



**ANNUAL REPORT OF
SID BANK AND
SID BANK GROUP
FOR 2011**

I. BUSINESS REPORT

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1. Highlights from the Business Operations of 2011

Introduction

As at 31 December 2011 SID Bank Group consisted of:

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

The consolidated statements of SID Bank Group include SID - Prva kreditna zavarovalnica d.d., Ljubljana by the method of full consolidation, and the PRVI FAKTOR Group by the proportional consolidation method. Due to its immateriality for the financial position and profit or loss of SID Bank Group, the PRO KOLEKT Group is not included in the consolidation (cf. Notes, Chapter II, point 2.2.4.).

Key highlights of SID Bank

in EUR million	2011	2010	Index 2011/2010
Net interest income	54.4	40.1	135.4
Operating costs	(7.6)	(6.7)	113.2
Impairments and provisions	(43.1)	(30.6)	141.1
Net profit/loss for the year	6.4	5.7	112.7
Total assets	4,029.2	3,895.5	103.4
Loans	3,698.6	3,752.9	98.6
Financial liabilities measured at amortised cost	3,641.1	3,559.9	102.3
Equity	332.0	327.8	101.3
Impairments of financial assets measured at amortised cost, and provisions	120.1	77.3	155.4
Capital adequacy (in %)	14.35	13.53	
- impairments of financial assets measured at amortised cost, and provisions for contingent liabilities/classified on-balance-sheet items and classified off-balance-sheet items in %	3.11	2.03	
Interest margin (in %)	1.36	1.14	
Financial intermediation margin (in %)	1.46	1.27	
Return on assets before tax (in %)	0.19	0.20	
Return on equity after tax – ROE (in %)	1.93	1.76	
Operating costs/average assets (in %)	0.19	0.19	
Costs/revenue (in %)	13.06	15.10	
Number of shareholders	1	1	
Number of employees (31 Dec.)	112	94	119.1
International credit rating by Moody's (31 Dec.)	A1	Aa2	

Key highlights of SID Bank Group

in EUR million	2011	2010	Index 2011/2010
Net interest income	60.2	44,9	134.2
Gross claims paid	19.1	24,8	77.0
Operating costs	(14.2)	(12,4)	114.1
Impairments and provisions	(44.3)	(29,6)	149.6
Net profit/loss for the year	11.1	11,1	99.2
Total assets	4,219.1	4.086,1	103.3
Loans	3,829.7	3.889,5	98.5
Financial liabilities measured at amortised cost	3,765.6	3.679,7	102.3
Equity	352.4	344,9	102.2
Value of receivables purchased	908.2	862,8	105.3
Capital adequacy (in %)	13.78	13,08	
- impairments of financial assets measured at amortised cost, and provisions for contingent liabilities/classified on-balance-sheet items and classified off-balance-sheet items	3.20	2,23	
Return on assets before tax (in %)	0,34	0,40	
Return on equity after tax – ROE (in %)	3,14	3,29	
Number of employees (31 Dec.)	331	303	109.2

2. Statement by the President of the Management Board

Dear Ladies and Gentlemen,

Despite the lingering effects of the financial and economic crisis, the world economy showed certain signs of recovery in 2011. At the beginning of the year there was an improving trend spread across several countries, which was also felt in Slovenia, but on a smaller scale. In 2011, after a three-year period of providing crisis intervention measures within the framework of its anti-cyclic programme, SID Bank again concentrated on development and promotional financing and insurance products, as laid down in its updated Action Strategy and as required by the EU guidelines concerning the withdrawal of the anti-crisis measures. In view of the above, the Bank planned a lower growth rate of total assets and credit insurance portfolios than in the previous years and, in particular, made plans for the gradual termination of guarantee scheme activities.

In spite of the problems outlined above, SID Bank delivered the goals which it had set for the financing of economic development in 2011: growth in total assets was only three percent above the figure for the previous year, but managed to push above EUR 4 billion as presented in the annual plan. Net profit for the business year rose by 13 percent, to EUR 6.5 million, largely as a result of the intervention measures taken in the recent years. Most other performance indicators remained within the expected range.

In the second half of the year, however, Slovenia's economy was dealt another blow, in the form of internal retroactive effects of the crisis. On the one hand, these retroactive effects were manifested in the record-breaking number of bankruptcies (nearly 700), mostly in the fields of the construction, transport, and financial intermediation industries; on the other hand, companies became determined to lower the debt burden which they had accumulated from loans taken out prior to the crisis. Banks followed the trend by cutting their overall credit activity towards non-financial entities and the economic sector by five percent in an effort to offset the additional losses (totalling EUR 388 million at the banking sector level) which occurred in their portfolios for 2011. These losses were driven by the incredibly poor creditworthiness of companies, and by the fact that only one third of Slovenian companies had efficiently adjusted themselves to the changed market conditions, built appropriate new business models, and acquired new business, in particularly abroad.

In addition to the above, Slovenia's economy was pitched into the credit crunch. After years of a relatively closed capital market and external borrowing it finally became evident, for companies and banks alike, that the shortage of capital in companies of all sizes (large, medium-sized and, in particular, small enterprises) and banks has become the main obstacle to fresh drive and economic growth of the country.

Given the considerably weaker domestic demand (-4.4%), which shrank as a result of crisis-related savings measures, the lower income of Slovenia's citizens, and further reductions in the volume of investments (-12% in 2011, a cumulative drop of more than 30% over the last three years), exports, rising 12 percent, were the only economic category which was able to partially offset the negative trends. In conclusion, economic growth was negative (-0.2%), as well as most other economic and public finance indicators, which unfavourably affected the competitiveness and credit ratings of the country, banks, and companies.

In such a harsh economic environment SID Bank continued to provide financial services to bridge market gaps, and offer its clients development financing and insurance. The Bank developed new products, aiming to achieve long-term, i.e. sustainable, development orientations in the field of entrepreneurship, SME's, research, development, and innovation; in international commercial transactions, environmental protection, and in energy efficiency and infrastructure. Moreover, 2011 was a year of internal growth and the upgrading of existing development financial services. The Bank redesigned its credit process, enhanced the use of new analytical tools, and established three new, complementary product lines. In cooperation with the Ministry of Higher Education, Science and Technology of the Republic of Slovenia, SID Bank devised a financial engineering product called 'Development Programs for Financing Technological Development Projects' as its first product to contain the elements of state grants. This measure was followed by a promotional and development program aimed to provide co-financing arrangements for the implementation of the infrastructure and environmental projects of municipalities. In order to ease the above-mentioned credit crunch of Slovenia's economy, SID Bank decided to establish a special development fund for SME's, which will

enable companies with a high potential for growth to increase their capital. The fund will flourish if the majority of shares are held by foreign investors.

Apart from developing new products, the re-emerging crisis conditions forced SID Bank to start using new system financing mechanisms to serve the economy, and to continue a comprehensive upgrade of its standard offer of financial services. Within this framework, the Bank continued to provide indirect financing (through banks) and direct financing of the economy, as well as the refinancing of banks, although bank refinancing in the international markets was severely curtailed and even stopped completely towards the end of the year. In 2011 SID Bank funds put to direct or indirect use in 1,100 companies amounted to a total of EUR 764 million. According to preliminary estimates, the decline in the credit activity of banks to non-financial entities would be 50 percent higher without SID Bank's financing. More than three quarters of all new loans were intended to promote the development of competitiveness and entrepreneurship, in particular with regard to SME's, and the internationalization of such companies, which puts development in the primary focus of SID Bank's lending operations.

In insurance against non-marketable risks which SID Bank provides on behalf and for the account of the state, the volume of business insured totalled EUR 1.2 billion in 2011. Claims paid amounted to EUR 1.2 million; several large claims totalling roughly EUR 4 million being currently under consideration. The company's results were mainly impacted by reduced investment volumes and changed corporate investment cycles. On the other hand, the results were also driven by the collapse of several large construction companies which had carried out such transactions abroad in previous years, and by the accession of certain countries (Croatia, Serbia) to the European Union, which helped reduce the country risk of these countries. At the same time, this situation pushed up demand for the insurance of non-marketable short-term export transactions, which saw premiums rise by 11 percent in 2011, to EUR 9.1 million. The rise in premiums led to a 32-percent growth in the surplus of revenues over expenses (EUR 5.5 million) and increased the contingency reserves of the Republic of Slovenia to EUR 130 million. In order to respond to the needs and issues within the economy, the Bank also designed a new insurance product to cater for export preparation activities. All in all, it is estimated that the annual result from the operations conducted for the account of the Republic of Slovenia was successful.

