	23,244
Gross exposure	11,570	12,000	0	0	23,570
Provisions	(326)	0	0	0	(326)
Total exposure as at 31 Dec 2016	**2,189,195**	**374,996**	**14,518**	**19,410**	**2,598,119**
Financial assets 31 as at Dec 2015	2,261,902	890,538	40,373	10,639	3,203,453
Off-balance-sheet liabilities as at 31 Dec 2015	109,731	12,000	384	8,710	130,825
Total exposure as at 31 Dec 2015	**2,371,633**	**902,538**	**40,757**	**19,349**	**3,334,278**

SID Bank	31 Dec 2016			31 Dec 2015		
	Financial assets	Off-balance sheet liabilities	Total exposure	Financial assets	Off-balance sheet liabilities	Total exposure
Slovenia	2,137,255	29,365	2,166,620	2,241,739	109,731	2,351,471
Spain	86,380	0	86,380	112,475	0	112,475
Netherlands	58,815	0	58,815	122,143	0	122,143
Poland	53,278	0	53,278	49,283	0	49,283
Ireland	35,391	0	35,391	74,293	0	74,293
Romania	26,055	0	26,055	13,951	0	13,951
Italy	25,398	0	25,398	105,310	0	105,310
Austria	20,513	0	20,513	103,866	0	103,866
Croatia	19,704	0	19,704	32,870	0	32,870
Luxembourg	0	12,000	12,000	13,592	12,000	25,592
Other	58,777	0	58,778	300,577	9,094	309,670
Total exposure	**2,521,566**	**41,365**	**2,562,931**	**3,170,099**	**130,825**	**3,300,924**

SID Bank Group	31 Dec 2016			31 Dec 2015		
	Financial assets	Off-balance sheet liabilities	Total exposure	Financial assets	Off-balance sheet liabilities	Total exposure
Slovenia	2,158,778	29,365	2,188,142	2,261,905	109,731	2,371,636
Spain	86,380	0	86,380	112,475	0	112,475
Netherlands	61,067	0	61,067	123,248	0	123,248
Poland	57,868	0	57,868	53,820	0	53,820
Ireland	35,391	0	35,391	74,293	0	74,293
Romania	26,055	0	26,055	13,951	0	13,951
Italy	25,398	0	25,398	105,310	0	105,310
Austria	20,513	0	20,513	103,866	0	103,866
Croatia	19,704	0	19,704	32,870	0	32,870
Luxembourg	0	12,000	12,000	13,592	12,000	25,592
Other	65,600	0	65,600	308,123	9,094	317,217
Total exposure	**2,556,754**	**41,365**	**2,598,119**	**3,203,453**	**130,825**	**3,334,278**

Exposure to credit risk – breakdown by industry sector

SID Bank	Financial and insurance activities	Manufacturing	Public administration and defence	Trade	Transport and storage	Professional, scientific and technical activities	Electricity, gas, steam and air onditioning supply	Other	Total
Financial assets as at 31 Dec 2016	**1,326,681**	**197,245**	**589,344**	**86,704**	**93,099**	**27,130**	**127,885**	**73,478**	**2,521,566**
Balances with the central bank and demand deposits with banks	147,668	0	0	0	0	0	0	0	147,668
Available-for-sale financial assets	162,671	10,921	534,389	27,207	261	8,794	6,955	14,242	765,440
Debt securities	162,671	10,921	534,389	27,207	261	8,794	6,955	14,242	765,440
Loans and advances	1,016,342	186,324	54,955	59,497	92,838	18,336	120,930	59,236	1,608,458
Loans and advances to banks	996,368	0	0	0	0	0	0	0	996,368
Loans and advances to non-bank customers	19,967	186,323	54,578	58,357	92,838	18,335	120,930	59,235	610,563
Other financial assets	7	1	377	1,140	0	1	0	1	1,527
Off-balance-sheet liabilities as at 31 Dec 2016	**30,490**	**1,135**	**0**	**0**	**0**	**0**	**9,740**	**0**	**41,365**
Guarantees	17,994	127	0	0	0	0	0	0	18,121
Gross exposure	18,126	2,356		11,679	709	0	0	0	32,870
Provisions	(132)	(2,229)		(11,679)	(709)	0	0	0	(14,749)
Other off-balance-sheet liabilities	12,496	1,008	0	0	0	0	9,740	0	23,244
Gross exposure	12,500	1,061					10,009		23,570
Provisions	(4)	(53)					(269)		(326)
Total exposure as at 31 Dec 2016	**1,357,171**	**198,380**	**589,344**	**86,704**	**93,099**	**27,130**	**137,625**	**73,478**	**2,562,931**
Financial assets 31 as at Dec 2015	1,917,555	188,835	737,928	87,368	49,570	26,870	115,075	46,898	3,170,099
Off-balance-sheet liabilities as at 31 Dec 2015	100,033	5,969	8,710	430	0	0	0	15,683	130,825
Total exposure as at 31 Dec 2015	**2,017,588**	**194,804**	**746,638**	**87,798**	**49,570**	**26,870**	**115,075**	**62,581**	**3,300,924**

In 2016 SID, SID Bank was again most heavily exposed to financial and insurance activities sector since a major part of its assets are earmarked for banks with registered office in the Republic of Slovenia, which transfer funding to the final beneficiaries in accordance with ZSIRB. Compared with the situation as at 31 December 2015, the exposure to financial and insurance activities sector decreased by EUR 660,417 thousand, mainly due to scheduled and early repayments of loans given to banks and other financial institutions, as well as the reduction of deposits. As of 31 December 2016 compared to 31 December 2015 a decrease in exposure to the public administration and defence sector was recorded due to decreased in exposures from investments in central government debt securities. New loans represented an increase in exposure to other sectors.

SID Bank Group	Financial and insurance activities	Manufacturing	Public administration and defence, compulsory social	Trade	Transport and storage	Professional, scientific and technical activities	Electricity, gas, steam and air conditioning supply	Other	Total
Financial assets as at 31 Dec 2016	**1,347,018**	**197,245**	**603,054**	**86,704**	**93,099**	**27,130**	**127,885**	**74,619**	**2,556,754**
Balances with the central bank and demand deposits with banks	153,355	0	0	0	0	0	0	0	153,355
Available-for-sale financial assets	171,188	10,921	548,099	27,207	261	8,794	6,955	15,383	788,808
Debt securities	171,188	10,921	548,099	27,207	261	8,794	6,955	15,383	788,808
Loans and advances	1,022,475	186,324	54,955	59,497	92,838	18,336	120,930	59,236	1,614,591
Loans and advances to banks	1,002,502	0	0	0	0	0	0	0	1,002,502
Loans and advances to non-bank customers	19,967	186,323	54,578	58,357	92,838	18,335	120,930	59,235	610,563
Other financial assets	6	1	377	1,140	0	1	0	1	1,526
Off-balance-sheet liabilities as at 31 Dec 2016	**30,490**	**1,135**	**0**	**0**	**0**	**0**	**9,740**	**0**	**41,365**
Guarantees	17,994	127	0	0	0	0	0	0	18,121
Gross exposure	18,126	2,356		11,679	709	0	0	0	32,870
Provisions	(132)	(2,229)		(11,679)	(709)	0	0	0	(14,749)
Other off-balance-sheet liabilities	12,496	1,008	0	0	0	0	9,740	0	23,244
Gross exposure	12,500	1,061					10,009		23,570
Provisions	(4)	(53)					(269)		(326)
Total exposure as at 31 Dec 2016	**1,377,508**	**198,380**	**603,054**	**86,704**	**93,099**	**27,130**	**137,625**	**74,619**	**2,598,119**
Financial assets 31 as at Dec 2015	1,935,250	188,835	753,030	87,368	49,570	26,870	115,075	47,455	3,203,453
Off-balance-sheet liabilities as at 31 Dec 2015	100,033	5,969	8,710	430	0	0	0	15,683	130,825
Total exposure as at 31 Dec 2015	**2,035,283**	**194,804**	**761,740**	**87,798**	**49,570**	**26,870**	**115,075**	**178,213**	**3,334,278**

Counterparty credit risk

Derivative financial instruments are valued at market interest rates and yield curves. The fair value should reflect the rating of the instrument. Since market interest rates and the yield curves used for the valuation of derivatives do not contain counterparty credit risk or other factors market participants would involve in the instrument valuation, an adjustment for these factors should be made.

For this purpose, credit valuation (CVA) is calculated, which represents a value adjustment of the derivative for the counterparty credit risk and reflects the difference between the value of a financial instrument without taking into account the credit risk and the value which takes credit risk into account. Counterparty credit risk (CVA) and debit valuation adjustment (DVA) are both taken into account in the valuation adjustment. The bank does not calculate its debit valuation adjustment (DVA). CVA is calculated on a monthly basis for each closed transaction in derivatives.

Potential collateral is also taken into account when calculating the CVA. For the purpose of managing counterparty credit risk in transactions with derivatives the Bank may sign a credit support annex (CSA) – a legal supplement to the ISDA master agreement – which sets out the conditions and instructions for adjusting the mutual credit exposure by using collateral, which alternates between the two parties in the contract, according to the daily fair value of the derivative. A deposit is generally agreed to serve as collateral.

SID Bank discloses the calculated amount of the CVA in the profit and loss account in the month in which the total amount of the CVA for all derivatives exceeds the 10 basis points of the last amount of total risk exposure from the 3rd paragraph of Article 92 of the CRR Regulation.

The amount of CVA for SID Bank and SID Bank Group as at 31 December 2016 amounted to EUR 0.

3.2 Liquidity risk

Liquidity risk is the risk of losses arising when a bank is unable to settle all its maturing liabilities or when a bank is unable to provide enough funds to settle liabilities at maturity and is thus compelled to provide the necessary funds at significantly higher costs than normal. The greater the mismatch between interest and principal on the asset side and the liability side, and in off-balance-sheet items, the higher will be the risk of illiquidity.

Liquidity risk in the narrower sense arises when a bank is unable to repay its liabilities via investment transactions. These liabilities are usually settled using cash inflows, readily convertible assets and borrowed funding. Liquidity risk in the broader sense is the risk that a bank will have to additionally borrow at a higher interest rate and the risk that a bank will be compelled to sell non-cash investments at a discount owing to the need for liquidity. At SID Bank this risk is low, given the surplus position in current liquidity and adequate secondary liquidity, a significant proportion of which consists of government securities and other high-quality highly liquid securities.

SID Bank assumes liquidity risk with a primary objective of prudential and safty bank operations. Liquidity management involves management of assets and liabilities against asset resources (balance sheet and off-balance sheet) and a balanced borrowing strategy so that the bank is at all times able to meet due liabilities (liquidity) on time or sustainably meet all its obligations (solvency). Strict monitoring of operational liquidity is guaranteed; i.e. liquidity is guaranteed by balancing assets, particularly liquidity reserves and/or access to additional resources. The procedures for monitoring and measuring liquidity risk include the calculation of liquidity ratios (first-bucket and second-bucket liquidity ratio), the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as well as the preparation of liquidity flows. The Bank's structural liquidity is managed on the basis of the assessment of a long-term liquidity position.

The amount of assumed liquidity risk is defined in accordance with the risk appetite, which is reflected through the internally determined higher value of liquidity ratios, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) from the regulatory-prescribed ones which provides additional security to the bank. A minimum volume of a financial assets fund for Eurosystem receivables is determined internally. Additionally, liquidity planning is performed regularly, including the internally defined liquidity scenarios.

Due to the specific role of SID Bank and in particular owing to the fact that it does not accept deposits from the public, the Bank is not exposed to liquidity risk in the classical sense or risk of potential deposit outflows during the period of harsh liquidity conditions specific for the bank or those existing on the market. In addition, SID Bank obtains long-term financing with a guarantee of the Republic of Slovenia, in particular on international financial markets and with related financial institutions, which further affects the greater stability of the Bank’s borrowing.

In the field of management of liquidity risk in exceptional liquidity circumstances, SID Bank has an internal rulebook which defines effective ways of managing situations of exceptional liquidity conditions, including the identification of appropriate measures for overcoming and limiting the consequences of liquidity crisis and restoration of normal liquidity position of the Bank. For this purpose the Bank defines the key elements of liquidity management under extraordinary liquidity conditions, which include the following:

- organization and competency;
- a series of measures for overcoming and limiting the consequences of liquidity crisis;
- a set of indicators which serve as early warning of the possible development of a liquidity crisis,
- consistent internal and external communication for the duration of the liquidity crisis.

In addition to the set of selected indicators, with a view to an early warning on the possible development of a liquidity crisis, SID Bank in the context of reporting to competent committees regularly monitors the following:

– the trend of performance indicators of SID Bank which show possible changes in the structure of the balance sheet;
– the trend of macroeconomic indicators pointing to potential changes in the economy;
– developments in the financial markets which may affect the intensification of the liquidity situation.

By regularly monitoring such indicators SID Bank may detect intensified liquidity conditions in a timely manner and promptly take appropriate measures to bridge any liquidity problems.

The liquidity risk management process is carried out in accordance with the adopted policy on liquidity risk management, which is reviewed and adopted by the management body of the Bank at least on an annual basis. The action plan for liquidity risk management includes both the establishment of internal limits of liquidity ratios, regular measurement, processes for liquidity risk management as well monitoring and reporting the Bank's liquidity position. Regular treatment and monitoring of exposure to liquidity risk is guaranteed through weekly and monthly reports to the Assets/ Liabilities and Liquidity Committee and quarterly reports at the Supervisory Board meetings.

Liquidity risk management of SID Bank and SID Bank Group is conducted in accordance with the liquidity risk management policy, which defines procedures for managing assets and liabilities in domestic and foreign currencies on a daily basis as well as over the long run. SID Bank and SID Bank Group manage liquidity risk through appropriate planning of inflows and outflows, which is performed separately for its own account and contingency reserve account and by means of an adequate stock of high-quality liquid financial assets. In accordance with the liquidity risk management policy, SID Bank and the SID Bank Group provide regular fulfilment of all financial obligations and quality management of operational and structural liquidity.

SID Bank monitors and measures exposure to liquidity risk on the basis of the daily calculation of the liquidity ratios in the manner laid down in the banking regulation, as prescribed by the Regulation on the minimum requirements for ensuring the adequate liquidity position of banks and savings banks. The liquidity ratio represents the ratio of the sum of the financial assets in domestic and foreign currency and the sum of liabilities in domestic and foreign currency according to the residual maturity. The first-bucket liquidity ratio (0–30 days) should be at least 1, the second-bucket liquidity ratio (0–180 days) is informative. SID Bank has set internal liquidity ratios that are higher than those prescribed by banking regulation, which provides additional security In the event that the first-bucket liquidity ratio reaches a value of 1.2 or the second-bucket liquidity ratio reaches a value of 1.10, the Treasury Department is obliged to put forward measures to safeguard sufficient liquidity. Daily values of the first-bucket liquidity ratio in 2016 exceeded the regulatory requirements of the Bank of Slovenia. The first-bucket liquidity ratio as at 31 December 2016 is 13.9, and the second-bucket liquidity ratio is 3.40.