Wishing to provide our customers with the most favourable long-term financing sources, the Bank managed to secure several credit lines in the international market under highly favourable conditions. In addition to concluding bilateral loan agreements with banks (EUR 140 million), SID Bank issued a Eurobond in March 2011 (EUR 350 million) and carried out a private placement of shares in the amount EUR 150 million just before the credit rating of Slovenia, and, consequently, of SID Bank, was downgraded to A2. These operations contributed to the reputation and standing of SID Bank as the only Slovenian bank still able to raise loans in the international capital market.

In 2011 SID Bank redesigned its complete range of products in order to facilitate the availability of its financial services, creating new added value for the direct and indirect consumers of SID Bank services.

Risk management was the main focus of the Bank's operations, as in previous years. Capital adequacy strengthened to 14.4 percent, a considerable increase over the average for Slovenian banks. Impairments and provisions rose by EUR 43 million in 2011, not as a result of bad investments since the Bank continues to hold 94 percent of all investments in A and B rated investments. This increase was largely driven by the rapid intervention growth of extended loans and by the growth in risk assumed by the Bank in recent years, which is both a result of the financial crisis and a result of the Bank's deliberate policy to assume higher risks in the harsh economic conditions, which are normally characterized by the negative growth of commercial banks towards the economic sector.

In 2011, SID Bank's continued to implement its highly efficient cost management policy. Cost-income ratio has decreased to 13.1 percent, and the share of operating costs as of assets was 0.19 percent. These values, which are considerably below the Slovenian average (52.8 percent and 1.53 percent, respectively) prove the efficiency of the Bank's operations and the good management of assets which the Bank has been entrusted.

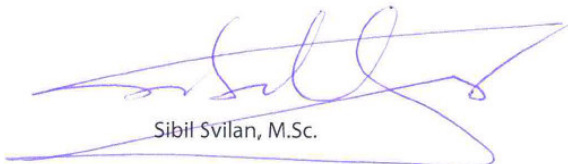
In the international field, the Bank maintained sound cooperation with its sister institutions (European Investment Bank, Kreditanstalt fuer Wiederaufbau, Council of Europe Development Bank) and associations. The most important contributing factor that strengthened the cooperation was the common commitment of the

Berne Union member states for the consistent use of ethical standards and responsible lending, which is the guiding principle of SID Bank's operations.

The business performance of SID Bank Group was successful at EUR 4.2 billion in total assets and a record-breaking EUR 11.1 million in net profit. The effects of the economic crisis on the operations of SID Bank's subsidiary companies were mostly felt through increased risk. The trend of deteriorating payment discipline in the traditional markets of SID-Prva kreditna zavarovalnica and PRVI FAKTOR continued, which called for a prudent examination of proposed limits and transactions. Claims paid remained high, also as a result of events in recent years.

The end of 2011 marked five years since the formation of SID Bank and the end of the first term of the Bank's Management Board. In recognition of this milestone, I wish to conclude this statement on behalf of the entire management team: "SID Bank is a prominent and financially sound financial institution which is dedicated to fulfilling its mission to provide promotional and development financial services with efficiency and productivity, thereby earning a high reputation and creating new jobs, both in direct and indirect terms. We are proud to have helped create this story of success over the past five years, and thank all our stakeholders for their confidence and trust."

We will have to face many challenges in the years ahead. The conditions in Slovenia's economic environment, as well as in that of the other EU economies, which are characterised by the high volatility and complexity of the financial markets, will place heavy demands upon the Bank's management over the following years, requiring us all to demonstrate, once again, our strengths and abilities, and, above all, our unfailing sense of responsibility for the sustainable development of Slovenia's economy.



Sibil Svilar, M.Sc.

3. Report of the Supervisory Board on the review and approval of the 2011 Annual Report of SID Bank and SID Bank Group

In 2011 the operations of SID Bank and SID Bank Group were overseen by the Supervisory Board in the following composition: Andreja Kert, Chairperson; Samo Hribar Milič, M.Sc., Deputy Chairperson; Aleš Berk Skok, Ph.D.; Hugo Bosio; Marko Jaklič, Ph.D.; Gregor Kastelic; M.Sc., and Peter Kraljič, Ph.D.

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

Professional support for the work of the Supervisory Board was provided by the Audit Committee, which studied the issues and drew up opinions mainly with regard to the internal and external audits, accounting policies and financial data, risk management, risk profile assessment, and internal controls. In line with the recommendations of good business practice regarding 5-year auditor rotation, the Audit Committee conducted a tendering procedure for the selection of a new external auditor in 2011. On the basis of the recommendations made by the Audit Committee and following the proposal of the Supervisory Board, the Annual General Meeting confirmed the new external auditor of the Bank.

In 2011 the Recruitment Committee of the Supervisory Board provided the Supervisory Board with professional support in preparing the appointment of members of the Management Board for the next five-year term; assessing the performance of the Management Board in 2010; preparing a new system of payments to members of the Supervisory Board and members of committees; as well as in assessing the suitability of SID Bank's succession planning and performance related pay system. Acting in accordance with the amendments to the Banking Act and the decisions adopted by the Bank of Slovenia, the Supervisory Board renamed the Recruitment Commission as the Personnel and Remuneration Commission, extending its powers and amending its membership. Under its new authorities, the Commission also studied the remuneration policy of SID Bank.

In 2011, the Supervisory Board met at seven (7) regular and three (3) correspondence meetings where it studied periodical reports on the operations of SID Bank and the companies of SID Bank Group, reports prepared by the Internal Audit, reports by the Compliance Management and other departments of the Bank, as well as other general and specific issues related to the business operations of the company, and decided on the matters within its powers.

The Supervisory Board discussed and decided on the following important issues in 2011:

- the Annual Report for 2010, the Independent Auditor's Report, and the proposal concerning the allocation of distributable profit,
- the Bank's Action Strategy for the period ending in 2015, and the achievement of strategic goals in 2011,
- the annual operations plan and the financial plan for the year 2012,
- the Internal Audit work plan for 2012 and Internal Audit strategic plan for the years 2012 and 2013, the annual internal audit report for 2010, and periodical internal audit reports,
- Compliance Management reports and work plan,
- legal acts relating to risk management as well as risk management and internal control systems, and assessment of the Bank's profile for 2010 and 2011,
- the findings made by the Bank of Slovenia and other supervision bodies, and implementation of their recommendations,
- borrowings of the Bank and the related increase in SID Bank's first Eurobond issue,
- strategic orientations regarding the ownership in the companies of SID Bank Group,
- recommendations by the Capital Assets Management Agency of the Republic of Slovenia.

In 2011 the Supervisory Board appointed a two-member Management Board for the next five-year term.

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

At its meeting held on 7 May 2012, the Supervisory Board examined in detail the Annual Report of SID banka, d.d., Ljubljana and Skupina SID banka for 2011 together with the proposals regarding the allocation of distributable profit of SID Bank made by the Management Board of SID banka, d.d., Ljubljana. The Supervisory Board also examined the Independent Auditor's Report prepared by the auditing company KPMG SLOVENIJA, podjetje za revidiranje, d.o.o., which gave its positive opinion on the financial statements of SID Bank and SID Bank Group for 2011. According to the Independent Auditor's Report, the financial statements present fairly, in all material respects, the financial position of SID banka, d.d., Ljubljana and group Skupina SID banka as at 31 December 2011, 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, and the Bank's management report is in conformity with the accompanying financial statements.

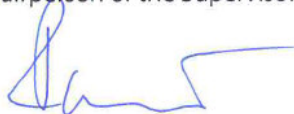
The Annual Report for 2011, including the Independent Auditor's Report, was also studied by the Audit Committee, which assessed it as appropriate and prepared a proposal for the Supervisory Board to confirm it.

The Supervisory Board had no comments as to the Independent Auditor's Report of KPMG SLOVENIJA , podjetje za revidiranje, d.o.o.

Upon examination of the Annual Report, the Supervisory Board had no reservations to and gave its approval to the 2011 Annual Report of SID banka, d.d., Ljubljana and Skupina SID banka.

Matej Runjak

Chairperson of the Supervisory Board



4. Corporate Profile of SID Bank and SID Bank Group

History and legal status

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

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

To ensure compliance with regulations, SID established an insurance company to which it transferred the portfolio of marketable insurance performed on own behalf and for own account up to the end of 2004. SID – Prva kreditna zavarovalnica d.d., Ljubljana, in which SID held a 100 percent equity interest, started operation on 1 January 2005.

In October 2006 SID obtained a license from the Bank of Slovenia to provide banking and other financial services. At the end of the same year it received the Decision of the District Court in Ljubljana on changing the company's name into SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana, or SID Bank, Inc., Ljubljana for short¹, and on 1 January 2007 the company began formally operating as a specialized bank.

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

Article 13 of the ZSIRB defines the liability of the Republic of Slovenia stating that "the Republic of Slovenia as the single shareholder of SID Bank shall, irrevocably and without limitation, be responsible for the liabilities incurred by SID Bank out of transactions entered into in performance of activities of Articles 11 and 12 of the ZSIRB. If SID Bank fails to settle its due liability to a creditor at the latter's written request, the Republic of Slovenia shall be obliged to settle such liability promptly at the request of the creditor." Thus, SID Bank is able to acquire financing in international markets without having to obtain a guarantee from the Republic of Slovenia for each borrowing operation. The maximum amount of borrowing is agreed as a capital amount which is at least equal to the sum of the prescribed capital requirements.

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

In conclusion, SID Bank holds the authorisation by the Bank of Slovenia to perform the following financial services:

¹ In the continuation of this Annual Report, regardless of the time of operation and the change of company name, SID Bank, Inc., Ljubljana, is referred to as SID Bank or the Bank, whereas all capital-linked SID Bank companies are referred to as SID Bank Group or SID Group.

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

With the adoption of the Commission Directive 2010/16/EU of 9 March 2010 amending Directive 2006/48/EC of the European Parliament and of the Council, the status of SID Bank was also defined for the needs of the EU banking regulations. With the Directive, the European Commission, acting in accordance with the opinion of the European Banking Committee, confirmed SID Bank as an institution involved in specific activities in the public interest and therefore eligible for inclusion in the list of institutions excluded from the scope of application of Directive 2006/48/EC pursuant to Article 2 of that Directive. According to the Directive, SID Bank carries out promotional and development activities in the segments where market gaps occur or have been observed, by providing, inter alia, financial services, counseling and education in areas such as international trade and international cooperation, economic incentives for small and medium enterprises, research and development, regional development, as well as commercial and public infrastructure.

Role, purpose and tasks of SID Bank

On the basis of, and in accordance with:

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

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

- a balanced and sustainable economic development of the Republic of Slovenia, through financing and insurance of international business transactions,
- research and innovation, as well as other forms of economic and development cooperation which increase competitiveness and excellence of economic operators in the territory of the Republic of Slovenia,
- a sustainable development of the environment, characterized by a high degree of protection of the environment and habitat, public and utility infrastructure, and in particular energy efficiency,
- social progress, education and employment in the Republic of Slovenia and abroad through international development cooperation,

and other forms of economic activities contributing to the growth, development and prosperity, whereby the management and supervisory bodies of SID Bank will, within the framework of the Bank's strategic policies,

strive to meet the requirements of the users of such services and exercise as well as progressively improve the same by way of introducing and implementing:

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

Furthermore, the ZSIRB authorises SID Bank to pursue its activities concerning deployment of EU funds and other assets from the EU budget. In so doing, SID Bank may, under agreements concluded with the competent ministries and other national authorities, entities and persons, extend diverse types of development finance and carry out various measure packages of the Republic of Slovenia, as well as other schemes and projects compliant with EU rules and is, to this end, engaged in multiple forms of cooperation with various European financial institutions.

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

The Act Amending the Public Finance Act (ZJF-F, Official Gazette of RS, No. 107/10 of 28 December 2010) further specifies, inter alia, that budget funds may be allocated to SID Bank for promotion of technological development projects through a direct agreement, without a call for tenders. An invitation for financing of technological development projects through loans classified as (permitted) state aid in the total amount of EUR 150 million was published on 21 November 2011. SID Bank provided two thirds of the funds.

Company ID

Company name	SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana
Headquarters	Ulica Josipine Turnograjske 6, SI-1000 Ljubljana, Slovenia
Company ID Number	5665493
Tax Number	82155135
VAT Identification Number	SI82155135
Account Number	0100 0000 3800 058
SWIFT	SIDRSI22
Phone	00386 1 200 75 00
Fax	00386 1 200 75 75
E-mail	info@sid.si
URL	http://www.sid.si

Capital

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

In 2011 there were no changes in share capital; as at 31 December 2011 the share capital was EUR 300 million.

At the General Meeting of SID Bank Shareholders held on 27 July 2011, a decision was taken that the distributable profit for the year 2010 totaling EUR 2,719,645.43 shall be allocated to other profit reserves.

Equity was EUR 332.0 million as at 31 December 2011. The audited book value per share was EUR 106.99 as at 31 December 2011 and EUR 105.63 as at 31 December 2010.

- **Shareholders as at 31 December 2011**

	Number of shares	Equity interest in %
Republic of Slovenia	3,103,296	99.4
SID Bank -own shares	18,445	0.6
Total	3,121,741	100.0

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

Activities

In accordance with the above listed role, purpose and tasks of SID Bank, the Bank mainly provides financial services, within the authorisations issued by the Bank of Slovenia. The Bank's primary service, granting of loans, is normally and to a large extent carried out through banks, in certain cases in cooperation with other commercial banks in bank syndicates. To a lower extent, the Bank grants direct loans to final beneficiaries.

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

The activities of the Bank and SID Bank Group are presented in more detail in Point 8 Review of Operations in 2011.

SID Bank operations under the authorisation of the Republic of Slovenia

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

Under the Guarantee Scheme Act of the Republic of Slovenia (Official Gazette of RS, No. 33/09 of 30 April 2009 and Official Gazette of RS, No. 42/09 of 5 June 2009), SID Bank was authorised to carry out, on behalf and for the account of the Republic of Slovenia, a guarantee scheme for enterprises. The Act was adopted as part of the EU stimulus package and was not extended after its expiry at the end of 2010. Currently, SID Bank's activities in this field are focused on the processing of claims for guarantee payment, collection of claims of recourse arising from guarantees, and monitoring of the use of earmarked funds and compliance with other requirements.

Under the Guarantee Scheme Act of the Republic of Slovenia (Official Gazette of RS, No. 59/09 of 30 July 2009) SID Bank was authorised to administer, on behalf and for the account of the Republic of Slovenia, a guarantee scheme for individuals. No new guarantees were issued in 2011. Currently, SID Bank's activities in this field are focused on the processing of claims for guarantee payment, collection of claims of recourse arising from guarantees, and monitoring of the use of earmarked funds and compliance with other requirements.

Under the Act on Guarantees of the Republic of Slovenia for Financing Investments of Enterprises (Official Gazette of RS, No. 43/10 of 31 May 2010), SID Bank is also authorised to conduct contracts relating to the issuance of guarantees on behalf and for the account of the Republic of Slovenia, as well as other technical operations under this Act. Four guarantees were issued in 2011.

2010 was also the year of the entry into force of the Act Amending Environment Protection Act (Official Gazette of RS, No. 108/2009 of 28 December 2009), which bestowed upon SID Bank additional authority to act as state auctioneer at emission allowance auctions and to carry out the Kyoto units and emission allowance trading scheme, and any related transactions, on behalf and for the account of the Republic of Slovenia. In 2011, activities continued to ensure implementation of the mandate.

The activities of the Bank for the account of the Republic of Slovenia are presented in more detail in Point 8.5 Operations under Special Authorisation.

SID – Prva kreditna zavarovalnica d.d., Ljubljana

As the sole owner of the company, SID established a specialised credit insurance company SID – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter PKZ) in 2004. PKZ started its business operations on 1 January 2005. The share capital of the company as at 31 December 2011 is EUR 8.4 million and equals the nominal value of the equity interest owned by SID Bank.

PKZ provides insurance for short-term credits to private-law entities (normally, suppliers' credit for up to 180 days or, exceptionally, up to one year). It conducts insurance against commercial and non-commercial risks for companies selling abroad and/or in Slovenia on deferred payment, normally on open account. The company also concludes indirect insurance contracts: it uses facultative quota reinsurance to provide covers for insurance operations of loan collaterals, collateralized with export credit agencies. All the main characteristics of insurance transactions insured in such a manner were the same as for direct insurance transactions and were, also in 2011, negligible when compared with direct insurance transactions.