SID Bank calculates the value of the Liquidity Coverage Ratio on a monthly basis and a Net Stable Funding Ratio on a quarterly basis, which substantially exceed the limits set by the regulator, indicating a good liquidity position of SID Bank in 2016. The Liquidity Coverage Ratio for SID Bank as at 31 December 2016 amounted to 3.439% (as at 31 December 2015, 1.444%). As at 31 December 2016, the Liquidity Coverage Ratio for the SID Bank Group totalled 3.740% (1.501% as at 31 December 2015), while the regulatory limit for 2016 amounts to 70%. For SID Bank, the Net Stable Funding Ratio as at 31 December 2016 amounted to 204% (and 170% as at 31 December 2015). The Net Stable Funding Ratio for SID Bank Group as at 31 December 2016 amounted to 205% (and 168% as at 31 December 2015). The calculations of the above ratios are presented and discussed by the Assets/Liabilities and Liquidity Committee.

The Treasury Department in cooperation with other organizational units of SID Bank carries out weekly and mothly liquidity flows planning and simulations the first-bucket liquidity ratio for the coming period. In the event that it is necessary to improve operational or structural liquidity, the Treasury Department proposes to the Assets/Liabilities and Liquidity Committee the adoption of measures to manage those risks (prolonging the maturity of liability transactions, shortening of the maturity of the asset transactions, raising deposits and credit lines on the money market, reducing guarantee and credit potential). For the purpose of raising additional reserves of daily liquidity from central bank and from other banks, SID Bank has constantly at its disposal a portfolio of ECB eligible securities.

Financial assets and financial liabilities – breakdown by residual maturity as at 31 December 2016

SID Bank	Up to 1 month	More months	More months	1 to 5 years	More than 5 years	Total
Financial assets	**164,069**	**22,041**	**593,991**	**771,211**	**982,490**	**2,533,802**
Balances with the central bank and demand deposits with banks	147,668					147,668
Available-for-sale financial assets	13,274	6,118	266,012	347,594	144,678	777,676
Loans and advances	3,127	15,923	327,979	423,617	837,812	1,608,458
Loans and advances to banks	0	14,925	312,599	194,290	474,554	996,368
Loans and advances to non-bank customers	2,917	821	15,380	228,186	363,258	610,562
Other financial assets	210	177	0	1,141	0	1,528
Financial liabilities	**66,383**	**71,822**	**199,923**	**484,718**	**1,368,618**	**2,191,464**
Financial liabilities held for trading	0	0	312	0	0	312
Financial liabilities measured at amortised cost	52,700	70,961	175,841	484,718	1,350,491	2,134,711
Deposits from banks	24,999	6,741	0	0	0	31,740
Deposits from non-bank customers	0	30,000	0	0	0	30,000
Loans from banks and central banks	26,471	34,127	76,996	152,211	863,321	1,153,126
Loans from non-bank customers	0	0	0	31,202	426,225	457,427
Debt securities issued	0	0	98,559	301,147	60,945	460,651
Other financial liabilities	1,230	93	286	158	0	1,767
Assumed irrevocable liabilities and financial guarantees	13,683	861	23,770	0	18,127	56,441
Liquidity gap as at 31 Dec 2016	**97,686**	**(49,781)**	**394,068**	**286,493**	**(386,128)**	**342,338**
Financial assets as at 31 Dec 2015	63,326	266,723	751,974	1,029,100	1,067,592	3,178,715
Financial liabilities as at 31 Dec 2015	40,828	361,626	245,044	672,614	1,644,860	2,964,972
Liquidity gap as at 31 Dec 2015	**22,498**	**(94,903)**	**506,930**	**356,486**	**(577,268)**	**213,743**

SID Bank Group	Up to 1 month	More months	More months	1 to 5 years	More than 5 years	Total
Financial assets	**169,935**	**22,191**	**604,540**	**781,700**	**990,623**	**2,568,989**
Balances with the central bank and demand deposits with banks	153,355	0	0	0	0	153,355
Available-for-sale financial assets	13,454	6,268	270,427	358,083	152,811	801,043
Loans and advances	3,126	15,923	334,113	423,617	837,812	1,614,591
Loans and advances to banks	0	14,925	318,733	194,290	474,554	1,002,502
Loans and advances to non-bank customers	2,917	821	15,380	228,186	363,258	610,562
Other financial assets	209	177	0	1,141	0	1,527
Financial liabilities	**67,113**	**71,822**	**199,923**	**484,718**	**1,368,618**	**2,192,194**
Financial liabilities held for trading	0	0	312	0	0	312
Financial liabilities measured at amortised cost	53,430	70,961	175,841	484,718	1,350,491	2,135,441
Deposits from banks	24,999	6,741	0	0	0	31,740
Deposits from non-bank customers	0	30,000	0	0	0	30,000
Loans from banks and central banks	26,471	34,127	76,996	152,211	863,321	1,153,126
Loans from non-bank customers	0	0	0	31,202	426,225	457,427
Debt securities issued	0	0	98,559	301,147	60,945	460,651
Other financial liabilities	1,960	93	286	158	0	2,497
Assumed irrevocable liabilities and financial guarantees	13,683	861	23,770	0	18,127	56,441
Liquidity gap as at 31 Dec 2016	**102,822**	**(49,631)**	**404,617**	**296,982**	**(377,995)**	**376,795**
Financial assets as at 31 Dec 2015	67,948	268,042	759,228	1,041,858	1,074,993	3,212,069
Financial liabilities as at 31 Dec 2015	41,216	361,723	245,148	672,637	1,644,860	2,965,584
Liquidity gap as at 31 Dec 2015	**26,732**	**(93,681)**	**514,080**	**369,221**	**(569,867)**	**246,485**

The breakdown of financial assets and financial liabilities by residual maturity illustrates the liquidity risk in connection with credit risk. The items are disclosed in net amounts (gross amounts minus impairments). Cash flows from interest payments of a fixed and variable portion of derivatives held for hedging are settled on a net basis. SID Bank did not have any liquidity problems in 2016 as a result of the long maturities of its liability transactions and its adequate secondary liquidity.

Since December 2011, SID Bank has again been obliged to meet the reserve requirement at the central bank. The reserve requirement is 1% of the stock of deposits received and issued debt securities with an agreed maturity of up to 2 years. A general allowance of EUR 100 thousand is taken into account in the calculation.

SID Bank is deemed to have met the reserve requirement if the average balance in the settlement account at the end of the calendar day during the maintenance period is no less than the amount calculated for the aforementioned period. Under the Rules on the maintenance of the reserve requirement, the required average can be managed continually each day in the individual maintenance period, or can be met on the final day of the period by providing the requisite funds on a one-off basis. The reserve requirement calculated for the period between 14 December 2016 and 24 January 2017 stood at EUR 0.

3.3 Interest rate risk

Interest rate risk is the risk of a change in the interest rates of interest-sensitive asset and liability items that could have an adverse impact on profit or loss, and on the economic value of assets, liabilities and off-balance-sheet items. To a great extent exposure to interest rate risk derives from interest-sensitive assets with different maturities and a different repricing period compared to interest-sensitive liabilities (the income aspect). Another part of interest rate risk consists of the sensitivity of investments to changes in interest rates (the economic aspect).

SID Bank is exposed to interest rate risk from available-for-sale securities, loans granted and the balance in the settlement account and in commercial accounts on the asset side, and from borrowings and issued debt securities on the liability side.

SID Bank establishes, measures, manages and monitors the interest rate risk in accordance with the accepted Policy of interest risk management. The Bank's management body (the Management Board and Supervisory Board) at least annually considers and adopts the Policy of interest rate risk management. The level of interest rate risk is limited by establishing a system of limits and the definition of internal capital. A limit system for limiting interest rate risk through indicative limits on interest rate gaps is established. In case of increased interest rate risk exposure, which is evident from the increase of interest rate sgaps, the Treasury Department proposes measures for reducing interest rate risk which are adopted and approved by the Assets/ Liabilities and Liquidity Committee. With regular implementation of the process of interest rate risk management, SID Bank achieves that interest rate risk level remains within acceptable limits.

SID Bank manages interest rate risk exposure by matching assets and liabilities by their maturity, due dates, amount and method of determining interest rates and with the use of derivative financial instruments. Interest rate risk management is carried out by matching the methods of remuneration of asset and liabilities items, since the greater part of assets and liabilities represents instruments in euros with an interest rate linked to EURIBOR. The Bank is exposed to interest rate risk arising from timing changes of the reference interest rate and incomplete match of reference interest rate and from the exposure to debt securities available for sale and other items with fixed interest rate.

With the purpose of reducing interest rate risk, SID Bank also conducts transactions with derivative financial instruments (interest rate swaps). If the derivative financial instruments meet the conditions, they are treated within the context of hedge accounting with the purpose of achieving lower profit or loss volatility from the title on fair value of derivative financial instruments. For this purpose the Bank prepared internal documents describing the relationship between the hedged item and the hedging instrument, the risk management objective, the valuation methodology and the hedging strategy. SID Bank also has documented performance assessments of protective relationships which it prepares when concluding transactions and assesses the hedging relationship performance. As at 31 December 2016, SID Bank held no interest rate swaps as fair value hedges used in hedge accounting.

SID Bank performs the measurement of interest rate risk exposure arising from mismatched interest-sensitive items of the banking ledgers using the method of interest rate gaps, whereby it uses the principle of classifying interest rate sensitive balance sheet items at time intervals by residual maturity for items with a fixed interest rate and according to the first change of the interest rate for items with a variable interest rate. When classifying interest rate sensitive items, they are distributed by currencies; due to low exposure in foreign currencies, the interest rate sensitive items in foreign currencies are added to the items in euros. The bank does not accept deposits on demand from the public and therefore does not use an internal model for modelling non-maturity deposits.

The sensitivity analysis of net interest income and economic value of capital on the basis of scenarios of interest rate curve changes is prepared by the bank on a monthly basis. For the impact assessment of a sudden change of market interest rates (sudden parallel shift by 200 basis points), SID Bank uses an internal indicative limit set to the economic value of bank capital without considering the capital which is defined in a substantially more stringent manner than it is determined by the banking regulation. In accordance with the provisions of the Banking Act (ZBan-2) the Bank must report any change in economic value arising from the calculation of the standard shock result to the competent authority. In case a sudden and unexpected change in interest rates by 200 basis points absorbs more than 20% of the bank's capital, the supervisory institution may request adoption of measures to limit interest risk by the Bank. SID Bank also has an internal indicative limit for the impact assessment of sudden change of market interest rates (sudden parallel shift by 200 basis points) for net interest income in the first year after the change.

Data on interest rate gaps, sensitivity analysis, potential exceeding of the limits for interest rate risk exposure and other data on interest rate risk exposure are analyzed and discussed by the Assets/Liabilities and Liquidity Committee.

Financial assets and financial liabilities – breakdown by exposure to interest rate risk as at 31 December 2016

SID Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total interest bearing items	Unremunerated bearing items	Total
Financial assets	**456,654**	**356,657**	**1,141,243**	**349,150**	**217,475**	**2,521,179**	**12,623**	**2,533,802**
Balances with the central bank and demand deposits with banks	147,668	0	0	0	0	147,668	0	147,668
Available-for-sale financial assets	1,038	15,610	258,023	346,091	144,678	765,440	12,236	777,676
Loans and advances	307,948	341,047	883,220	3,059	72,797	1,608,071	387	1,608,458
Loans and advances to banks	120,756	218,129	636,043	0	21,440	996,368	0	996,368
Loans and advances to non-bank customers	186,051	122,918	247,177	3,059	51,357	610,562	0	610,562
Other financial assets	1,141	0	0	0	0	1,141	387	1,528
Financial liabilities	**243,283**	**337,068**	**1,069,031**	**332,349**	**151,858**	**2,133,589**	**1,434**	**2,135,023**
Financial liabilities held for trading	0	0	312	0	0	312	0	312
Financial liabilities measured at amortised cost	243,283	337,068	1,068,719	332,349	151,858	2,133,277	1,434	2,134,711
Deposits from banks	24,999	6,741	0	0	0	31,740	0	31,740
Deposits from the non-bank sectors	0	30,000	0	0	0	30,000	0	30,000
Loans from banks and central banks	88,989	143,521	895,635	0	24,980	1,153,125	0	1,153,125
Loans from non-bank customers	129,010	156,769	74,514	31,202	65,933	457,428	0	457,428
Debt securities issued	0	0	98,559	301,147	60,945	460,651	0	460,651
Other financial liabilities	285	37	11	0	0	333	1,434	1,767
Interest rate sensitivity gap as at 31 Dec 2016	**213,371**	**19,589**	**72,212**	**16,801**	**65,617**	**387,590**	**11,189**	**398,779**
Financial assets as at 31 Dec 2015	402,203	512,224	1,637,726	370,291	247,260	3,169,704	9,011	3,178,715
Financial liabilities as at 31 Dec 2015	202,561	554,835	1,354,893	454,950	230,647	2,797,886	1,691	2,799,577
Interest rate sensitivity gap as at 31 Dec 2015	**199,642**	**(42,611)**	**282,833**	**(84,659)**	**16,613**	**371,818**	**7,320**	**379,138**

SID Bank Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total interest bearing items	Unremunerated bearing items	Total
Financial assets	**462,341**	**358,683**	**1,151,753**	**357,824**	**225,767**	**2,556,368**	**12,623**	**2,568,991**
Balances with the central bank and demand deposits with banks	153,355	0	0	0	0	153,355	0	153,355
Available-for-sale financial assets	1,038	17,636	262,399	354,765	152,970	788,808	12,236	801,044
Loans and advances	307,948	341,047	889,354	3,059	72,797	1,614,205	387	1,614,592
Loans and advances to banks	120,756	218,129	642,177	0	21,440	1,002,502	0	1,002,502
Loans and advances to non-bank customers	186,051	122,918	247,177	3,059	51,357	610,562	0	610,562
Other financial assets	1,141	0	0	0	0	1,141	387	1,528
Financial liabilities	**243,283**	**337,068**	**1,069,031**	**332,349**	**151,858**	**2,133,589**	**2,164**	**2,135,753**
Financial liabilities held for trading	0	0	312	0	0	312	0	312
Financial liabilities measured at amortised cost	243,283	337,068	1,068,719	332,349	151,858	2,133,277	2,164	2,135,441
Deposits from banks	24,999	6,741	0	0	0	31,740	0	31,740
Deposits from non-bank customers	0	30,000	0	0	0	30,000	0	30,000
Loans from banks and central banks	88,989	143,521	895,635	0	24,980	1,153,125	0	1,153,125
Loans from non-bank customers	129,010	156,769	74,514	31,202	65,933	457,428	0	457,428
Debt securities issued	0	0	98,559	301,147	60,945	460,651	0	460,651
Other financial liabilities	285	37	11	0	0	333	2,164	2,497
Interest rate sensitivity gap as at 31 Dec 2016	**219,058**	**21,615**	**82,722**	**25,475**	**73,909**	**422,779**	**10,459**	**433,238**
Financial assets as at 31 Dec 2015	406,800	515,411	1,644,838	381,191	254,821	3,203,061	9,008	3,212,069
Financial liabilities as at 31 Dec 2015	202,561	554,835	1,354,893	454,950	230,647	2,797,886	2,303	2,800,189
Interest rate sensitivity gap as at 31 Dec 2015	**204,239**	**(39,424)**	**289,945**	**(73,759)**	**24,174**	**405,175**	**6,705**	**411,880**

The table shows financial assets and liabilities according to the residual maturity for items with a fixed interest rate and according to the first change of the interest rate for items with variable interest rate, whereby the debt securities are considered at fair value, while credits are considered at net book value.

Sensitivity analysis

SID Bank and SID Bank Group conduct analysis of the sensitivity of remunerated assets and liabilities to changes in interest rates.

Analysis of the sensitivity of interest-sensitive asset and liability items is made under the assumption of a change of 100 basis points in market interest rates. This impacts net interest income in the first year after a sudden change in market interest rates.

In case interest rates would rise by 100 basis points, SID Bank's net interest income in 2017 would increase by EUR 2,223 thousand (compared with EUR 873 thousand in 2016). The change would be reflected in higher income in the income statement. In case market interest rates would fall by 100 basis points, the changes would be of the same magnitude as after a rise in interest rates, but in the opposite direction.. For larger or smaller changes in market interest rates, the results have been calculated proportionately.

In case interest rates would rise by 100 basis points,, SID Bank Group's net interest income in 2017 would increase by EUR 2,270 thousand (compared with EUR 970 thousand in 2016). The change would be reflected in higher income in the income statement. In case market interest rates would fall by 100 basis points, the changes would be of the same magnitude as after a rise in interest rates, but in the opposite direction. For larger or smaller changes in market interest rates, the results have been calculated proportionately. As at 31 December 2016, the sensitivity analysis of SID Bank Group does not include interest rate risk of a company which is included in the bank consolidation since it does not represent material interest rate risk for SID Bank Group.

Sensitivity analysis is also made for the risk of changes in prices of debt securities of SID Bank. If the prices of debt securities were to rise by 100 basis points, the revaluation of equity adjustment would increase by EUR 7,982 thousand, while in the case of a drop in the price by 100 basis points, the revaluation of equity adjustment would decrease by the same amount.

3.4 Currency risk

Currency risk is the risk of a loss arising from adverse changes in exchange rates.

SID Bank establishes, measures, manages and monitors currency risk in accordance with the accepted Policy of currency risk management. The Bank's management body (the Bank's Management Board and Supervisory Board) at least once a year considers and adopts the Policy of currency risk management. Implementation of the policy is monitored and controlled by the Assets/Liabilities and Liquidity Committee.

SID Bank manages currency risk with regular and active implementation of the action plan for currency risk management and with the definition of the required internal capital. The currency risk management process includes both the establishment of internal limits as well as regular measurement, monitoring and reporting of currency risk exposure on the basis of calculation of the overall net position in foreign currencies.

In the management of currency risk SID Bank determines the potential loss that would arise as a result of a change in exchange rates by means of the open foreign exchange position, which is the difference between the sums of all assets and liabilities in foreign currencies. The bank has established a limit system to limit the currency risk through open position limits in foreign currencies. The open foreign currency position was low throughout the year 2016.

Transactions executed by SID Bank and SID Bank Group in foreign currencies are not materially significant, thus the currency risk is also not of material significance. Due to the low exposure to currency risk, SID Bank and SID Bank Group do not prepare analyses of currency sensitivity.

In 2016, SID Bank managed currency risk by balancing foreign currency positions and concluding foreign currency derivative financial instruments arising from financial instruments in major foreign currencies. The exposure arising from foreign currency financial instruments is assessed as low and is in line with the set internal limits.

The SID Bank Group ties fiduciary cession advances to the euro in order to neutralise as far as possible the effect of changes in exchange rates on debts expressed in euros. In the field of the insurance sector, SID Bank Group balances the currency asset structure with a currency liability structure, whereby the largest part of the currency mismatch results from insurance-technical provisions and insurance-technical provisions transferred to reinsurers.

Financial assets and financial liabilities – breakdown by currency as at 31 December 2016

	SID Bank				SID Bank Group			
	EUR	USD	Other currencies	Total	EUR	USD	Other currencies	Total
Financial assets	**2,501,902**	**31,900**	**0**	**2,533,802**	**2,537,089**	**31,900**	**0**	**2,568,989**
Balances with the central bank and demand deposits with banks	145,399	2,269	0	147,668	151,086	2,269	0	153,355
Available-for-sale financial assets	765,981	11,695	0	777,676	789,348	11,695	0	801,043
Loans and advances	1,590,522	17,936	0	1,608,458	1,596,655	17,936	0	1,614,591
Loans and advances to banks	986,492	9,876	0	996,368	992,626	9,876	0	1,002,502
Loans and advances to non-bank customers	602,502	8,060	0	610,562	602,502	8,060	0	610,562
Other financial assets	1,528	0	0	1,528	1,527	0	0	1,527
Financial liabilities	**2,118,019**	**17,004**	**0**	**2,135,023**	**2,118,740**	**17,005**	**8**	**2,135,753**
Financial liabilities held for trading	0	312	0	312	0	312	0	312
Financial liabilities measured at amortised cost	2,118,019	16,692	0	2,134,711	2,118,740	16,693	8	2,135,441
Deposits from banks	24,999	6,741	0	31,740	24,999	6,741	0	31,740
Deposits from non-bank customers	30,000	0	0	30,000	30,000	0	0	30,000
Loans from banks and central banks	1,143,176	9,950	0	1,153,126	1,143,176	9,950	0	1,153,126
Loans from non-bank customers	457,427	0	0	457,427	457,427	0	0	457,427
Debt securities issued	460,651	0	0	460,651	460,651	0	0	460,651
Net on-balance-sheet position as at 31 Dec 2016	**383,883**	**14,896**	**0**	**398,779**	**418,349**	**14,895**	**(8)**	**433,236**
Assumed irrevocable liabilities as at 31 Dec 2016	**38,314**	**0**	**18,127**	**56,441**	**38,314**	**0**	**18,127**	**56,441**
Financial assets as at 31 Dec 2015	3,155,948	22,766	1	3,178,715	3,189,302	22,766	1	3,212,069
Financial liabilities as at 31 Dec 2015	2,780,952	18,625	0	2,799,577	2,781,546	18,625	0	2,800,189
Net on-balance-sheet position as at 31 Dec 2015	**374,996**	**4,141**	**1**	**379,138**	**407,738**	**4,141**	**1**	**411,880**
Assumed irrevocable liabilities as at 31 Dec 2015	135,025	9,369	21,001	165,395	135,025	9,369	21,001	165,395

3.5 Operational risk

Operational risk arises as a result of inadequate or failed performance of internal processes, people's conduct and system malfunctioning or from external events, which do not arise from credit, market and liquidity risks. Operational risk factors also include IT risks, legal risks and risks related to compliance of operations; however, it excludes strategic and reputational risk. Part of the legal risk is compliance risk, which is the risk of statutory or regulatory sanctions, material financial loss or loss of reputation of the bank due to non-compliance of the bank with the relevant regulations and standards of good practice. Operational risk arises as a result of inadequate or failed performance of internal processes, people and systems or from external events, and depends on internal organisation, the management of business processes, the functioning of internal controls, the effectiveness of internal and external auditing, etc.

Operational risk factors include personnel, business processes, information technology and other infrastructure, organisational arrangements and external events.

The expansion of SID Bank's role as Slovenia's primary financial institution concerned with promotional development, its increase in turnover and the gradual increase in the complexity of its products and processes have increased the Bank's operational risk.

The Bank uses a basic indicator approach to monitor operational risk. Management of operational risk is based on the established system of internal controls, the system of decision-making and powers, proper replacements during absences, the right training for personnel, and investment in information technology. The bank constantly strives to improve the culture of awareness of the management and other employees about the importance of effective operational risk management, which is present in all the activities and processes of the business.

The systemic risks entailed by information technology, which are increasing as the level of computerisation increases, are managed by additional measures such as the business continuity plan put in place, the duplication of server infrastructure and other measures to increase information security (systems to prevent penetrations, systems for detecting penetrations, surveillance systems). The implementation of a business continuity plan is the responsibility of previously formed groups of employees (emergency group, operational safety group, first aid and rescue group, fund reconstruction group). Members of these groups also participate in the process of changes in the business continuity plan; however, the Compliance Department is the agent of change that handles mutual coordination and information in cooperation with the IT Department.

In the management of operational risk, the Bank takes into account the provisions of the policy and plan of the use of external contractors, the purpose of which is to create a framework for the selection, establishment, implementation and control of the contractual relationship with external contractors, prevent inconsistencies, inequalities, ambiguities and imbalance in risk management when using external services, and the possible negative impact on the operations of SID Bank arising thereof and to ensure an appropriate level of professionalism of the external services of SID Bank, monitoring the performance of those services and risk management arising from the use of external contractors.

When the Internal Audit Department performs internal auditing, it ensures independent and unbiased assessment of the arrangement of internal assessment, including the systems and processes of risk management and internal controls. With the purpose of improving performance and increasing the benefits, the internal audit is performed across all areas, activities, processes and functions of the bank.

In recent years SID Bank has acquired many new clients, mostly with the introduction of funding programs for small and medium-sized enterprises (Promotional and Development Platform), which required the employment of additional staff and the development of necessary software. Operational risks under this title are managed by using pre-set work flows and system of authorisations, by following the four eyes principle and setting up adequate IT support.

The operational risk management system includes the recording of detected events in the application database and their analysis and resolution with a view to the effective identification, assessment and management of operational risks. Supervision of registered loss events is performed by the Department of risk management on a regular basis, usually reporting to the Management Board once per quarter, recording their number, potential value assessment of the damage and on the proposals for measures to reduce the chances of a recurrence of a particular loss event. The quarterly report on loss events from operational risk shall also be submitted to the Bank of Slovenia.

In 2016, the number of loss events which SID Bank recorded was comparable to the previous year. According to the type of loss event in accordance with the Basel III standards the most numerous loss events concerned implementation, delivery and management of processes (67% of all outstanding claims), followed by business disruptions and system failures (24%), external fraud (4%) and damage to movable and immovable property (2%) and clients, products and negative business practice (2%). SID Bank will decrease operational risks by upgrading IT system support, further automation of reports, and, if necessary, by revision of the business processes and other measures.

With a view of more effective risk management arising from the introduction of new products, SID Bank in 2016 revised the rules on the introduction of new products so that it is consistent with applicable regulations, adapted to the actual organizational structure of the bank and takes into account good practices that have been established in the past. Each new product must be approved by the Supervisory Board of the Bank, and in case of discontinuation of marketing of a certain product it is necessary to notify the Bank of Slovenia.

Once annually, the Risk Management Department prepares an annual review of management of external contractors, prepares the annual report and proposes measures to be undertaken. After the approval by the Management Board, the Supervisory Board or the relevant Risk Management Committee of the Supervisory Board is familiarized with the report, which is then also submitted to the Bank of Slovenia.

3.6 Capital management

Capital management

SID Bank and SID Bank Group must always have adequate capital at their disposal as a reserve against the various risks that they are exposed to in their operations. This is a continuous process of determining and maintaining the amount and quality of capital that is adequate, taking the risks defined in the capital management policy into account.

Capital risk refers to the inappropriate composition of capital in relation to the scope and nature of the operations or the difficulties faced by the Bank in obtaining fresh capital, especially when it has to be increased rapidly, or when facing unfavourable conditions in the business environment.

The role and responsibilities of the Supervisory Board when managing capital risk and capital are assessment of the adequacy of capital risk and capital management policy, and evaluation of policy implementation. The Management Board is responsible for the adoption of appropriate policies for managing capital, provision of the proper amount and quality of capital and meeting the capital requirements of the regulator.

Capital for capital adequacy purposes

The calculation of own funds is based on the provisions of the CRR. The calculation of capital adequacy of SID Bank Group is based on the consolidated financial statements, as defined by the CRR. Accordingly, the consolidated financial statements do not include insurance companies, and joint ventures are consolidated using the proportional method. In accordance with the CRR, SID Bank and the proportionate part of the Prvi faktor Group (using prudential consolidation), are included in the consolidation.

According to its attributes and requirements, capital is divided into Common Equity Tier1 capital (CET1), additional Tier 1 capital (Tier1) and Tier2 capital (Tier2). The capital of SID Bank consists of only the components of the highest quality CET1 core capital; the Bank has no additional Tier 1 capital.

The Bank uses the standardised approach to calculate the capital requirements for credit risk at SID Bank and SID Bank Group. In order to calculate risk weighted exposure amounts for credit risk, instead of using credit ratings for each category of exposure, the Bank allocates risk weights for individual exposure classes according to the degree of risk of the client's country. For determining the credit quality step of the central government (Article 114 of the CRR Regulation), the Bank and the Group use the credit assessment by SID Bank as a nominated ECAI, as provided for in Article 137 of the CRR Regulation.

The basic indicator approach is used to calculate the capital requirements for operational risks (Articles 315 and 316 of the CRR Regulation).

Capital requirements for credit valuation adjustment risk (CVA) are calculated according to the standardised method, as provided for in Article 384 of the CRR Regulation.

Capital requirements for foreign exchange risk are calculated in accordance with Articles 351 to 354 of the CRR Regulation. It is calculated whenever the sum of total net position in foreign currency exceeds 2% of its total own funds. At the end of 2016, SID Bank and the Group did not need to establish capital requirements for currency risks since this threshold was not exceeded and the Group's capital requirements for currency risk totalled only EUR 1.5.million.