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

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

PRO KOLEKT, družba za izterjavo d.o.o., with registered offices at Ulica Josipine Turnograjske 6, Ljubljana (hereinafter PRO KOLEKT, Ljubljana), was established in 2004 by SID as its sole owner. The share capital of the company as at 31 December 2011 was SIT 418.8 thousand. The nominal value of the equity interest of SID Bank in PRO KOLEKT, Ljubljana, was also EUR 418.8 thousand.

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

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

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

- PRO KOLEKT d.o.o., Zagreb, Croatia, specializing in entrepreneurial consulting, was founded on 1 February 2006 by PRO KOLEKT, Ljubljana as its sole owner. The share capital of the company is EUR 23.8 thousand. Ivica Balenović has been appointed General Manager of the company. The General Meeting of PRO KOLEKT d.o.o., Zagreb is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2011 equalled the balance of the company's share capital on the same day.

- PRO KOLEKT d.o.o., Skopje, Macedonia, specializing in entrepreneurial consulting, was founded on 6 July 2006 and is 80 percent owned by PRO KOLEKT, Ljubljana, and 20 percent owned by Mr. Vlado Naumovski. The share capital of the company is EUR 10.0 thousand. The General Manager of the company is Mr. Goran Markovski; the General Meeting of PRO KOLEKT d.o.o., Skopje is represented by the General Manager of PRO KOLEKT, Ljubljana, and Mr. Vlado Naumovski. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2011 equalled EUR 8.0 thousand.
- PRO KOLEKT, društvo za naplato duga d.o.o., Beograd, Serbia, specializing in other financial activities, was founded on 18 December 2006, and is wholly-owned by PRO KOLEKT, Ljubljana. The share capital of the company is EUR 25.0 thousand. The General Manager of the company is Mr. Nikola Debač; the General Meeting of the company is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2011 equalled the balance of the company's share capital on the same day.
- PRO KOLEKT Credit Management Services Bucuresti S.R.L., Bucurest, Romania, specializing in business consulting, was founded on 6 April 2007, with a share capital of EUR 25.0 thousand. The share capital of the company as at 31 December 2011 is SIT 39.2 thousand. PRO KOLEKT, Ljubljana holds a 51.02 percent ownership share of the company, Mr. Teodor Gigea 25.51 percent, and Roexpert S.R.L. Bucuresti 23.47 percent. The General Manager of the company is Mr. Teodor Gigea; the General Meeting of the company is represented by the General Manager of PRO KOLEKT, Ljubljana, the General Manager of Roexpert S.R.L. Bucuresti, and Mr. Teodor Gigea. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2011 equalled EUR 20.0 thousand.
- PRO KOLEKT Sofia OOD, Sofia, Bulgaria, specializing in business consulting, was founded on 9 May 2007, with a share capital of EUR 25.7 thousand. The share capital of the company as at 31 December 2011 is SIT 40.0 thousand. PRO KOLEKT, Ljubljana owns 62.50 percent of the company, the remaining share of 37.50 percent is owned by Ms. Mariana Ikonomova, who is also the General Manager of the company. The General Meeting of the company is represented by the General Manager of PRO KOLEKT, Ljubljana, and Ms. Mariana Ikonomova. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2011 equalled EUR 25.0 thousand.
- PRO KOLEKT d.o.o., društvo za finansijsko posredovanje, Sarajevo, Bosnia and Herzegovina, specializing in financial intermediation, was founded on 13 July 2007 and is wholly-owned by PRO KOLEKT, Ljubljana. After the capital increase of EUR 10 thousand carried out in 2010, the share capital of the company is EUR 35.8 thousand. Ms. Elzana Behrić was appointed General Manager of the company on 1 December 2010. The General Meeting of the company is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2011 equalled the balance of the share capital on the same day.

PRVI FAKTOR, faktoring družba, d.o.o.

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

In 2002 SID acquired a 50 percent equity interest and half of the voting rights in the company PRVI FAKTOR, Ljubljana, the other shareholder being Nova Ljubljanska banka d.d., Ljubljana. The nominal value of the equity interest owned by SID Bank was EUR 1.6 million as at 31 December 2011.

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

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

- PRVI FAKTOR - faktoring d.o.o., Beograd, Serbia, specializing in factoring, was founded on 24 February 2005. The share capital of the company is EUR 1.2 million. The General Manager of the company is Ms. Jelena Tanasković; the General Meeting is made up of the representatives from PRVI FAKTOR, Ljubljana.
- PRVI FAKTOR d.o.o., Sarajevo, Bosnia and Herzegovina, specializing in other types of financial intermediation, was founded on 27 February 2006. The share capital of the company is EUR 1.5 million. The General Manager of the company is Mr. Đenan Bogdanić; the General Meeting is made up of the representatives from PRVI FAKTOR, Ljubljana.
- PRVI FAKTOR d.o.o.e.l., Skopje was founded in 2006; the founding capital of the company is EUR 5.0 thousand. The company has not begun operating yet.

The company's bodies are the General Meeting and General Manager, Mr. Ernest Ribič. In 2011, SID Bank was represented at the General Meeting of PRVI FAKTOR, faktoring družba, d.o.o. by Mr. Sibil Svilan (MSc), until 28 October 2011, Ms. Barbara Bračko (since 28 October 2011) and Mr. Leon Lebar.

The nominal value of the equity interests owned by PRVI FAKTOR, Ljubljana in the companies of the PRVI FAKTOR Group as at 31 December 2011 equaled the balance of the share capital of these enterprises on the same day; except in the case of PRVI FAKTOR d.o.o., Sarajevo, where the book value of the equity interest is EUR 1 million due to the impairment of the investment.

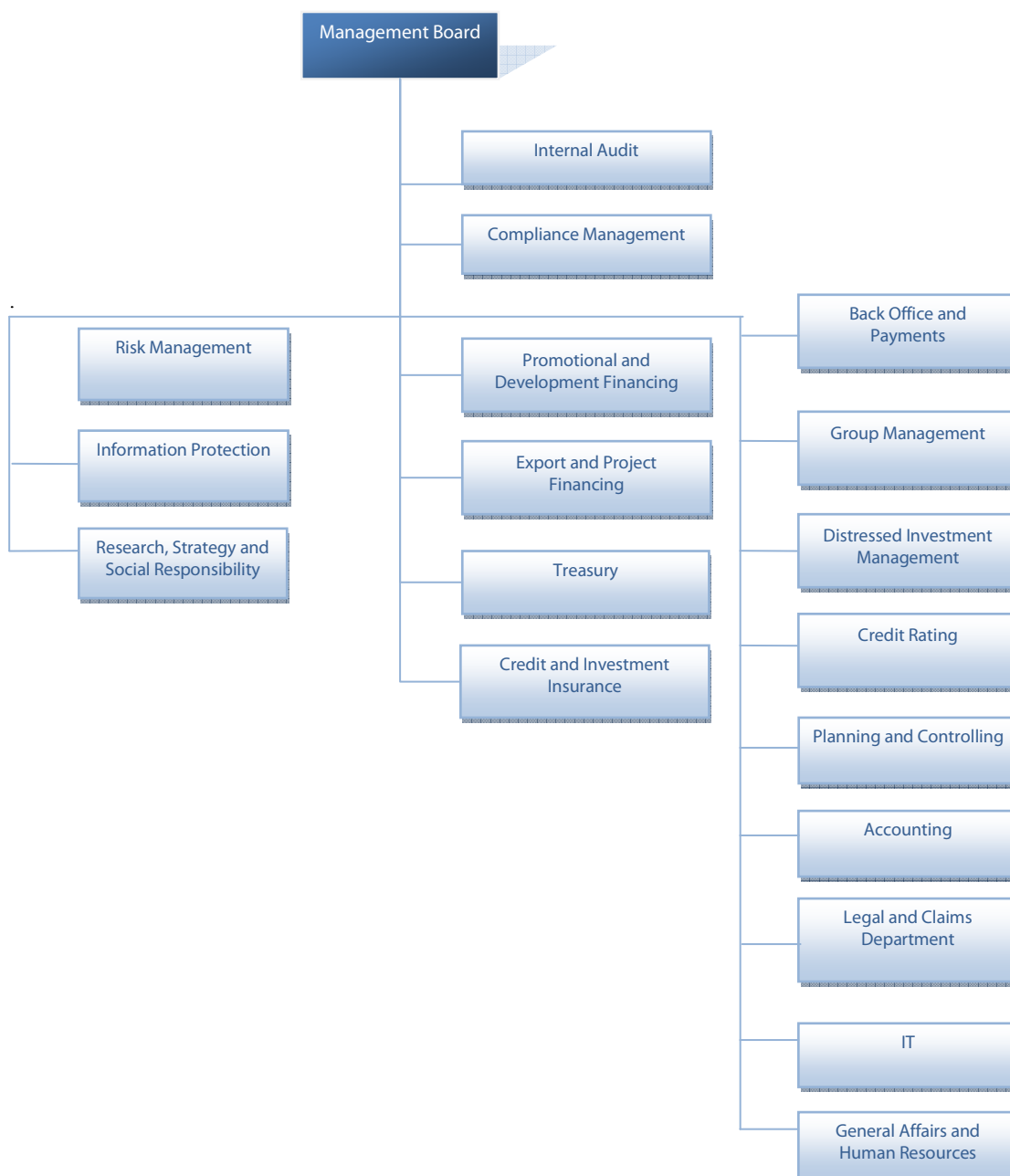
Centre for International Cooperation and Development