A reconciliation of total equity to own funds and the statement of financial position, prudential filters, risk exposures and capital adequacy ratio

	SID Bank		SID Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Total equity	**393,829**	**364,165**	**403,042**	**383,471**
Paid up capital instruments	300,000	300,000	300,000	300,000
Share premium	1,139	1,139	1,139	1,139
Treasury shares	(1,324)	(1,324)	(1,324)	(1,324)
Retained earnings and profit reserves	80,679	59,316	90,343	79,078
Accumulated other comprehensive income	13,336	5,034	12,857	4,579
Profit or loss not eligible	**(21,363)**	**(10,499)**	**(11,736)**	**(11,389)**
Year-end profit not eligible	(21,363)	(10,499)	(11,736)	(11,389)
Prudential filters	**(11,838)**	**(7,558)**	**(17,055)**	**(7,250)**
Intangible assets	(805)	(737)	(808)	(744)
Other transitional adjustments to AT1 Capital	(852)	(1,237)	(853)	(1,241)
CET1 Capital elements or deductions – other	(778)	(2,246)	(5,993)	(1,930)
Other transitional adjustments to AT1 Capital	(9,403)	(3,339)	(9,402)	(3,335)
Common Equity Tier1 Capital (CET1)	**360,628**	**346,107**	**374,250**	**364,831**
Additional Tier1 Capital (AT1)	0	0	0	0
Tier1 Capital (T1)	**360,628**	**346,107**	**374,250**	**364,831**
Additional Capital (T2)	0	0	0	0
Own funds	**360,628**	**346,107**	**374,250**	**364,831**
Total credit risk exposure	971,609	1,026,000	972,206	1,078,921
Of which: Central governments or central banks	28,953	9,585	29,970	11,673
Regional governments or local authorities	7,293	*7,900*	7,293	*8,119*
Public sector entities	5,299	*7,445*	5,299	*8,414*
Institutions	228,520	*362,087*	229,977	*369,054*
Corporates	554,606	*413,189*	555,474	*447,624*
Exposures in default	105,690	*187,409*	102,228	*194,622*
Items associated with particular high risk	0	*295*	0	*295*
Equity	35,667	*32,048*	35,667	*32,048*
Other items	5,581	*6,042*	6,298	*7,071*
Total market risk exposure (foreign exchange)	0	0	18,549	13,317
Total risk exposure amount for operational risk	100,839	140,007	110,520	152,349
Total risk exposure amount for credit valuation adjustment	39	8,170	39	8,170
Total risk exposure amount (RWA)	**1,072,488**	**1,174,178**	**1,101,314**	**1,252,757**
Surplus of CET1 Capital	312,366	293,269	324,663	308,457
Surplus of T1 Capital	296,278	275,656	308,143	289,665
Surplus of total Capital	274,829	252,173	286,117	264,610
CET1 Capital ratio	33.63%	29.48%	33.98%	29.12%
T1 Capital ratio	33.63%	29.48%	33.98%	29.12%
Total capital ratio	**33.63%**	**29.48%**	**33.98%**	**29.12%**

Capital requirements – breakdown by type of risk and its structure

	SID Bank				SID Bank Group			
	31 Dec 2016	Structure in %	31 Dec 201	Structure in %	31 Dec 2016	Structure in %	31 Dec 2015	Structure in %
Own funds requirements								
for credit risk	77,729	90.6	82,080	87.4	77,776	90.6	86,314	86.1
for operational risk	8,067	9.4	11,201	11.9	8,842	10.3	12,188	12.2
for currency risk	0	0.0	0	–	1,484	1.7	1,065	1.1
for credit valuation adjustment risk (CVA)	3	0.0	654	0.7	3	0.0	654	0.7
Total	**85,799**	**100**	**93,934**	**100**	**88,105**	**100**	**100,221**	**100**

Capital funds requirements for credit risk

	SID Bank		SID Bank Group	
Exposure class	2016	2015	2016	2015
Central governments or central banks	2,316	767	2,398	934
Regional governments or local authorities	583	632	583	650
Public sector entities	424	596	424	673
International organisations	-	0	–	0
Multilateral Development Banks	-	0	–	0
Institutions	18,282	28,967	18,398	29,524
Corporates	44,368	33,055	44,438	35,810
Exposures in default	8,455	14,993	8,178	15,570
Items associated with particular high risk	-	24	–	24
Equity	2,853	2,564	2,853	2,564
Other items	446	483	504	566
Total	**77,729**	**82,080**	**77,776**	**86,314**

Internal capital adequacy assessment

SID Bank annually assesses its risk profile, which comprises a documented and categorised collection of quantitative and qualitative assessments of the risks that a bank takes up within the framework of its operations and the control environment with which it manages these risks. Appropriateness of assumptions in the methodology of assessing the risk profile is verified by the SID Bank Group at least every 3 years and when significant changes in the risks occur to which the SID Bank Group is exposed (e.g. the introduction of new products), major changes in the organization of the business and operation of the internal control system.

The risk profile represents a basis for the integral risk management process, the internal capital adequacy assessment process, the planning of internal audit procedures and direct supervision by the Bank of Slovenia.

The risk profile is assessed for the entire SID Bank Group in accordance with the CRR Regulation on risk management and the implementation of the internal capital adequacy assessment process for banks and savings banks.

The results of the assessment of the risk profile for 2016 show that the SID Bank Group puts the highest estimate on credit risk, reputation risk, profitability risk, operational risk and interest rate risk.

In the internal assessment of capital requirements, SID Bank uses the method of addition. In the context of element 1 (risks that are subject to minimum capital requirements), the SID Bank Group assesses capital requirements in the amount of minimum capital requirements as is explained under item 3.6 Capital management – Capital for capital adequacy purposes. In the context of element 2 (risks that are not fully covered by minimum capital requirements), the SID Bank Group has not identified significant risks. In the context of element 3 (risks which are not subject to minimum capital requirements), the SID Bank Group identifies as significant risks interest rate risk from the banking book, concentration risk, profitability risk and strategic risk. In 2016, the SID Bank Group also guaranteed a supplementary capital buffer and buffer for other systemically relevant institution in the context of capital requirements within the element 3. In the context of element 4 (external environment factors), the SID Bank Group assesses capital requirements under the stress test scenarios, whereby the fact is considered that it is an additional capital component which is intended for use in extraordinary situations.

SIB Bank on a quarterly basis calculates the internal assessment of capital requirements and verifies the suitability of the level of capital, while the calculations are then analysed and discussed by the Assets/Liabilities and Liquidity Committee. The management body on a yearly basis approves the results of risk profile of the Bank and the internal capital adequacy assessment process.

In 2016, the Bank of Slovenia during the process of supervisory review and risk evaluation (SREP[8]) assessed risks to which SID Bank is exposed and found that SID Bank with established strategies and processes for assessment, maintenance and distribution of internal capital adequacy ensures integration of all major risk categories to an adequate extent and that the amount, type and distribution of internal capital is entirely sufficient to cover the nature and level of risks to which SID Bank is, or might be, exposed.

Capital buffers

In accordance with the provisions of the Banking Act (ZBan-2) and the European banking legislation, the Bank of Slovenia set the requirements for the maintenance of capital buffers in order to prevent or restrict macro-prudential and systemic risk. Capital buffers represent additional requirements for the Bank in determining the required amount of capital, namely the banks with their highest quality capital (CET1) must, in addition to the requirements arising from risks of the 1st and 2nd pillars of the Basel framework, also meet the requirements of capital buffers.

The requirement for a common capital buffer comprises the total capital that the bank must provide to meet the requirements relating to the following:

- the capital conservation buffer;
- the Bank’s specific countercyclical capital buffer;
- global systemically important institutions buffer (not relevant for SID Bank Group);
- the buffer relating to other systemically important banks;
- the systemic risk buffer.

At the end of 2016, SID Bank meets the capital buffers requirements on a consolidated basis as explained below. The Bank meets the requirement of the capital conservation buffer with Common Equity Tier capital (CET1), in 2016 totalling 0.625% of the total risk exposure amount. The countercyclical capital buffer was introduced in order to protect the banking system against any potential losses when it is associated with increased risks in the system due to excessive credit growth. The instrument increases the resilience of the banking system and prevents excessive credit growth. The buffer rate varies between 0 and 2.5% of the total risk exposures amount (by exception also higher) and depends on the level of risk in the system. The buffer rate for exposures in Slovenia, which is effective as of 1 January 2016 equals 0%. The rate of the Bank's specific countercyclical capital buffer consists of a weighted average of countercyclical capital buffer rates which is used in countries with corresponding credit exposures of the Bank. SID Bank discloses the most detailed data on geographical distribution of credit exposures that are relevant for the calculation of the countercyclical capital buffer, capital requirements and rates of the Bank's specific countercyclical capital buffer as at 31 December 2016 under the section 1 Disclosures in accordance with the CRR Regulation. As at 31 December 2016, the rate of SID Bank's specific countercyclical capital buffer totalled 0.01% of the total risk exposure arising from the corresponding credit exposures to Norway, which has in force a rate of the countercyclical capital buffer of 1.5%. In accordance with the decision of the Bank of Slovenia, SID Bank will from 1 January 2019 have to ensure the capital buffer relating to other systemically important banks on a consolidated basis with Common Equity Tier capital (CET1) in the amount of 0.5% of the total risk exposure.

[8] Supervisory review and evaluation process

3.7 Fair value of financial assets and liabilities

The fair value is the value that would be received when selling an asset or paid when transferring a liability in a regular transaction between market participants at the measurement date under current market conditions, irrespective of whether the price can be directly observed or estimated using other valuation techniques.

Fair values of financial assets and financial liabilities traded in active markets are based on quoted market prices. For all other financial instruments SID Bank and SID Bank Group determine the fair value using other valuation techniques.

An active market is a market in which transactions with the assets or liabilities are often concluded, so that information on prices is regularly provided for the public.

SID Bank and SID Bank Group measure the fair value using the fair value hierarchy that reflects the significance of the input data.

- Level 1: quoted prices in active markets for identical assets or liabilities that SID Bank and SID Bank Group can access on the measurement date. Under Level 1 SID Bank Group includes investments in bonds for which the MTS parity within the framework of the MTS Slovenia trading system and Composited Bloomberg Bond Trader parity from Bloomberg are used.
- Level 2: input data other than quoted prices included in Level 1 which can be directly (prices) or indirectly (derived from prices) observed for the asset or liability. In Level 2, SID Bank and SID Bank Group include financial instruments which are valued using: quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in non-functioning markets or input data other than quoted prices which can be observed for the assets or liabilities, i.e. interest rates and yield curves. This level also includes investments in bonds valued based on the BGN (Bloomberg Generic Price) exchange rate, as it represents a unanimous rate of the interbank or OTC market. Although SID Bank and SID Bank Group cannot use the BGN exchange rate directly as at the sale of securities, its use ensures objectivity in valuation and the price is a reflection of actual market transactions and an adequate indicator of prices that would have been achieved in the sale of bonds on the market. Prices of the providers do not materially deviate from the rate applied.
- Level 3: in this category, SID Bank and SID Bank Group include financial instruments for which fair value is calculated according to a model, which uses mainly unobserved input data and financial instruments valued at original cost in the transitional period.

Observed input data is developed based on market data, such as publicly available information about actual events or transactions. Unobserved input data is that for which market data is not available and is developed using the best available information concerning the assumptions that market participants would use in pricing the asset or liability.

Financial assets measured at fair value

The financial instruments that SID Bank and SID Bank Group disclose in the statement of financial position at fair value are financial assets and liabilities held for trading, available-for-sale financial assets and financial assets used for hedging.

Financial assets and liabilities held for trading and derivative financial instruments held for hedging, which include interest rate swaps, are valued with regard to market interest rates and the yield curve.

The fair value of available-for-sale financial assets is determined by using quoted prices in active markets for identical assets, or by using quoted prices in active markets for similar assets and quoted prices for identical or similar assets in non-functioning markets.

Financial instruments measured at fair value – the fair value hierarchy

The table illustrates financial instruments measured at fair value on the date of reporting according to the level in the fair value hierarchy in which they are classified.

	SID Bank							
	31 Dec 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Available-for-sale financial assets	18,332	724,069	35,275	777,676	13,177	887,429	37,998	938,604
Debt securities	18,332	718,237	28,871	765,440	13,177	884,810	32,001	929,988
Equity securities	0	5,832	6,404	12,236		2,619	5,997	8,616
Derivative financial instruments held for hedging	0	0	0	0	0	14,312	0	14,312
Total financial assets	**18,332**	**724,069**	**35,275**	**777,676**	**13,177**	**901,741**	**37,998**	**952,916**
Financial liabilities measured at fair value								
Financial liabilities held for trading	0	312	0	312	0	0	0	0
Total financial liabilities	**0**	**312**	**0**	**312**	**0**	**0**	**0**	**0**

	SID Bank Group							
	31 Dec 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Available-for-sale financial assets	41,271	724,498	35,275	801,044	13,973	909,683	37,998	961,654
Debt securities	41,271	718,666	28,871	788,808	13,973	907,064	32,001	953,038
Equity securities	0	5,832	6,404	12,236	0	2,619	5,997	8,616
Derivative financial instruments held for hedging	0	0	0	0	0	14,312	0	14,312
Total financial assets	**41,271**	**724,498**	**35,275**	**801,044**	**13,973**	**923,995**	**37,998**	**975,966**
Financial liabilities measured at fair value								
Financial liabilities held for trading	0	312	0	312	0	0	0	0
Total financial liabilities	**0**	**312**	**0**	**312**	**0**	**0**	**0**	**0**

Financial assets not measured at fair value

The table illustrates the fair values of financial instruments not measured at fair value and analyses them according to the level in the fair value hierarchy in which they are classified.

	31 Dec 2016							
	SID Bank				SID Bank Group			
	Level 2	Level 3	Fair value	Net book value	Level 2	Level 3	Fair value	Net book value
Balances with the central bank and demand deposits with banks	147,668	0	147,668	147,668	153,355	0	153,355	153,355
Loans and advances	999,522	612,445	1,611,967	1,608,458	1,005,655	612,445	1,618,100	1,614,591
Loans and advances to banks	997,920	0	997,920	996,368	1,004,054	0	1,004,054	1,002,502
Loans and advances to non-bank customers	0	612,445	612,445	610,563	0	612,445	612,445	610,563
Other financial assets	1,602	0	1,602	1,527	1,601	0	1,601	1,526
Total financial assets	**1,147,190**	**612,445**	**1,759,635**	**1,756,126**	**1,159,010**	**612,445**	**1,771,455**	**1,767,946**
Financial liabilities measured at amortised cost	1,674,687	460,652	2,135,339	2,134,711	1,675,417	460,652	2,136,069	2,135,441
Deposits from banks	31,740	0	31,740	31,740	31,740	0	31,740	31,740
Deposits from non-bank customers	30,000	0	30,000	30,000	30,000	0	30,000	30,000
Loans from banks and central banks	1,153,608	0	1,153,608	1,153,125	1,153,608	0	1,153,608	1,153,125
Loans from non-bank customers	457,572	0	457,572	457,427	457,572	0	457,572	457,427
Debt securities issued	0	460,652	460,652	460,652	0	460,652	460,652	460,652
Other financial liabilities	1,767	0	1,767	1,767	2,497	0	2,497	2,497
Total financial liabilities	**1,674,687**	**460,652**	**2,135,339**	**2,134,711**	**1,675,417**	**460,652**	**2,136,069**	**2,135,441**

	31 Dec 2015							
	SID Bank				SID Bank Group			
	Level 2	Level 3	Fair value	Net book value	Level 2	Level 3	Fair value	Net book value
Balances with the central bank and demand deposits with banks	13,786	0	13,786	13,786	17,459	0	17,459	17,459
Loans and advances	1,608,612	607,930	2,216,542	2,212,013	1,615,243	607,930	2,223,173	2,218,644
Loans and advances to banks	1,608,131	0	1,608,131	1,606,152	1,614,765	0	1,614,765	1,612,786
Loans and advances to non-bank customers	0	607,930	607,930	605,465	0	607,930	607,930	605,465
Other financial assets	481	0	481	396	478	0	478	393
Total financial assets	**1,622,398**	**607,930**	**2,230,328**	**2,225,799**	**1,632,702**	**607,930**	**2,240,632**	**2,236,103**
Financial liabilities measured at amortised cost	2,076,691	723,527	2,800,218	2,799,577	2,077,303	723,527	2,800,830	2,800,189
Deposits from banks	14,913	0	14,913	14,913	14,913	0	14,913	14,913
Deposits from non-bank customers	6	0	6	6	6	0	6	6
Loans from banks and central banks	1,639,380	0	1,639,380	1,638,908	1,639,380	0	1,639,380	1,638,908
Loans from non-bank customers	420,701	0	420,701	420,532	420,701	0	420,701	420,532
Debt securities issued	0	723,527	723,527	723,527	0	723,527	723,527	723,527
Other financial liabilities	1,691	0	1,691	1,691	2,303	0	2,303	2,303
Total financial liabilities	**2,076,691**	**723,527**	**2,800,218**	**2,799,577**	**2,077,303**	**723,527**	**2,800,830**	**2,800,189**

The carrying values of money are assumed to be approximately equal to their fair value.