Upon signing the second Amendment to the Agreement Concerning the Restructuring of the Centre for International Cooperation and Development (hereinafter CMSR) in 2006, SID Bank joined the Republic of Slovenia as a co-founder of CMSR with which it had worked closely prior to the signing. The main activities of the Centre include macroeconomic and political analyses of various countries, country risk assessments and publishing. In recent years CMSR has become Slovenia's central institute to perform technical and operational tasks linked to international development cooperation on the basis of an authorisation issued by the Government of the Republic of Slovenia.

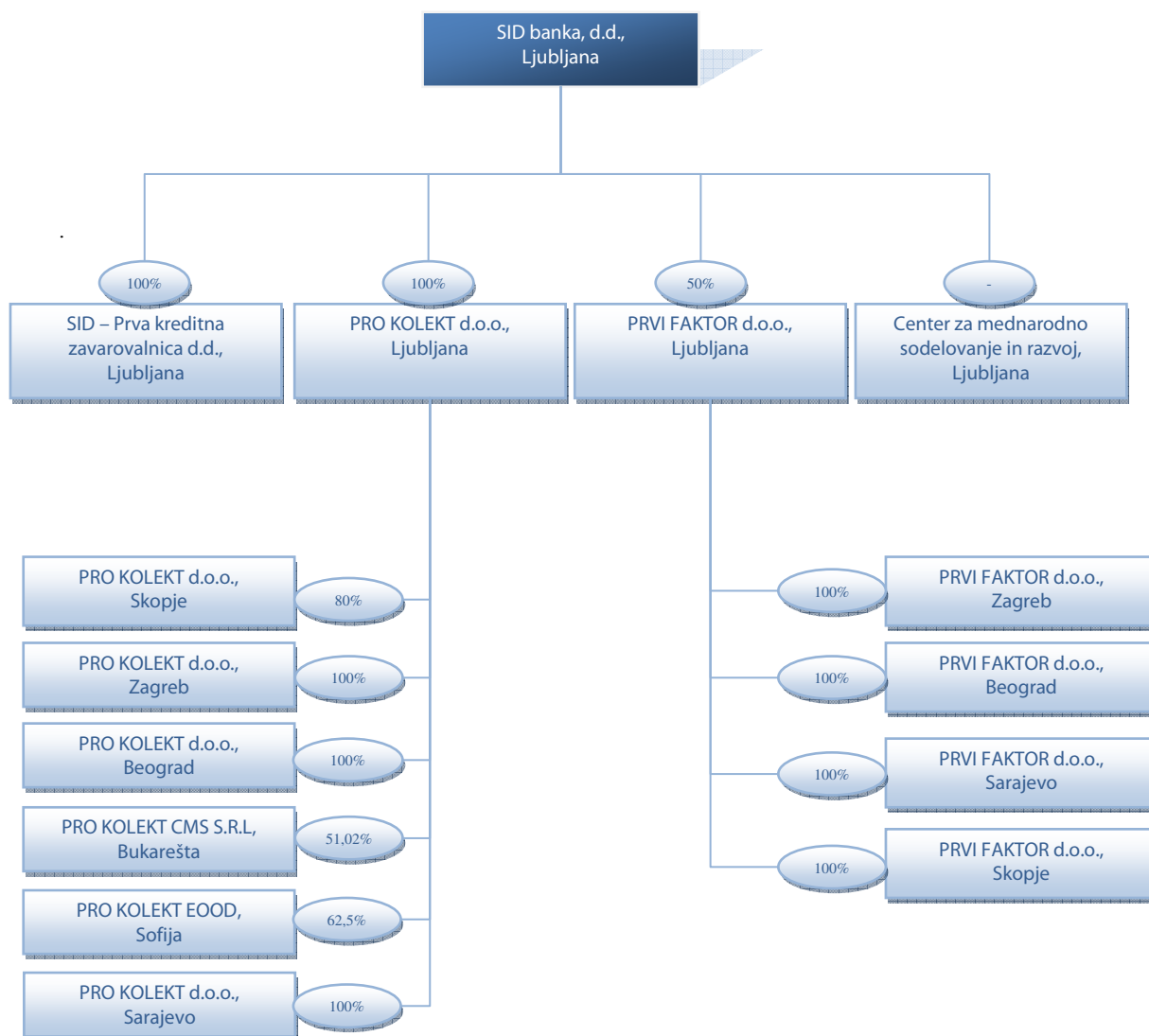
The CMSR management bodies are Director and Council of the Centre. The institute is represented by Mr. Gašper Jež. The CMSR Council is made up of six members; SID Bank's representatives sitting on the Council are Mr. Sibil Svilan (MSc), who is also the President of the Council, and Mr. Bojan Pecher.

5. Management of SID Bank

5.1. Organization Chart of SID Bank as at 31 December 2011



5.2. Organization Chart of SID Bank Group as at 31 December 2011



5.3. Management Bodies of SID Bank as at 31 December 2011

Supervisory Board of SID Bank

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

Management Board

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

Supervisory Board Audit Commission

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

HR and Remuneration Commission

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

International Trade Promotion Commission

- Marjan Hribar, President, Ministry of the Economy of RS
- Sabina Koleša, M.Sc., Deputy President, Ministry of the Economy of RS
- Janez Krevs, Bank of Slovenia
- Monika Pintar Mesarič, Ministry of Finance of RS
- Jože Renar, M.Sc., Chamber of Commerce and Industry of Slovenia
- Boris Sovič, M.Sc., Ministry of Foreign Affairs of RS

5.4. Statement of Corporate Governance

In the business year 2011 SID Bank as a public company followed the Corporate Governance Code for Joint-Stock Companies (hereinafter the Code), which was jointly phrased and adopted in revised form by the Ljubljana Stock Exchange, Inc., Ljubljana, the Association of Supervisory Board Members of Slovenia, and the Managers' Association of Slovenia on 8 December 2009. The Code is available online at <http://www.ljse.si/>. SID Bank Governance Policy, adopted at the end of 2011, confirms that the Management Board and Supervisory Board of SID Bank are committed to acting in accordance with the Corporate Governance Code for Companies with State Capital Investments of 18 January 2011, which was adopted by the Capital Assets Management Agency of the Republic of Slovenia.