Market interest rates are used for the fair values of loans with variable yield and floating rate and in which the credit risk is not subject to significant change. Given that loans with fixed interest rates represent 6.1% of the loan portfolio, SID Bank and SID Bank Group estimate that there is no material difference between the fair value of loans and their carrying amounts.

The fair values of financial liabilities with floating rates are approximately equal to their carrying amounts as at the reporting date. The liabilities for loans measured at amortized cost of SID Bank and SID Bank Group include 5.2% of loans with fixed interest rates. The Bank and the Group estimate that there is no material difference between their fair value and their carrying value. Market interest rates are used to calculate the fair value of liabilities for loans measured at amortized cost with floating rates.

The issued debt securities and loans at SID Bank and SID Bank Group are recognised and measured at amortized cost. For instruments included in the hedging relationship, the fair value for the purpose of calculating the effects of hedge accounting is calculated by using valuation techniques, namely the expected present value. The expected present value is calculated by using input data other than quoted prices that can be observed, namely interest rates and yield curves.

Table of transfers between levels in 2016

	SID Bank			SID Bank Group		
	Transfers from Level 1 to Level 2	Transfers from Level 2 to Level 3	Transfers from Level 2 to Level 1	Transfers from Level 1 to Level 2	Transfers from Level 2 to Level 3	Transfers from Level 2 to Level 1
Financial assets measured at fair value						
Available-for-sale financial assets	4,861	261	5,662	4,861	261	23,900
Debt securities	4,861	261	5,662	4,861	261	23,900

Transfer from Level 2 to Level 1 at the SID Bank Group is a consequence of the inclusion of investments to bonds which are in 2016 valued on the basis of MTS or CBBT parities from Bloomberg to Level 1, while in 2015 they were valued in accordance with the BGN parity and included in Level 2.

4 Concise statement of the Management Board and Supervisory Board on the Risk Management of SID Bank and SID Bank Group

SID Bank's Management Board and the Supervisory Board provide herewith a concise statement on risk management according to Article 435 (the item 1. f) of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR) and the 2nd paragraph of Article 17 of the Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adeqacy Assessment Process for the Banks and Savings Banks:

1. As a development bank, SID Bank is in accordance with the Slovene Export and Development Bank Act (ZSIRB) obliged to take full account of the law governing banking, except in those areas specifically mentioned. It handles of the specifics in the evaluation of large exposures, capital requirements and the establishment of the bank subsidiaries which SID Bank did not apply in 2016, but it ensured full compliance with banking regulations. The only exception that was claimed concerned the obligation of making recovery and resolution plan and the use of provisions on guaranteed deposits because SID Bank cannot and does not accept deposits from the public. Additional restrictions are determined by the ZSIRB or state aid rules applicable within the EU which among other things impose on SID Bank that it provide financial services only in the segments where market gaps arise or are identified and must not compete with other commercial banks. Furthermore, the purpose of SID Bank's funding is consistent with the purposes that are specified by law. SID Bank also must not provide financing to the enterprises that meet the definition of an enterprise in financial difficulties. The Bank and its management body shall take into account these and other regulatory requirements when adopting and implementing its business objectives, strategies and policies.

2. The Risk Management Strategy is a comprehensive internal act of SID Bank which defines the fundamental managing risks principles and establishes the risk management basis within the internal risk policies framework and other internal acts regulating business processes. The Risk Management Strategy takes into account the currently valid Bank documents which identify the business strategy and business objectives of the Bank (SID Bank Action Strategy, Annual Operational Plan of SID Bank) and the Articles of Association of the Bank. Furthermore, the adopted Risk Management Strategy and policies are considered when adopting the business strategy and business objectives to the greatest extent possible and, if necessary, at least once a year the specified documents are reviewed and brought in line, also taking into account the macroeconomic developments in the domestic and international environments.

3. The risk-bearing capacity assessment of SID Bank considers the following:
   - assessment of the SID Bank and SID Bank Group risk profile where the overall level of risk and individual material risks are identified at least annually;
   - the results of the Internal Capital Adequacy Assessment Process (the ICAAP process) including the results of the calculation of internal capital estimates and the internal assessment of capital level with regard to the level of assumed risks, which covers both normal and stressful circumstances in operations of the SID Bank Group;
   - the expectations of the Bank of Slovenia after each completion of the supervisory review and evaluation process (the SREP process) regarding the maintenance of Total Capital Ratio and Common Equity Tier1 Capital to cover the recognised assessment of capital requirements, as prescribed by the Bank of Slovenia within the SREP process;
   - its leverage ratio;
   - the result of the Internal Liquidity Adequacy Assessment Process (the ILAAP process) and the Bank's liquidity according to its risk profile;

- the risk management action plan which, *inter alia*, identifies the available risk measures for managing identified measured or assessed risks;
- other restrictions including any restrictions arising from the internal SID Bank's acts and rules and standards as well as requirements of the Bank of Slovenia and other competent or supervisory authorities.

4. The overall level of risk and the level of individual material risks is identified once a year in a comprehensive way within the process of assessing the risk profile of the Bank, which is confirmed by the management body of the Bank. In the Internal Capital Adequacy Assessment Process (ICAAP) the management body annually confirms the internal assessment of capital requirements and available capital to cover any losses in the event of realisation of the underwritten risks. The assessed risk-bearing capacity is taken into account during the preparation of a business strategy and objectives as well as its risk appetite. The risk profile of SID Bank Group in connection with the business strategy is presented in more detail in the section Risk Management in the financial part of the Annual Report, section 3. Risk management, subsection 3.6 Capital management.

5. In accordance with the business strategy and objectives, risk-bearing capacity and Risk Management Strategy, SID Bank maintains an adequate capital level with regard to the level of assumed risks with the aim of ensuring a long-term sustainable target risk profile when carrying out its operations. It gives priority to stability and safety of Bank's operations with the aim of maintaining or increasing the value of capital in the long run, maintaining the Bank's reputation and maximising the benefits of the users of SID Bank services and other stakeholders. SID Bank makes a risk profile assessment and a risk-bearing capacity assessment at least once a year or more frequently in the case of major changes in risk exposure. The management body defines the risk appetite at least once a year within the business strategy (for the next three years) and within the annual operational plan as well as risk management strategy and policies.

6. At the end of 2016, the selected performance indicators of SID Bank Group achieved the following values, including the specified adopted risk appetite for the year 2016:
   - Return on equity after tax: 5.71% (target value: > 0%);
   - Operating costs/net income: 31.94% (target value: < 50%);
   - Common Equity Tier (CET1) ratio for SID Bank Group: 33.98% (target value: ≥ 15%);
   - Leverage ratio for SID Bank Group: 14.53% (target value: > 5%);
   - Liquidity Coverage Ratio (LCR) for SID Bank Group: 3740% (target value: 150%);
   - Net Stable Funding Ratio (NSFR) for SID Bank Group: 205% (target value: 100%);
   - Coverage of exposures classified receivables under D and E with impairments and provisions: 83.65% (target value: > 50%);
   - Risk profile assessment: 2.6 (target value: < 3 of 5).

   SID Bank has identified additional risk appetite indicators which refers mainly to the internally set limits for individual types of risks, including the set target values or the maximum tolerable risk level for each risk appetite indicator:
   - Profitability and risk for business orientation: Risk-weighted assets/Total assets, Net profit/Average capital requirement for pillar I, Interest margin
   - Control of the individual types of risk with the purpose of setting limits: Change of economic value of capital – stress test (a sudden parallel shift of the yield curve by 200 basis points), Total net position in foreign currencies according to the capital and Operational risk assessment (risk profile).

   The risk appetite is once a year approved by the Management Board, Risk Committee of the Supervisory Board and Supervisory Board, while it is regularly monitored and reported at the extended meeting sessions of the SID Bank Management Board where Executive Directors and Directors of individual organizational units are also present. In 2016, the key Bank's risk appetite indicators were within the approved limits or set targetvalues. Limits are determined significantly more stringently, as determined by the Banking regulation.

7. The adopted risk appetite level is complemented by a set of internal risk management policies through which SID Bank transfers risk appetite limits to operational limits for managing individual types of risks on the daily operational level. The risk management policies and internal rulebooks define the limits for credit and market risks as well as liquidity risk.

   In order to manage credit risk arising from investments held to manage Bank's liquidity, the internal policies set limits of exposure to individual persons and limits of exposure to the group of connected persons in the case of persons forming a group of related parties. In the case of credit operations (loans), limits are not specified in advance and in general, thus the creditworthiness is defined while addressing the individual transaction in relation to the calculation of the capacity of the borrowing, which takes into account the long-term sustainable cash flow, reduced by the capital expenditure, taxes, any distributions of profits, as well as existing and foreseeable net financial debt. The internal acts determine the way of identifying and measuring the concentration risk for the entire portfolio, namely individually, by sector, by countries and credit ratings. Authorizations for approving transactions are defined by internal acts and the Articles of Association of the Bank in relation to the value of investments and existing exposure.

   Quantitative limits are set to manage market risks as well. Interest rate risk limits are specified for changes in net interest income and to changes in the economic value of Bank's equity (the limits of weighted interest gaps). Limits are determined significantly more stringently, as determined by the Banking regulation. For managing the position risk, the stop-loss limits are determined. For currency risk, a limit is determined for net exposure in each foreign currency and net exposure in all foreign currencies in relation to the Bank's capital.

   Quantitative limits are set for the management of liquidity risk whereby the specified liquidity ratios are stricter than those prescribed by regulations. The Bank also compiles weekly and monthly cash flow plans, monthly liquidity simulations and scenarios and has addopted a Rulebook on managing liquidity risk in case of extraordinary liquidity situations. The annual liquidity plan is confirmed once a year by the Management body.

   The Bank manages risks which are more difficult to measure, such as specific subtypes of operational risk, i.e. the compliance risk, reputational risk, business continuity risk, risk of money laundering and terrorist financing, and other unethical business practices, with qualitative risk management measures or internal control mechanisms, in particular with set internal rules and controls over the organisational, business and work processes of the Bank, as well as additional control by independent internal control functions. The Bank quantifies risks which are more difficult to measure in the process of risk profile assessment according to pre-defined criteria. If necessary, depending on the assessment of the residual risk, the risk-based capital requirement is determined and its corresponding capital coverage.

   SID Bank's internal risk management acts specify measures and define procedures for dealing with risk limits breaches or in case of non-compliance with other risk management procedures as well as notifying the Management Board thereof.

Ljubljana, 3 March 2017

SID banka d. d. Management Board

Goran Katušin
Member

Sibil Svilan, MSc
President

SID banka d. d. Supervisory Board

Monika Pintar Mesarič
Chair

5 Segment reporting

Allocation and disclosure by operating segment is carried out on the basis of the attributes of individual business activities at SID Bank Group. The disclosure of information by operating segment takes account of supervisory approaches and the content of reports that serve the Bank's management in the governance of the SID Bank Group. Performance across the operating segments is monitored on the basis of the accounting policy as presented in Note 02/03/2025. The reports are compiled in accordance with the IFRS. The majority of SID Bank Group's operations are on the domestic market, for which reason the Group does not disclose additional itemisation by geographical segments.

The SID Bank Group business activities can be divided into three operating segments:

– Banking,
– Credit and investment insurance,
– Factoring.

Each operating segment is organised as a legal entity in the form of an independent business entity. Within the SID Bank Group banking services are provided by the controlling company SID Bank, credit and investment insurance is carried out at PKZ, and factoring is the domain of the Prvi Faktor Group. The factoring operating segment includes a proportionate share (50%) of the Prvi Faktor Group. The individual operating segments include products and services that differ from the other operating segments in terms of risk and return. Transactions between the operating segments are executed on normal commercial terms.

Analysis by operating segment

2016	Banking	Credit and investment insurance	Factoring	Total	Interrelations in the Group	Relations to third parties
Interest income	37,501	328	1,358	39,187	(376)	38,811
Interest expense	(13,660)	(3)	(844)	(14,507)	376	(14,131)
Net interest income	23,841	325	514	24,680	0	24,680
Dividend income	27	0	0	27	0	27
Fee and commission income	1,921	0	268	2,189	0	2,189
Fee and commission expense	(750)	(17)	(238)	(1,005)	17	(988)
Net fee and commission	1,171	(17)	30	1,184	17	1,201
Net gains/(losses) realised on financial assets and liabilities not measured at fair value through profit or loss	6,183	0	0	6,183	0	6,183
Net gains or losses from financial assets and liabilities held for trading	(307)	0	(1)	(308)	0	(308)
Net gains from financial assets and liabilities designated at fair value through profit or loss	11,151	0	0	11,151	0	11,151
Changes in fair value in hedge accounting	377	0	0	377	0	377
Net gains/losses from exchange differences	689	(4)	321	1,006	0	1,006
Net gains/losses from derecognition of assets	0	0	26	26	0	26
Other net operating gains or losses	1,670	6,093	945	8,708	(1,384)	7,324
NET INCOME/EXPENSES	44,802	6,397	1,835	53,034	(1,367)	51,667
Other information by segment	(19,485)	(4,290)	(7,232)	(31,007)	(2,828)	(33,835)
Administrative expenses	(11,018)	(4,275)	(2,218)	(17,511)	5	(17,506)
Depreciation and amortisation	(805)	(310)	(37)	(1,152)	0	(1,152)
Provisions	1,660	701	(132)	2,229	892	3,121
Impairments	(9,574)	(406)	(4,844)	(14,824)	(3,637)	(18,461)
Share of the profit of investments in subsidiaries, associates and joint vantures	88	0	(1)	87	(88)	(1)
Net profit from non-current assets classified as held for sale	164	0	0	164	0	164
Profit/loss from ordinary operations	25,317	2,107	(5,397)	22,027	(4,195)	17,832
Corporate income tax on ordinary operations	(3,954)	(417)	(120)	(4,491)	0	(4,491)
Net profit for the financial year	21,363	1,690	(5,517)	17,536	(4,195)	13,341
ASSETS AND LIABILITIES						
Total assets	2,548,643	55,853	22,760	2,627,256	(25,983)	2,601,273
Investments in subsidiaries, associates and joint ventures	8,413	0	0	8,413	(8,413)	0
Liabilities (other than equity) by segment	2,154,814	27,461	19,568	2,201,843	(23,591)	2,178,252
Total equity	393,829	28,392	3,192	425,413	(2,392)	423,021
Increase/decrease in property, plant and equipment and intangible assets	(310)	(272)	(70)	(652)	0	(652)

The column Interrelations in the Group presents all income and expense generated between companies in SID Bank Group, dividend income from subsidiaries, impairment of loans given to companies in SID Bank Group and the impairment of interest in Prvi Faktor Ljubljana, interests in subsidiaries and joint ventures, mutual receivables and liabilities of the companies in SID Bank Group, and other consolidation entries.

2015	Banking	Credit and investment insurance	Factoring	Total	Interrelations in the Group	Relations to third parties
Interest income	53,641	362	4,290	58,293	(1,325)	56,968
Interest expense	(31,395)	0	(2,557)	(33,952)	1,207	(32,745)
Net interest income	22,246	362	1,733	24,341	(118)	24,223
Fee and commission income	3,097	0	1,176	4,273	0	4,273
Fee and commission expense	(911)	(14)	(171)	(1,096)	124	(972)
Net fee and commission	2,186	(14)	1,005	3,177	124	3,301
Net gains/(losses) realised on financial assets and liabilities not measured at fair value through profit or loss	2,807	27	0	2,834	0	2,834
Net gains or losses from financial assets and liabilities held for trading	3	0	(5)	(2)	0	(2)
Net gains from financial assets and liabilities designated at fair value through profit or loss	3,244	0	0	3,244	0	3,244
Changes in fair value in hedge accounting	(70)	0	0	(70)	0	(70)
Net gains/losses from exchange differences	6	(4)	555	557	0	557
Net gains/losses from derecognition of assets	0	0	4	4	0	4
Other net operating gains or losses	1,448	4,222	(39)	5,631	(73)	5,558
NET INCOME/EXPENSES	31,870	4,593	3,253	39,716	(67)	39,649
Other information by segment	(19,202)	(3,420)	(4,752)	(27,374)	3,098	(24,276)
Administrative expenses	(10,227)	(3,862)	(2,493)	(16,582)	5	(16,577)
Depreciation and amortisation	(789)	(325)	(59)	(1,173)	0	(1,173)
Provisions	551	1,481	(61)	1,971	(251)	1,720
Impairments	(8,772)	(714)	(2,139)	(11,625)	3,379	(8,246)
Share of the profit of investments in subsidiaries, associates and joint ventures	35	0	0	35	(35)	0
Profit/loss from ordinary operations	12,668	1,173	(1,499)	12,342	3,031	15,373
Corporate income tax on ordinary operations	(2,169)	(242)	(680)	(3,091)	0	(3,091)
Net profit for the financial year	10,499	931	(2,179)	9,251	3,031	12,282
ASSETS AND LIABILITIES						
Total assets	3,198,967	56,850	86,930	3,342,747	(59,499)	3,283,248
Investments in subsidiaries, associates and joint ventures	8,413	0	0	8,413	(8,413)	0
Liabilities (other than equity) by segment	2,834,802	30,077	88,149	2,953,028	(71,610)	2,881,418
Total equity	364,165	26,773	(1,219)	389,719	12,112	401,831
Increase/decrease in property, plant and equipment and intangible assets	(501)	(681)	(45)	(1,227)	0	(1,227)

The column Interrelations in the Group presents all income and expense generated between companies in SID Bank Group, dividend income from the subsidiary, impairment of loans given to companies in SID Bank Group, interests in subsidiaries and joint ventures, mutual receivables and liabilities of the companies in SID Bank Group, and other consolidation entries.

OTHER DISCLOSURES

1 Disclosure in accordance with the Regulation CRR

In the continuation of this chapter are presented those disclosures required by the CRR, which are not included in the business or financial section of the annual report.

1.1 The number of directorships held by members of the management body

(Article 435(2a) of the CRR Regulation)

Membership in bodies of other persons on 31.12.2016

	Name of other person	Role
Management board		
Sibil Svilan, MSc	Bank Association of Slovenia	member of the supervisory board
Supervisory board		
Monika Pintar Mesarič	Succession Fund of the Republic of Slovenia, public fund	member of the supervisory board
Janez Tomšič	D.S.U., družba za svetovanje in upravljanje, d.o.o.	managing director
	Housing Fund of the Republic of Slovenia	member of the supervisory board
	Municipality Polzela	member of the supervisory board
Marko Tišma	FS, računalniške storitve, d.o.o.	managing director
	Marko Tišma, s.p.	sole proprietor

1.2 Scope of application

(Article 436 of the CRR Regulation)

SID Bank has the status of an EU parent bank, therefore it is obliged in accordance with the CRR to publish disclosures on the basis of prudential consolidation.

The prudential consolidation under the CRR includes the SID Bank according to the full consolidation method and the Prvi faktor Group (50% share) according to the proportional consolidation method. The CMSR is excluded from consolidation because their total assets are less than EUR 10 million.

In accordance with the IFRS the consolidated financial statements of the SID Bank Group, besides the SID Bank include the PKZ insurance company according to the full consolidation method and the Prvi faktor Group under the equity method. Consolidation for accounting and prudential purposes are different in that the accounting consolidation includes the PKZ insurance company and Prvi faktor Group under the equity method.

	Code of activity	Share of voting rights of the SID Bank Group	Registered office	Method of accounting consolidation	Method of prudential consolidation
Subsidiaries					
SID - Prva kreditna zavarovalnica d.d., Ljubljana	Financial and insurance activities	100.00%	Republic of Slovenia	Fully consolidated	-
Joint venture					
Prvi faktor Group, Ljubljana	Financial and insurance activities	50.00%	Republic of Slovenia	Equity method	Proportionally consolidated
Co-foundation					
Centre for International Cooperation and Development, Ljubljana	Professional, scientific and technical activities	33.00%	Republic of Slovenia	-	-

Statement of financial position as at 31 December 2016 – comparison of the two methods of consolidation

in EUR thousand	Accounting consolidation	Prudential consolidation	Difference
Cash, cash balances at central bank and demand deposits at banks	153,355	148,391	4,964
Available-for-sale financial assets	801,044	777,676	23,368
Derivatives hedge accounting	0	0	0
Loans and receivables	1,614,591	1,611,199	3,392
Non-current assets classified as held for sale	0	0	0
Property, plant and equipment	7,491	5,334	2,157
Investment property	0	544	(544)
Intangible assets	1,292	808	484
Investments in subsidiaries, associates and joint ventures	0	8,413	(8.413)
Tax assets	31	1,091	(1.060)
Current tax assets	0	1,054	(1.054)
Deferred tax assets	31	37	(6)
Other assets	18,272	384	17,888
TOTAL ASSETS	2,596,076	2,553,840	42,236
Trading liabilities	312	312	0
Financial liabilities measured at amortised cost	2,135,441	2,145,047	(9.606)
Deposits	1,672,292	1,682,235	(9.943)
Debt securities issued	460,651	460,651	0
Other financial liabilities	2,497	2,161	336
Provisions	38,957	1,131	37,826
Tax liabilities	4,568	4,105	463
Current tax liabilities	4,430	4,105	325
Deferred tax liabilities	138	0	138
Other liabilities	2,990	203	2,787
TOTAL LIABILITIES	2,182,268	2,150,798	31,470
Share capital	300,000	300,000	0
Share premium account	1,139	1,139	0
Accumulated other comprehensive income	14,039	12,885	1,154
Profit reserves	83,188	70,575	12,613
Treasury shares	(1.324)	(1.324)	0
Retained earnings (including net profit for the financial year)	16,766	19,767	(3.001)
TOTAL EQUITY	413,808	403,042	10,766
TOTAL LIABILITIES AND EQUITY	2,596,076	2,553,840	42,236

Income statement as at 31 December 2016 – comparison of the two methods of consolidation

in EUR thousand	Accounting consolidation	Prudential consolidation	Difference
Interest income	37,829	38,484	(655)
Interest expense	(13.663)	(14.128)	465
Interest net income	24,166	24,356	(190)
Dividends income	27	27	0
Fee and commission income	1,921	2,189	(268)
Fee and commission expense	(767)	(988)	221
Net fee and commission	1,154	1,201	(47)
Gains/losses realised on financial assets and liabilities not measured at fair value through profit or loss	6,183	6,183	0
Net gains on financial assets and liabilities held for trading	(307)	(308)	1
Net gains on financial assets and liabilities measured at fair value through profit and loss	11,151	11,151	0
Changes in fair value in hedge accounting	377	377	0
Exchange differences	685	1,010	(325)
Net gains and losses from derecognition of assets	0	25	(25)
Other net operating gains	7,758	1,253	6,505
Administrative costs	(15.288)	(13.236)	(2.052)
Depreciation and amortisation	(1.115)	(843)	(272)
Provisions	2,361	2,419	(58)
Impairments	(9.980)	(18.056)	8,076
Share of the profit or loss of investments in subsidiaries, associates and joint ventures	0	87	(87)
Net profit from non-current assets classified as held for sale	164	164	0
Profit from ordinary operations	27,336	15,810	11,526
Corporate income tax on ordinary operations	(4.371)	(4.074)	(297)
Net profit for the financial year	22,965	11,736	11,229
Of owners of the parent bank	22,965	11,736	11,229

1.3 A full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution

(Article 437 (1a) of the CRR Regulation)

in EUR thousand	Prudential consolidation	Included in own funds as reported per 31.12.2016 (Transitional definiton)	Fully phased in definition
Cash, cash balances at central bank and demand deposits at banks	148,391		
Available-for-sale financial assets	777,676	(778)	(778)
Derivatives hedge accounting	0		
Loans and receivables	1,611,199		
Non-current assets classified as held for sale	0		
Property, plant and equipment	5,334		
Investment property	544		
Intangible assets	808	(808)	(808)
Investments in subsidiaries, associates and joint ventures	8,413		
Tax assets	1,091		
Current tax assets	1,054		
Deferred tax assets	37		
Other assets	384		
TOTAL ASSETS	2,553,840	(1.586)	(1.586)
Trading liabilities	312	0	0
Financial liabilities measured at amortised cost	2,145,047		
Loans and deposits	1,682,235		
Debt securities issued	460,651		
Other financial liabilities	2,161		
Rezervacije Provisions	1,131		
Tax liabilities	4,105		
Current tax liabilities	4,105		
Deferred tax liabilities	0		
Other liabilities	203		
TOTAL LIABILITIES	2,150,798		
Share capital	300,000	300,000	300,000
Share premium account	1,139	1,139	1,139
Accumulated other comprehensive income	12,885	2,602	12,885
Profit reserves	70,575	70,575	70,575
Treasury shares	(1.324)	(1.324)	(1.324)
Retained earnings (including net profit for the financial year)	19,767	2,815	2,815
TOTAL EQUITY	403,042	375,807	386,090
TOTAL LIABILITIES AND EQUITY	2,553,840	375,808	386,090
Own funds		374,222	384,505

1.4 The main features of the capital instruments issued by the Bank

(Article 437(b,c) of the CRR Regulation)

1	Issuer	SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana
2	Unique identifier	SIDR, ISIN SI0021102932
3	Governing law(s) of the instrument	Slovene
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo and Consolidated
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital	EUR 300 million
9	Nominal amount of instrument	No nominal amount - per value shares
9a	Issue price	No nominal amount - per value shares
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	20 June 1997
12	Perpeptual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subjet to prior supervisory approval	No
15	Optional call date, contingent call dates, and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specifiy instrument type convertible into	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specifiy non-compliant features	N/A

N/A – Not applicable

SID Bank Group has no additional Tier 1 capital and Tier 2 capital.

1.5 Disclosure of own funds, regulatory adjustments and prudential filters

(Article 437(d,e) of the CRR Regulation)

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date	(B) CRR article reference	(C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
1	Capital instruments and the related share premium accounts	299,814	26(1), 27, 28, 29, 26(3)	
	of which: Paid up capital instruments	300,000	26(3)	
	of which: Share premium	1,139	26(3)	
	of which: Own CET1 instruments	(1,324)	26(3)	
2	Retained earnings	19,247	26(1)('c)	
3	Accumulated other comprehensive income (and any other reserves)	72,216	26(1)	
3a	Funds for general banking risk	-	26(1)(f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486(2)	
	Public sector capital injections grandfathered until 1 january 2018	-	483(2)	
5	Minority interests (amount allowed in consolidated CET1)	-	84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	26(2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	391,278		
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(778)	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	(808)	36(1)(b), 37, 472(4)	
9	Empty set in the EU		34, 105	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (b), 37, 472 (4)	
11	Fair value reserves related to gains or losses on cash flow hedges			
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (c), 38, 472 (5)	
13	Any increase in equity that results from securitised assets (negative amount)		33 (a)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		36 (1) (d), 40, 159, 472 (6)	
15	Defined-benefit pension fund assets (negative amount)		32 (1)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		33 (1) (b) (c)	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (e), 41, 472 (7)	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (f), 42, 472 (8)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (g), 44, 472 (9)	

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date	(B) CRR article reference	(C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
20	Empty set in the EU		36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	
20b	of which: qualifying holdings outside the financial sector (negative amount)			
20c	of which: securitisation positions (negative amount)		36 (1) (k)	
20d	of which: free deliveries (negative amount)		36 (1) (k) (i), 89 to 91	
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		"36 (1) (k) (ii)	
22	Amount exceeding the 15% threshold (negative amount)		243 (1) (b)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		244 (1) (b)	
24	Other CET1 capital adjustments	(5,215)		
25	of which: deferred tax assets arising from temporary difference		36(1)('c), 38, 48(1)(a), 470, 472(5)	
25a	Losses for the current financial year (negative amount)		36(1)(a), 472(3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36(1)(l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(10,255)		(3,081)
	of which: filter for unrealised gains - debt securities measured at fair value, others	(1,229)	467	(1,844)
	of which: filter for unrealised gains - debt securities measured at fair value, central governments	(8,201)	467	-
	of which: filter for unrealised loss - debt securities measured at fair value, others	35	468	53
	of which: filter for unrealised loss – debt securities measured at fair value, central government	325	468	487
	of which: filter for unrealised gains – equity instruments measured at fair value	(1,185)		(1,777)
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR		481	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36(1)(j)	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(17,055)		(3,081)
29	Common Equity Tier 1 (CET1) capital	374,222		(3,081)
	Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52(1)(b), 56(a), 57, 475(2)	

Common Equity Tier 1 capital: instruments and reserves		(A) Amount at disclosure date	(B) CRR article reference	(C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56(b), 58, 475(3)	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56('c), 59, 60, 79, 475(4)	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56(d), 59, 79, 475(4)	
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)			
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		477, 477(3), 477(4)(a)	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR		467, 468, 481	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56('e)	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital			
44	Additional Tier 1 (AT1) capital			
45	Tier 1 capital (T1 = CET1 + AT1)	374,222		(3,081)
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts		62, 63	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486(4)	
	Public sector capital injections grandfathered until 1 january 2018		483(4)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88, 480	
49	of which: instruments issued by subsidiaries subject to phase-out		486(4)	
50	Credit risk adjustments		62('c) in (d)	
51	Tier 2 (T2) capital before regulatory adjustment			
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63(b)(i), 66(a), 67, 477(2)	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66(b), 68, 477(3)	