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

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

- Points 1 and 2 - Corporate Governance Framework: Unlike other joint-stock companies, the key objective of SID Bank is not to maximize the company's value but rather to perform promotional and development tasks aiming to retain or increase the value of capital without pursuing the goal of profit maximization (cf. Article 9 of the ZSIRB, and SID Bank Statute).
- Points 4 and 5 - Relations with Shareholders: The recommendations are applied *mutatis mutandis*, since this matter is regulated by the law. As it follows, the Republic of Slovenia is the single shareholder of SID Bank (cf. Article 4 of the ZSIRB), and the election of members of the supervisory board is stipulated by law (Article 18 of the ZSIRB).
- Point 7 - Supervisory Board: The selection procedure for supervisory board members is carried out in accordance with the provisions of the ZSIRB and other legal acts which regulate the appointment into supervisory bodies of companies in the majority ownership of the state.
- Point 8 - Supervisory Board and point 17.1 - Independence and Loyalty: Members of the supervisory board sign a special statement disclosing their meeting of the criteria of independence from Appendix C of the Code, but such statements are not posted on the company's website since they also contain confidential data the company requires pursuant to the banking regulations.
- Point 8.4 - Supervisory Board: To distribute materials and convene meetings, the supervisory board makes use of information technology only in case of correspondence sessions, and only under exceptional circumstances for regular meetings. In 2012 SID Bank plans to discontinue paper-based distribution of meeting documents.
- Point 20.4 - Transparency of Operations: The financial calendar for 2011 was not published on the company website, but the calendar for 2012 is available there.
- Point 21.2 - Transparency of Operations: The company's website does not include the name and contact information of its Investment Relations officer. However, it includes the contact details of heads of organisational units, including Head of Treasury.
- Point 21.2 - Transparency of Operations: The company does not disclose information on the shares of voting rights in the companies which it acquires in the process of managing bad investments for resale, when these are not of material consequence.

SID Bank has adopted internal acts regulating accounting reporting procedures and through these put in place various internal controls, which are mainly carried out in the organizational units responsible for risk management, accounting, planning and controlling. The functioning of internal controls and risk management practices are also subject to internal audit reviews conducted by a special organizational unit. To enhance the efficiency of its operation, the Supervisory Board has set up an Audit Committee, which focuses in its work on

accounting reporting and risk management. As part of the internal control system, SID Bank has also established a compliance function, performed by a separate organizational unit.

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

5.5. Compliance Management

In 2011 the Compliance Management service continued to perform the full range of independent compliance functions. The main objective of the compliance function is to identify and assess the compliance risk to which the Bank is or might be exposed. Compliance risk can be defined as the risk of legal or regulatory sanctions, significant financial loss, or loss to reputation which a bank may suffer as a result of its failure to comply with all applicable laws and regulations and standards of good practice.

The compliance function covers compliance risk monitoring and reporting, as well as counseling and training relating to compliance risk management. Also, it has a supervisory role, which is to regularly check the use of internal control mechanisms introduced by the Bank to ensure compliant management. A part of the Bank's internal control system, the compliance function is one of the interrelated elements of a comprehensive, stable and reliable bank management system.

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

Notwithstanding the enforcement and implementation of the compliance function, the Management Board retains primary responsibility for compliance risk management and for the compliance of SID Bank's business practices with applicable regulations. By establishing an independent compliance function, the Management Board has, above all, satisfied the required due diligence standards in accordance with the banking regulations. Under the Bank's internal acts, however, the responsibility to ensure compliance of business practices rests with all SID Bank's employees, depending on their position and level of responsibility. This means that all the staff have to undergo training related to the oversight and management of compliance risk. Additionally, heads of organizational units are required to closely monitor the implementation of compliance risk in their respective areas and report to the Management Board and Compliance Management accordingly.

The Compliance Management service prepares a half-yearly report and hands it over to the Management Board, which submits it to the Supervisory Board for consideration. Each report gives a summary of the activities conducted in the previous six-month period, assesses the current status of compliance against the identified standards, gives recommendations for the management, if any, and comments on the status of compliance recommendations made in the previous periods.

5.6. Internal Audit

The Internal Audit of SID Bank is organized as an independent service, directly responsible to the Management Board. The services it provides are consistent with the International Standards for the Professional Practice of Internal Auditing, the code of internal auditing principles, and the code of professional ethics for internal auditors. In addition to the above mentioned standards, the Internal Audit also observes the relevant provisions of the Banking Act. The functioning of Internal Audit is based on the Internal Audit Charter, and a

more detailed description of internal audit procedures is given in the Internal Audit Rules and Internal Auditing Manual.

The basis for planning the areas to be subjected to Internal Audit reviews in 2011 was SID Bank Risk Profile² and the regulators demands to audit certain operation areas. The risk profile analysis lay the groundwork for determining the business activities and risk areas within specific business activities for internal audit review in 2011. The annual plan of internal audits is adopted by the Management Board, and confirmed by the Supervisory Board of SID Bank.

The Internal Audit reports to the Management Board, the Supervisory Board and the Audit Committee. Quarterly and annual Internal Audit reports, and quarterly reports on the status of recommendations made in the previous reports, help these bodies to closely monitor the current operation of the company.

In 2011, the Internal Audit conducted 15 regular reviews. The most important business areas which were subjected to internal audit procedures include: disclosures in the annual report; management of interest rate and market risks; monitoring and evaluation of insurance policies, credit risk monitoring; efficiency of the process to assess the adequacy of internal capital; records and presentation of business events relating to the operations conducted for the account of the State; review of operational risk management policies; review of procedures relating to the guarantee schemes for individuals and enterprises as well as investments. Three reviews into the IT support and production of backup security copies were carried out by certified information systems auditors.

In the course of reviews, the Internal Audit focused on the existence of work processes and operational instructions, compliance of business operations with the legislation and internal rules, correctness of the delineation of powers and responsibilities between commercial and back office units, and the effectiveness of various risk management practices.

An important task of the Internal Audit was to continuously monitor the implementation of recommendations made in the course of internal audit reviews and previous external audits. As a result, the Internal Audit issued three reports concerning the implementation status of recommendations. In 2011 the Internal Audit also coordinated the activities of the external auditor.

² SID Bank Risk Profile is established using the Bank's internal risk profile assessment methodology, which is based on the POT (Risk Assessment Process) methodology of the Bank of Slovenia.

6. Development Strategy of SID Bank

In accordance with the established strategic planning process, which includes the implementation of a sliding mode strategy, SID Bank's strategic plans were reviewed at the end of 2011, and used as the basis for the adoption of SID Bank's Action Strategy 2012-2015.

In preparing its strategy SID Bank examined and considered primarily the following key external circumstances: the slowdown of global economic growth in the second half of 2011; the increased risk of a double-dip; a cut in the key interest rate set by the European Central Bank; domestic structural issues; an urgent need for a new development model to be implemented at all levels of the economy; the reduced credit ratings and the increased pressure on banks and companies resulting mostly from restricted access to foreign sources of financing.

The key internal factors which have influenced the revision of the Action Strategy were manifold. They included a new paradigm for the performance of the development function and the development of products and instruments, mainly with the aim of responding to the current economic changes; the renovation of the crediting process; the strengthening of development elements in products and services, in particular in the field of the knowledge society and environmentally-friendly society; and access to permitted state aids.

The concrete activities which SID Bank intends to carry out by the year 2015 as part of its Action Strategy are based on the realistic scenario of its external environment development, which takes into consideration, inter alia, the existing phase of the economic cycle, as well as macroeconomic forecasts. An integral element of the Action Strategy is SID Bank's Risk Profile, which is the basis for risk management, particularly at the strategic level.

Another important task in terms of strategy implementation and strategic and operational planning is the ensuring of the further development of cascading strategic goals and plans onto the level of individual organizational units and down to the level of individual employees.

In accordance with its established strategic and operational system, SID Bank will continue to run regular checks, at least quarterly, of the performance of planned activities which are undertaken to achieve long-term strategic goals. It will take corrective measures, whenever necessary, and promptly amend the Action Strategy to reflect any significant changes in the external conditions.

Mission, vision and values

SID Bank develops, promotes and provides innovative, long-term financial services designed to complement financial markets for the sustainable development of Slovenia.

SID Bank will continue to provide its comprehensive range of services complementary to the financial market and will continue to be an important factor in Slovenia's sustainable development by the year 2015.

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

Using appropriate development and promotional instruments, SID Bank will grow with the growth of Slovenia's banking sector, thus maintaining its financial stability.

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

Key strategic directions

- **Market aspect**

From the market aspect, the key strategic directions in the following strategic period will be to strengthen the development element of the Bank's business operations while implementing the intervention and system elements and, on this basis, to gradually evolve into a financial pillar of Slovenia's new development model. With this aim, SID Bank will develop state-of-the-art financial development products and instruments, while simultaneously (and temporarily) continuing to provide simple financial instruments which are intended for the anti-cyclic financing of the crisis-hit economy.