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date	(B) CRR article reference	(C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66('c), 69, 70, 79, 477(4)	
54a	Of which new holdings not subject to transitional arrangements			
54b	Of which holdings existing befor 1 January 2013 and subject to transitional arrangements			
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66(d), 69, 79, 477(4)	
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		475, 475(2)(a), 475(3), 475(4)(a)	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR		467, 468, 481	
57	Total regulatory adjustments to Tier 2 (T2) capital			
58	Tier 2 (T2) capital			
59	Total capital (TC = T1 + T2)	374,222		(3,081)
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)			
	Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)		472, 472(5), 472(8)(b), 472(10)(b), 472(11)(b)	
	Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)		475, 475(2)(b), 475(2)('c), 475(4)(b)	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)		477, 477(2)(b), 477(2)('c), 477(4)(b)	
60	Total risk-weighted assets	1,101,314		
			Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	33,98%	92(2)(a), 465	(0,28%)

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date	(B) CRR article reference	(C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
62	Tier 1 (as a percentage of total risk exposure amount)	33,98%	92(2)(b), 465	(0,28%)
63	Total capital (as a percentage of total risk exposure amount)	33,98%	92(2)('c)	(0,28%)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	0,635%	128, 129 in 130, (direktiva o kapitalskih zahtevah)	0,5%
65	of which: capital conservation buffer requirement	0,625%		
66	of which: countercyclical buffer requirement	0,010%		
67	of which: systemic risk buffer requirement	0		0,5%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	131 (direktiva o kapitalskih zahtevah)	0,5%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		128 (direktiva o kapitalskih zahtevah)	
69	[non-relevant in EU regulation]			
70	[non-relevant in EU regulation]			
71	[non-relevant in EU regulation]			
	Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	6,404	36(1)(h), 45, 46, 472(10) 56('c), 59, 60, 475(4) 66('c), 69, 70, 477(4)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	8,413	36(1)(i), 45, 48, 470, 472(11)	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)		36(1)('c), 38, 48, 470, 472(5)	
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements		484(3), 486(2) in (5)	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484(3), 486(2) in (5)	
82	Current cap on AT1 instruments subject to phase-out arrangements		484(4), 486(3) in (5)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484(4), 486(3) in (5)	

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date	(B) CRR article reference	(C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
84	Current cap on T2 instruments subject to phase-out arrangements		484(5), 486(4) in (5)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484(5), 486(4) in (5)	

1.6 The geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer – breakdown by country

(Article 440(1a) of the CRR Regulation)

	General credit exposures	Own funds requirements			
	(010) Exposure value under the Standardised Approach	(070) of which: General credit exposures	(100) Total	(110) Own funds requirements weights	(120) Countercyclical capital buffer rate
Country code					
SI	605,747	49,892	49,892	0.89	0.0%
BE	9	1	1	0.00	0.0%
HR	17,154	1,447	1,447	0.03	0.0%
NL	22,984	1,839	1,839	0.03	0.0%
FR	3,526	282	282	0.01	0.0%
BA	246	26	26	0.00	0,0%
AT	2,629	210	210	0.00	0,0%
DE	4	0	0	0.00	0,0%
GB	9	1	1	0.00	0,0%
IT	1	0	0	0.00	0,0%
RS	4,799	488	488	0.01	0,0%
TR	1,681	6	6	0.00	0,0%
ME	867	10	10	0.00	0,0%
MD	210	0	0	0.00	0,0%
CK	18,404	704	704	0.01	0,0%
IE	3,645	292	292	0.01	0,0%
US	5,243	419	419	0.01	0,0%
HU	1	0	0	0.00	0,0%
NO	4,461	357	357	0.01	1,5%
Total	**691,620**	**55,973**	**55,973**	**1.00**	

The table includes the exposures by individual countries relevant for the calculation of counter-cyclical capital buffers, i.e. exposures by individual exposure classes which are defined in Article 112 of the CRR Regulation, except exposure classes from items (a) through (f) of the said article. The bank uses the standardized approach to calculate the value of exposures. The SID Bank Group has neither trading book exposure nor securitization exposures.

1.7 The amount of its institution specific countercyclical capital buffer

(Article 440 (1b) of the CRR Regulation)

010	Total Risk exposure amount	1,101,314
020	Institution specific countercylical capital buffer rate	0,01%
030	Institution specific countercylical capital buffer requirement	105

1.8 The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by types of exposure classes

(Article 442(c) of the CRR Regulation)

Exposure class	Balance as at 31 Dec 2016	Average 2016	Balance as at 31 Dec 2015	Average 2015
Central governments or central banks	689,422	685,615	703,444	642,034
Regional governments or local authorities	36,466	38,586	39,722	38,697
Public sector entities	26,496	37,745	39,205	34,644
Multilateral Development Banks	0	2,718	13,592	13,616
International Organisations	0	0	0	4,900
Institutions	1,145,000	1,434,298	1,875,566	1,960,338
Corporates	564,188	531,242	476,419	433,993
Exposures in default	94,110	202,842	173,993	210,888
Items associated with particular high risk	0	426	197	374
Covered bonds	0	0	0	2,065
Equity	32,649	31,943	29,029	17,372
Other items	6,298	6,807	7,071	7,363
Total	**2,594,629**	**2,972,223**	**3,358,238**	**3,366,284**

1.9 The geographic distribution of the exposures, broken down in significant areas by exposure classes

(Article 442(d) of the CRR Regulation)

2016 Exposure class	Slovenia	Other EU members	SE Europe (excluding EU members)	Other countries	Total
Central governments or central banks	467,447	210,186	3,729	8,060	689,422
Regional governments or local authorities	36,466	0	0	0	36,466
Public sector entities	26,496	0	0	0	26,496
Institutions	1,044,918	94,707	1,573	3,803	1,145,000
Corporates	517,907	33,277	3,316	9,688	564,188
Exposures in default	73,574	16,049	4,278	210	94,110
Equity	14,244	18,404	0	0	32,649
Other items	5,646	635	0	16	6,298
Total	**2,186,698**	**373,259**	**12,896**	**21,777**	**2,594,629**

2015 Exposure class	Slovenia	Other EU members	SE Europe (excluding EU members)	Other countries	Total
Central governments or central banks	466,910	224,754	526	11,254	703,444
Regional governments or local authorities	39,504	218	0	0	39,722
Public sector entities	38,247	958	0	0	39,205
Multilateralne razvojne banke	0	13,592	0	0	13,592
Institutions	1,282,405	583,101	4,104	5,955	1,875,566
Corporates	391,503	57,574	17,879	9,464	476,419
Exposures in default	124,251	31,232	18,236	275	173,993
Items associated with particular high risk	197	0	0	0	197
Equity	11,032	17,997	0	0	29,029
Other items	6,213	837	4	18	7,071
Total	**2,360,261**	**930,262**	**40,750**	**26,966**	**3,358,238**

1.10 The distribution of the exposures by industry type, broken down by exposure classes

(Article 442(e) of the CRR Regulation)

2016 Exposure class	Financial and insurance activities	Public administration and defence, compulsory social security	Manu-facturing	Electricity, gas, steam and air conditioning supply	Transportation and storage	Other	Total
Central governments or central banks	145,393	544,029	0	0	0	0	689,422
Regional governments or local authorities	0	36,466	0	0	0	0	36,466
Public sector entities	14,064	9,842	0	0	0	2,590	26,496
Institutions	1,145,000	0	0	0	0	0	1,145,000
Corporates	29,591	0	172,982	137,625	83,590	140,400	564,188
Exposures in default	9,433	232	26,395	0	9,596	48,453	94,110
Equity	26,817	0	0	0	5,832	0	32,649
Other items	5,363	5	0	0	0	929	6,298
Total	**1,375,661**	**590,575**	**199,378**	**137,625**	**99,018**	**192,372**	**2,594,629**

2015 Exposure class	Financial and insurance activities	Public administration and defence, compulsory social security	Manu-facturing	Trade; maintenance and repairs of motor vehicles	Electricity, gas, steam and air conditioning supply	Other	Total
Central governments or central banks	13,224	690,220	0	0	0	0	703,444
Regional governments or local authorities	0	39,722	0	0	0	0	39,722
Public sector entities	14,877	24,262	0	0	0	65	39,205
Multilateral Development Banks	13,592	0	0	0	0	0	13,592
Institutions	1,875,566	0	0	0	0	0	1,875,566
Corporates	25,450	0	161,510	61,024	128,291	100,144	476,419
Exposures in default	44,385	319	48,081	46,917	0	34,292	173,993
Items associated with particular high risk	0	0	0	0	0	197	197
Equity	26,410	0	0	0	0	2,619	29,029
Other items	271	26	0	15	0	6,760	7,071
Total	**2,013,774**	**754,548**	**209,591**	**107,956**	**128,291**	**144,078**	**3,358,238**

1.11 The distribution of the exposures by residual maturity, broken down by exposure classes

(Article 442(f) of the CRR Regulation)

2016 Exposure class	On demand	Up to 1 year	1 to 5 years	More than 5 years	Total
Central governments or central banks	146,406	142,660	267,711	132,645	689,422
Regional governments or local authorities	0	0	1,084	35,382	36,466
Public sector entities	0	0	16,655	9,842	26,496
Institutions	2,647	442,238	205,005	495,110	1,145,000
Corporates	109	36,320	196,059	331,701	564,188
Exposures in default	6,096	1,525	79,431	7,058	94,110
Equity	32,649	0	0	0	32,649
Other items	6,229	68	0	0	6,298
Total	**194,136**	**622,811**	**765,944**	**1,011,738**	**2,594,629**

2015 Exposure class	On demand	Up to 1 year	1 to 5 years	More than 5 years	Total
Central governments or central banks	19,135	222,192	262,500	199,617	703,444
Regional governments or local authorities	4	219	655	38,844	39,722
Public sector entities	0	1,979	13,908	23,317	39,205
Multilateral Development Banks	0	0	13,592	0	13,592
Institutions	3,994	757,004	505,589	608,978	1,875,566
Corporates	1,765	47,533	186,168	240,953	476,419
Exposures in default	18,545	41,829	59,109	54,511	173,993
Items associated with particular high risk	197	0	0	0	197
Equity	29,029	0	0	0	29,029
Other items	6,976	64	31	0	7,071
Total	**79,644**	**1,070,821**	**1,041,553**	**1,166,220**	**3,358,238**

1.12 The amount of impaired exposures, past due exposures and credit risk adjustments by significant industry type

(Article 442(g) of the CRR Regulation)

	2016			2015		
Sector	Impaired exposures	Credit risk adjustments for impaired exposures	Past due exposures	Impaired exposures	Credit risk adjustments for impaired exposures	Past due exposures
Financial and insurance activities	1,045,889	(26,205)	11,082	1,855,910	(23,014)	11,080
Public administration and defence, compulsory social security	55,947	(1,346)	55	77,196	(3,201)	77
Manufacturing	274,269	(85,990)	11,458	297,995	(98,735)	10,773
Trade; maintenance and repairs of motor vehicles	116,767	(56,511)	20,318	147,896	(42,852)	21,744
Electricity, gas, steam and air conditioning supply	134,397	(3,727)	106	133,453	(5,162)	106
Other	238,080	(60,775)	30,977	203,337	(80,918)	65,427
Total	**1,865,348**	**(234,554)**	**73,996**	**2,715,787**	**(253,882)**	**109,207**

1.13 The amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including the amounts of credit risk adjustments

(Article 442(h) of the CRR Regulation)

	2016			2015		
	Impaired exposures	Credit risk adjustments for impaired exposures	Past due exposures	Impaired exposures	Credit risk adjustments for impaired exposures	Past due exposures
Slovenija	1,708,413	(183,784)	35,109	2,044,288	(188,612)	54,775
Other EU members	106,195	(16,713)	11,225	567,239	(13,898)	12,819
SE Europe (excluding EU members)	38,621	(34,011)	27,662	88,628	(50,677)	41,613
Other countries	12,119	(46)	0	15,632	(695)	0
Total	**1,865,348**	**(234,554)**	**73,996**	**2,715,787**	**(253,882)**	**109,207**

1.14 The reconciliation of changes in the credit risk adjustments for impaired exposures

(Article 442(i) of the CRR Regulation)

	2016			2015		
	Impairments	Provisions	Total	Impairments	Provisions	Total
Balance as at 1 Jan	250,652	3,230	253,882	251,749	3,530	255,279
Increase	69,259	20,743	90,002	72,828	6,928	79,756
Decrease	-85,816	-23,514	-109,330	-73,925	-7,228	-81,153
Balance as at 31 Dec	**234,095**	**459**	**234,554**	**250,652**	**3,230**	**253,882**

1.15 Unencumbered assets

(Article 443 of the CRR Regulation)

	Encumbered assets		Unencumbered assets	
2016	Carrying amount	Fair value	Carrying amount	Fair value
Loans on demand	0	0	148,391	148,391
Equity instruments	0	0	12,236	12,236
Debt securities	10,100	10,100	755,340	755,340
Loans and advances other than loans on demand	4,900	4,904	1,606,299	1,609,729
Other assets	0	0	16,574	16,574
Total assets	**15,000**	**15,004**	**2,538,840**	**2,542,271**

2015	Encumbered assets Carrying amount	Encumbered assets Fair value	Unencumbered assets Carrying amount	Unencumbered assets Fair value
Loans on demand	0	0	15,886	15,886
Equity instruments	0	0	8,617	8,617
Debt securities	31,234	31,234	898,754	898,754
Loans and advances other than loans on demand	8,719	9,089	2,235,387	2,330,221
Other assets	0	0	36,221	36,221
Total assets	**39,953**	**40,323**	**3,194,865**	**3,289,698**

1.16 The exposure values and the exposure values after credit risk mitigation associated with each credit quality step

(Article 444(e) of the CRR Regulation)

Credit quality step - MEIP	2016 Exposure values	2016 Exposure values after credit risk mitigation	2015 Exposure values	2015 Exposure values after credit risk mitigation
0	2,706,550	2,713,387	3,418,517	3,437,691
3	26,055	26,055	13,951	13,951
4	1,685	80	3,549	281
5	37,694	37,694	72,742	71,677
6	42,686	42,088	59,709	58,569
7	14,514	9,880	43,652	29,951
Total	**2,829,184**	**2,829,184**	**3,612,120**	**3,612,120**

1.17 Exposures in equities not included in the trading book

(Article 447 of the CRR Regulation)

	2016	2015
Carrying amount	12,236	8,616
Revaluation surplus	3,292	445
Realised gains	2,539	0

Equity securities totalling EUR 5,832 thousand were obtained through the conversion of bank receivables, and EUR 6,404 thousand relates to investments in the EIF shares. All of these securities are classified as available-for-sale financial assets, which are unlisted and are disclosed in the accounts at fair value. In 2016, realised gains pertain to the gains on sales of shares acquired by the bank in previous years with the conversion of bank receivables.