Indirect financing through banks will remain the primary segment of SID Bank operations. This financing will be carried out on the basis of specifically designed developmental and promotional programmes, in compliance with the guidelines and legal framework which is applicable within the EU. Owing to the credit crunch of commercial banks, however, direct loans to economic entities will also retain their importance. In due consideration to the tightened operating conditions in financial markets and the extreme increase in the prices of financing for the Republic of Slovenia and, consequently, for SID Bank, more emphasis will be placed on risk assumptions.

In the spirit of promoting sustainable development of the Republic of Slovenia, SID Bank will continue to develop products for final beneficiaries other than companies, and will expand its activities to cover all four pillars of operation. Particular attention will be paid to increasing the annual volume of new loans extended to the development of the knowledge society and innovative entrepreneurship, in particular for small and medium-sized enterprises.

- **Financial aspect**

From the financial aspect, the key strategic directions of SID Bank for the following strategic period will be to balance the Bank's growth with the average growth rate of the banking sector, and to spread the sources of funding (earmarked and non-earmarked), which the Bank will combine with the fiscal and private funds and transform into more favourable financial conditions for the final beneficiaries, using sophisticated financial engineering.

Other key financial goals are to keep the Bank's capital at the level of no-risk investment in the Republic of Slovenia, to carry out continuous improvements in cost efficiency, and to ensure cost coverage in agency transactions. In the field of insuring against non-marketable risks, the financial aspect relates to pursuing a key strategic objective, i.e. to meeting the minimum rate of return (the threshold rate).

SID Bank will maintain risk management at such a level that it meets the security requirements while at the same time producing the desired business result.

- **Internal aspect**

The priority strategic objectives relating to the internal aspect are two-fold: to put in place a quality assurance system which will enable efficient management of internal growth, and to reduce operational risks.

The organizational culture of the Bank will grow in line with the application of ethical values and high professional standards. Optimisation of the business process of financing will be completed, and an improved organizational structure will be put in place.

The development of the Bank's IT system will focus on balancing effectiveness, flexibility, and stability. The Bank will continue its efforts to build up an efficient data model.

Another strategic orientation of SID Bank is the efficient management of SID Bank Group and the utilization of process synergies within the Group.

- **Learning and development aspect**

The key strategic objectives associated with the learning and development aspects relate mainly to the maintenance of SID Bank's professional networks (financial, technical and technological, institutional), and the utilization of strong Slovenian and international connections for the transfer of good practice. Within this framework, SID Bank will develop knowledge pools in all its areas of operation.

SID bank will continue to apply the modern concepts of responsible lending, and put in place a system for the simultaneous evaluation of the effects of its activities. Another priority task is the development of the innovation process and implementation of a comprehensive business intelligence system. The Bank will proceed with its implementation of the "Learning Organization and Knowledge Management" model.

7. Corporate Social Responsibility

Mission and social benefits

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

In conducting its business as well as in decision-making, SID Bank is guided by the pursuit of expected social benefits arising from projects supported by the Bank, both with regard to decision-making as well as with regard to the conditions for support. The basis for its operations is provided in the long-term development documents of the European Union and Republic of Slovenia, which specify priority areas and the appropriate social consensus.

More importantly, SID Bank regards all the time, assets and commitment invested to be a permanent contribution to the implementation of its vision and mission, on the one hand, and to the development of the knowledge society, competitive entrepreneurship, and the reduction of environmental impacts on the other. All in the pursuit of the ultimate goal: to preserve equal opportunities for future generations to satisfy their needs.

Personal and social responsibility

SID Bank is fully aware that corporate responsibility can only be implemented through the development of personal responsibility of all people within the organization. In order to achieve this, SID Bank fosters the advance of personal and social awareness at all levels, and the promotion of personal and social responsibility as a life-style option for the whole organization in all its operational aspects.

All these points are included in SID's Bank Corporate Social Responsibility Policy. This formally binding document, which defines corporate social responsibility (CSR) in its broadest sense, emphasizes the role of all Bank staff in the implementation of the CSR policy, and lays the foundations for the systematic management of its contents. In 2011 SID Bank began efforts to strengthen the concept of personal responsibility. In so doing, it put in place a corporative volunteer system, and also took several measures to increase the company-wide understanding and commitment to CSR. Also, it monitored the achievements, measured the effects, and integrated CSR concept into the everyday work of individual organizational units.

Corporate social responsibility has a major role in the Bank's strategic planning processes, which fosters its further development, upgrading and implementation. SID Bank continually monitors examples of good practice in this field, in order to learn from them and to use them in the future development of its corporate social responsibility.

Bank management

SID Bank has established modern corporate governance models and has committed itself to continuously adjust its organizational structure to new good business practices and standards.

The Bank places great emphasis on comprehensive risk management and on maintaining a high level of corporate culture. In this respect, it strives to create and develop a participative organization (i.e. the establishment of mutual respect), to encourage teamwork and cooperation, loyalty and commitment, to improve identification of the employees with the company's strategy and their involvement in the pursuit of strategic objectives, as well as in the implementation of SID Bank values, and the upgrading of corporate social responsibility policies. The Bank continually works to raise the motivation of the employees, to create and maintain a stimulating working environment, and to monitor employee satisfaction.

Owing to the exceptional growth which the Bank has undergone in recent years, its external success had to be balanced with its internal growth in order to pave the ground for further development in all aspects of business operations. Over the next development period, the Bank will therefore focus on responsible growth, working to achieve business excellence. In 2011, SID Bank continued its efforts to put in place a quality assurance system for efficient management of internal growth through a comprehensively connected and IT-supported corporate organization and management system, which will enable the Bank to improve its recognition of customer needs, to maintain the quality of its services, and to meet the expectations of its stakeholders.

The Bank's focus is two-fold: on the one hand, transparency of all services, and, on the other hand, transparent operations and business results. In pursuing this goal, SID Bank pays close consideration to the relevant guidelines and good-practice cases as issued and performed by EU-based benchmark organizations. In 2011 the Bank published on its website several articles relating to corporate social responsibility.

One of SID Bank's key strategic orientations is to maintain the favourable cost-income ratio. Fully aware that the funds which it manages come, directly or indirectly, from taxpayers' money, the Bank strives to continually improve its proactive cost management and thus to enhance its responsibility towards society. Under the legal requirement which stipulates the mandatory allocation of profit for appropriation to reserves, every euro saved increases the financial stability of the Bank, the sustainability of its operations, and its financial self-sufficiency, while at the same time increasing the volume of funds which the Bank is able to allocate to the sustainable development schemes of the wider community.

On the basis of the above, SID Bank adopted a comprehensive Bank Management Policy in 2011. The Management Policy reflects the values of the Bank and pays due attention to the reference governance code, cooperation with stakeholders, the policy concerning the transactions between the Bank and associated companies, a commitment to disclose possible conflicts of interest and the independence of management and supervisory bodies, the assessment of efficiency and the safeguarding of employees interests.

Business ethics

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

Despite this underlying business objective, the Bank is fully aware that, due to its specific status, it is obliged to uphold a high standard of business ethics, both formally and informally, and, most importantly, by example. On the one hand, the Bank's key focus is compliance management and a comprehensive, sustainable and ethical attitude to the business operations which are carried out in the course of the Bank's tasks and responsibilities, whereas on the other, the Bank is obliged to promote high professional standards.

In support of these goals, SID Bank has adopted a Code of Ethical Values and Professional Standards, which lays down the detailed principles and rules which need to be observed by the Bank, its bodies and staff in carrying out their activities and tasks in relation to clients, other banks, the business environment, and the Bank's internal environment.

Special emphasis is placed on the prevention of corruption which, in Slovenia as well as elsewhere in the world, threatens the rule of law, and undermines people's trust in state-based institutions. Besides combatting corruption, the Bank is also dedicated to environmental conservation goals (environmental protection and efficient energy use).

SID Bank will continue to implement the principles of responsible lending, by assessing each transaction for its economic and financial viability, as well as by comprehensive risk assessment and management. Within this context, the Bank will explore the concept of synspectrics, which allows an institution to look beyond the financial aspect of its operations to consider other dimensions and characteristics of the internal and external environment in which it operates.

The new economic paradigm has impacted the nature of business development in several ways: through its mission (sustainable country development) and through all four aspects of strategic planning (the financial aspect; the market aspect, the learning and development aspect, and the aspect of internal processes); by introducing the concept of responsible lending; with its investment policy based on the principle of five balance sheets (financial, environmental, energy, human resources, and intellectual capital); and the corporate social responsibility policy reflected mainly in sustainable financing as the basis for sustainable development.