1.18 Leverage ratio

(Article 451 of the CRR Regulation)

Summary reconciliation of accounting assets and leverage ratio exposures

31.12.2016		Transitional definition	Fully phased in definition
1	Total assets as per published financial statements	2,660,329	2,660,329
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(55,853)	(55,853)
4	Adjustments for derivative financial instruments	(148)	(148)
5	Adjustments for securities financing transactions "SFTs"	0	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	(6,332)	(6,332)
7	Other adjustments	(22,405)	(12,150)
8	**Total leverage ratio exposure**	**2,575,591**	**2,585,846**

Leverage ratio common disclosure

31.12.2016		Transitional definition	Fully phased in definition
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,553,032	2,553,032
2	(Asset amounts deducted in determining Tier 1 capital)	(13,165)	(2,911)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2,539,867	2,550,122
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	0	0
5	Pribitki za potencialno prihodnjo izpostavljenost, povezani z vsemi posli z izvedenimi finančnimi instrumenti (metoda tekoče izpostavljenosti)	0	0
EU-5a	Exposure determined under Original Exposure Method	148	148
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0	0
8	(Exempted CCP leg of client-cleared trade exposures)	0	0
9	Adjusted effective notional amount of written credit derivatives	0	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
11	Total derivative exposures (sum of lines 4 to 10)	148	148
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	-	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0	0
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	41,908	41,908
18	(Adjustments for conversion to credit equivalent amounts)	(6,332)	(6,332)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	35,576	35,576
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0	0

31.12.2016		Transitional definition	Fully phased in definition
Capital and total exposures			
20	Tier 1 capital	374,222	383,624
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	2,575,591	2,585,846
Leverage ratio			
22	Leverage ratio	14.53%	14.84%
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional definition	Fully phased in definition
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	N/A	N/A

Split-up of on balance sheet exposures

31.12.2016		Transitional definition	Fully phased in definition
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	2,553,032	2,553,032
EU-2	Trading book exposures	0	0
EU-3	Banking book exposures, of which:	2,553,032	2,553,032
EU-4	Covered bonds	0	0
EU-5	Exposures treated as sovereigns	698,687	698,687
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	62,963	62,963
EU-7	Institutions	1,120,656	1,120,656
EU-8	Secured by mortgages of immovable properties	0	0
EU-9	Retail exposures	0	0
EU-10	Corporates	550,307	550,307
EU-11	Exposures in default	93,487	93,487
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	26,932	26,932

When calculating the leverage ratio the corresponding amount is considered according to the provisions of Article 429 of the CRR Regulation of adjusted balance sheet and off-balance sheet exposures as well as the amount of Tier 1 capital as at 31 December 2016. For calculation, the Group considers the balance on the date of quarterly reporting.

As at 31 December 2016, the leverage ratio for SID Bank Group totals 14.5% and significantly exceeds the indicative minimum value of 3% set by the Basel Committee. The Bank monitors the leverage ratio within the framework of risk profile of the bank where an internal scale was established to assess the risk of excessive leverage. The Republic of Slovenia guarantees for liabilities of SID Bank in accordance with ZSIRB. As at 31 December 2016, SID Bank due to the specified reasons did not form internal capital requirements for risk of excessive leverage within the framework of the internal capital adequacy assessment process.

1.19 Use of credit risk mitigation techniques

(Article 453 of the CRR Regulation)

The SID Bank banking group classifies the following as eligible providers of unfunded credit protection: central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organi-sations, and legal entities with a high credit rating (credit quality step of at least 2 under the ECAI methodology).

The total exposure value by exposure classes that is covered by guarantees or credit derivatives

Exposure class	2016	2015
Public sector entities	0	969
Institution	5,705	21,826
Corporates	3,134	15,325
Exposures in default	426	415
Total	9,265	38,536

The above table takes account solely of credit protection that the bank takes into account to mitigate credit risk. The SID Bank banking group does not use credit derivatives to mitigate credit risk.

The list of all disclosures required under Part 8 of the Regulation (EU) no. 575/2013

Article	Requirement		Section of Annual report	Chapter
435	**Risk management objectives and policies**			
1.	**Risk management objectives and policies**			
	(a)	the strategies and processes to manage those risks	BUS FIN	4 3
	(b)	the structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements	BUS FIN	4 3
	(c)	the scope and nature of risk reporting and measurement systems	BUS FIN	4 3, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6
	(d)	the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	FIN FIN	2.3.12 3.3
	(e)	a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy	POS	5
	(f)	a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	FIN	4
2.	**Information regarding governance arrangements**		**BUS**	**4**
	(a)	the number of directorships held by members of the management body	OTH	1.1
	(b)	the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	BUS	3.2
	(c)	the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	BUS	3.2
	(d)	whether or not the institution has set up a separate risk committee and the number of times the risk committee has met	FIN	3
	(e)	the description of the information flow on risk to the management body	FIN BUS	3 4
436	**Scope of application**		**OTH**	**1.2**
	(a)	the name of the institution to which the requirements of this Regulation apply		
	(b)	an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are fully consolidated, proportionally consolidated, deducted from own funds, neither consolidated nor deducted;		
	(c)	any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;		
	(d)	the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;		
	(e)	if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9	N/A	-
437	**Own funds**			
	(a)	a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	OTH	1.3
	(b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	OTH	1.4

Article	Requirement		Section of Annual report	Chapter
	(c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	OTH	1.4
	(d)	separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35 (ii) each deduction made pursuant to Articles 36, 56 and66 (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79	OTH	1.5
	(e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	OTH	1.4
	(f)	where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	N/A	-
438	**Capital requirements**			
	(a)	a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities	BUS FIN	4 3, 3.6
	(b)	upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU	N/A	-
	(c)	for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112	FIN	3.6
	(d)	for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154 (1) to (4) correspond	N/A	-
	(e)	own funds requirements calculated in accordance with points (b) and (c) of Article 92(3)	FIN	3.6
	(f)	own funds requirements calculated in accordance with PartThree, Title III, Chapters 2, 3 and 4 and disclosed separately.	FIN	3.6
439	**Exposure to counterparty credit risk**		**FIN**	**3.1**
	(a)	a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures		
	(b)	a discussion of policies for securing collateral and establishing credit reserves		
	(c)	a discussion of policies with respect to Wrong-Way risk exposures		
	(d)	a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating		
	(e)	gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements		
	(f)	measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable;		
	(g)	the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure		
	(h)	the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group		
440	**Capital buffers**		**FIN**	**3.6**
	(a)	the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	OTH	1.6
	(b)	the amount of its institution specific countercyclical capital buffer.	OTH	1.7
441	**Indicators of global systemic importance**		**N/A**	**-**

Article	Requirement		Section of Annual report	Chapter
442	**Credit risk adjustments**			
	(a)	the definitions for accounting purposes of "past due" and "impaired"	FIN	2.3.11, 3.1
	(b)	a description of the approaches and methods adopted for determining specific and general credit risk adjustments	FIN	2.3.11, 3.1
	(c)	the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	OTH	1.8
	(d)	the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	OTH	1,9
	(e)	the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	OTH	1.10
	(f)	the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	OTH	1.11
	(g)	by significant industry or counterparty type, the amount of: - impaired exposures and past due exposures, provided separately - specific and general credit risk adjustments - charges for specific and general credit risk adjustments during the reporting period	OTH	1.12
	(h)	the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area	OTH	1.13
	(i)	the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately The information shall comprise: - a description of the type of specific and general credit risk adjustments - the opening balances - the amounts taken against the credit risk adjustments during the reporting period - the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments - the closing balances. Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	FIN OTH	2.4 1.14
443	**Unencumbered assets**		**OTH**	**1.15**
444	**Use of ECAIs**			
	(a)	the names of the nominated ECAIs and ECAs and the reasons for any changes	FIN	3.6
	(b)	the exposure classes for which each ECAI or ECA is used	N/A	-
	(c)	a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book	FIN	3.6
	(d)	the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA	N/A	-
	(e)	the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted	OTH	1.16
445	**Exposure to market risk**		**FIN**	**3.6**
	The institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) shall disclose those requirements separately for each risk referred to in those provisions.			
446	**Operational risk**		**FIN**	**3.5, 3.6**

Article	Requirement	Section of Annual report	Chapter
	Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used.		
447	**Exposures in equities not included in the trading book**	**FIN** **OTH**	**2.3.11, 2.4.2** **1,17**
	(a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices		
	(b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value		
	(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures		
	(d) the cumulative realised gains or losses arising from sales and liquidations in the period		
	(e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in Common Equity Tier 1 capital		
448	**Exposure to interest rate risk on positions not included in the trading book**	**FIN**	**3.3**
	(a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk (b) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency		
449	**Exposure to securitisation positions**	**N/A**	**-**
450	**Remuneration policy**	**FIN**	**2.6.3**
	Institutions shall disclose at least the following information, for those categories of staff whose professional activities have a material impact on its risk profile: (a) information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders		
	(b) information on link between pay and performance		
	(c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria		
	(d) the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU		
	(e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based		
	(f) the main parameters and rationale for any variable component scheme and any other non-cash benefits		
	(g) aggregate quantitative information on remuneration, broken down by business area;		
	(h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of theinstitution, indicating the following:		
	(i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types		

Article	Requirement	Section of Annual report	Chapter
	(iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person (i) the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;		
	(j) upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.		
451	**Leverage**	**OTH**	**1.18**
	(a) the leverage ratio and how the institution applies Article 499(2) and (3)		
	(b) a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements		
	(c) where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11)		
	(d) a description of the processes used to manage the risk of excessive leverage		
	(e) (e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.		
452	**Use of the IRB Approach to credit risk**	**N/A**	**-**
453	**Use of credit risk mitigation techniques**		
	(a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting	N/A	-
	(b) the policies and processes for collateral valuation and management	FIN	3.1
	(c) a description of the main types of collateral taken by the institution	FIN	3.1
	(d) the main types of guarantor and credit derivative counterparty and their creditworthiness	OTH	1.19
	(e) information about market or credit risk concentrations within the credit mitigation taken;	N/A	-
	(f) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, onor off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral, and other eligible collateral	N/A	-
	(g) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155.	OTH	1.19
454	**Use of the Advanced Measurement Approaches to operational risk**	**N/A**	**-**
455	**Use of Internal Market Risk Models**	**N/A**	**-**
492	**Transitional provisions for disclosure of own funds**	**FIN** **OTH**	**3.6** **1.4**
	(a) the nature and effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Articles 467 to 470, 474, 476 and 479		
	(b) the amounts of minority interests and Additional Tier 1 and Tier 2 instruments, and related retained earnings and share premium accounts, issued by subsidiaries that are included in consolidated Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds in accordance with Section 4 of Chapter 1		

Article	Requirement		Section of Annual report	Chapter
	(c)	the effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Article 481		
	(d)	the nature and amount of items that qualify as Common Equity Tier 1 items, Tier 1 items and Tier 2 items by virtue of applying the derogations specified in Section 2 of Chapter 2.		
	(e)	the amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484	N/A	-

BUS: Business report
FIN: Financial report
OTH: Other disclosures
N/A: Not applicable

2 Disclosures in accordance with the Regulation on the Books of Account and Annual Reports of Banks and Savings Banks

(Article 20(c) of the Regulation)

Country	Company	Activity	Turnover	Number of employees on a full time equivalent basis (integers)	Profit or loss before tax	Tax on profit or loss	Public subsidies received
2016							
EU members							
Slovenia	SID banka, d.d., Ljubljana	Banking	39,537	147.50	25,317	(3,954)	0
	PRVI FAKTOR, faktoring družba, d.o.o., v likvidaciji, Ljubljana	Factoring	1,277	18.24	(22,825)	0	0
Croatia	PRVI FAKTOR, faktoring družba, d.o.o., v likvidaciji, Zagreb	Factoring	2,990	27.50	(4,210)	0	0
Other countries							
Bosnia and Herzegovina	PRVI FAKTOR d.o.o., v likvidaciji, Sarajevo	Factoring	(468)	5.67	(5,283)	0	0
Serbia	PRVI FAKTOR - faktoring, d.o.o., Belgrade	Factoring	239	7.16	(13)	(82)	0
2015							
EU members							
Slovenia	SID banka, d.d., Ljubljana	Banking	56,773	143.02	12,668	(2,169)	0
	PRVI FAKTOR, faktoring družba, d.o.o., Ljubljana	Factoring	3,863	26.79	(359)	(249)	0
Hrvaška	PRVI FAKTOR, faktoring družba, d.o.o., Zagreb	Factoring	6,298	31.41	823	(303)	0
Other countries							
Bosnia and Herzegovina	PRVI FAKTOR d.o.o., Sarajevo	Factoring	1,173	14.23	(1,130)	0	0
Serbia	PRVI FAKTOR - faktoring, d.o.o., Beograd	Factoring	1,624	13.20	(2,322)	(208)	0

3 Operations on behalf of and for the account of the Republic of Slovenia

As an authorized institution SID Bank in principle insures on behalf and for the account of the Republic of Slovenia commercial and non-commercial risks of the nature and level for which private reinsurance market is not willing to cover or has limited capabilities to cover.

SID Bank as an authorised intitution on behalf and for the account of the Republic of Slovenia also carried out the Interest Rate Equalisation Programme for export credits which was terminated in February 2016 with the transfer of reserve funds managed by SID Bank to the Republic of Slovenia.

Operations on behalf of and for the account of the Republic of Slovenia is not included in the financial statements of SID Bank. They are recorded on specific items defined by the Bank of Slovenia for their book-keeping.

31.12.2016	Insurance on behalf and for the account of the Republic of Slovenia
Assets	
Cash at customer transaction accounts	2,520
Receivables from financial instruments	130,503
Loans and advances	17,464
Available-for-sale financial assets	113,039
Investments in equity	2,871
Other	3,936
Total assets	**139,830**
Liabilities	
Contingency reserve	130,249
Liabilities to customers from cash and financial instruments	9,581
Total liabilities	**139,830**
Memorandum account	**489,024**

31.12.2015	Insurance on behalf and for the account of the Republic of Slovenia	Interest rate equalisation programme
Assets		
Cash at customer transaction accounts	644	2,292
Receivables from financial instruments	118,877	5,913
Loans and advances	24,347	0
Available-for-sale financial assets	94,530	5,913
Investments in equity	5,083	0
Other	16,107	0
Total assets	**140,711**	**8,205**
Liabilities		
Contingency reserve	118.043	0
Liabilities to customers from cash and financial instruments	22.668	8,205
Total liabilities	**140,711**	**8,205**
Memorandum account	**519,032**	**0**

Memorandum account for insurance on behalf and for the account of the Republic of Slovenia represents exposure from valid insurance policies and promises.