Given its status, any attempt by SID Bank to distort free competition in areas where such competition exists would be irresponsible. The Bank will therefore not usually compete with other financial organizations in the market, but will work instead to supplement the existing market to the highest possible degree. In 2011 SID Bank refused to respond to any initiatives related to services which, according to the Bank, could be carried out through a private initiative or market, although such action elicited a negative response from the general public, in particular by the media.

Customer relations

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

In particular in the light of its public promotional operations, the Bank implements the principles of equal access and equal treatment for all bank users, which means that it provides the same services under equal conditions to all equally eligible persons, while also paying close attention to ensuring the regional distribution of development funds. SID Bank also ensures protection of the rights and benefits of its clients, fosters client confidentiality, and raises client awareness on relevant business policy changes, in which it is guided by the principle of reality and proportionality.

SID Bank employees working towards these goals use a carefully designed mix of communication activities and channels, in particular the Bank's website, public presentations and lectures, attendance at conferences, regular education and training programmes, participation at various professional events, and sponsorship of special events which are related to SID Bank's business activities. Furthermore, the Bank organizes knowledge hubs aimed at raising the level of professional expertise in the field of management and, more importantly, financing.

Environment-friendly society

Environmental protection and energy efficiency are two of the main areas of SID Bank's operation, and therefore form an important element of the Bank's mission. SID Bank develops schemes that are focused on achieving the sustainable objectives set for these areas, mainly those related to nature protection, appropriate waste management, the use of natural resources, the promotion of investment in the environmental protection infrastructure, the renewable sources of energy, and efficient energy use.

SID Bank wishes to act in a socially responsible manner also on the inside. In so doing, it is committed to strict adherence to environmental protection regulations. The Bank has adopted an environment-friendly waste management system; its employees separate and recycle waste, and it has introduced several measures to reduce energy consumption. Wishing to decrease the amount of stationery used, SID Bank started a project to implement a paperless operation company. At the initiative of the Slovenian Office for Climate Change, SID Bank became an observer in the Low Carbon South East Europe (LOCSEE) project.

SID Bank has discontinued its practice of corporate gifts for business partners and has decided to allocate funds to the preservation of biodiversity of the Slovenian landscape. The funds which had previously been spent on corporate gifts are now donated to Umanotera, the Slovenian foundation for sustainable

development. These funds are used to plant rare native Slovenian tree species, to increase the diversity of forests and fields, and to protect natural ecosystems and the typical Slovenian landscape.

Another challenge in this respect will be the much-needed renovation of SID Bank building. The Bank has decided to follow the principles of sustainable development in the course of these works, which means that the building will be renovated rather than rebuilt, and the project will consider the rules of monument protection, energy efficiency, environmental impact, and optimum working environment.

Peer commitments and cooperation

Since inter-bank agreements and guidelines promote good practice, rules and principles of the banking industry and sound business performance, thereby contributing to sound business results, security and liquidity in the banking sector and wider, the Bank places great emphasis on these agreements with financial institutions at the national and transnational level, and actively participates in the exchange of information, good business practices and industry peer values.

SID Bank considers particularly important the agreements made at the Bank Association of Slovenia and agreements with other Slovenian and foreign banks of which it is a member. It acts as a responsible member of these associations, promoting the agreed standards and working proactively to resolve any issues that may hinder or prevent implementation, and never failing to be constructive and cooperative.

Furthermore, SID Bank is a member of several international associations of financial institutions, e.g. the European Association of Public Banks (EAPB), the Club of Institutions of the European Union Specializing in Long-Term Credit (ISLTC Club), and the Network of European Financial Institutions for SMEs (NEFI).

SID Bank is also an active member of the Berne Union, which is an international union of credit and investment insurers. The Bank values the technical support provided by this Union, and is committed to forward this inexhaustible source of experience, good practice and knowledge to other export credit agencies, which are in their initial stages of development. To this aim, SID Bank has upheld its membership in the Prague Club, a waiting room for entry to the Berne Union, where it shares its experience with other members, responsibly helping them with their development. By signing a special declaration on Berne Union Values, SID Bank, as well as more than 50 other members, undertook to conduct its activities to high ethical standards and in a professional and financially accountable manner which is respectful to the environment.

Apart from the above-mentioned cooperation, SID Bank maintains and develops close bilateral cooperation with many other, mostly foreign, development financing institutions, at the national and regional levels.

Personnel

Work, family and free time are complementary and overlapping elements of life. SID Bank observes this fundamental principle in organizing its working environment in a constructive and innovative way. Furthermore, the Bank places strong emphasis on the fundamental rights of the employees, their safety and health, conditions of work, social security, personal and professional development, social dialogue, and interpersonal relationships.

In 2011 SID Bank, caring for the well-being, safety and health of its employees, continued to pay voluntary health insurance, and arranged regular medical examinations for all employees, as well as regular ophtalmological exams. The Bank regularly holds appropriate occupational health and safety training courses, which all staff are obliged to attend. SID Bank implements flexitime, as it enables more flexible balance between life and work.

In recruitment, the Bank has committed itself to ensuring complete absence of discrimination as regards nationality, race, or ethnic origin, national and social origin, sex, colour of skin, health status, disability, religion or belief, age, sexual orientation, family situation, trade union membership, wealth, and any other personal status.

Also in 2011 the executive management team strengthened its team spirit at a team building training. The Bank organized the traditional SID Bank Day, which is a get-together of the employees of the entire SID Bank Group. SID Bank has an active trade union (a section of the Trade Union of Banking Slovenia), with which the management of the Bank has led a constructive dialogue.

The Bank put in place an innovation system and a continuous improvement management process, which also considers the improvements in the field of corporate social responsibility, and worked to ensure its acceptance by all SID Bank staff.

Personnel recruitment in 2011 was conducted in accordance with the annual recruitment plan and the orientations of the Action Strategy, with primary focus on balancing recruitment against the growth of business volume and development of new products, on hiring professionals who possess industry-specific knowledge and experience, and on retaining competent and high-potential staff. For years in a row, the Bank has been creating new jobs and its growth and development are continually opening up new job opportunities.

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

Annual appraisal interviews and semi-annual interviews were conducted with all employees in order to determine the achievement of set goals. Annual appraisal interviews are the basis for the assessment of an individual's development potential, identification of key personnel, and preparation of an annual training plan. The data obtained help the Bank to promptly detect the need for new knowledge and plan targeted training and education of individual employees and employee groups.

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

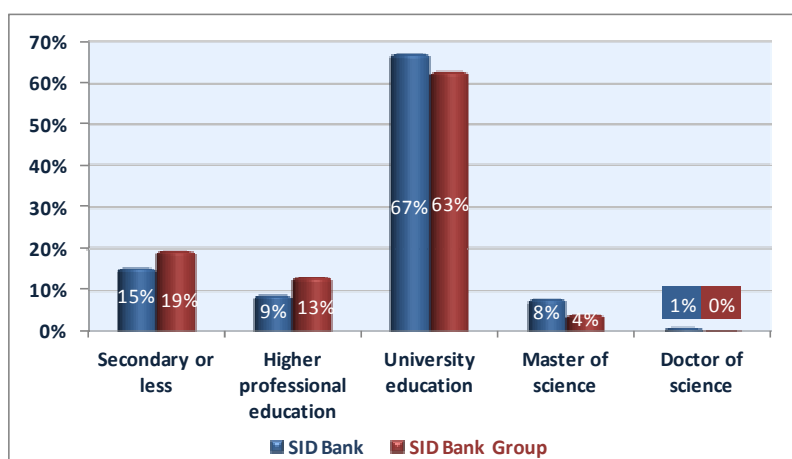
Company	2011	2010	Index 2011/2010
SID Bank	112	94	119.1
PKZ	58	53	109.4
PRO KOLEKT Group	28	24	116.7
PRVI FAKTOR Group	123	122	100.8
Centre for International Cooperation and Development	10	10	100.0
Total	331	303	109.2

In 2011, 24 new employees were engaged. SID Bank ended the year with 112 employees (71 women and 41 men), with the average number of employees in 2011 totalling 103.

- **Personnel structure by education level as at 31 December 2011**

Level of education	SID Bank		SID Bank Group	
	Number	As % of total	Number	As % of total
Secondary or less	17	15.2	62	18.7
Higher professional education	10	8.9	38	11.5
University education	75	67.0	213	64.4
Master of science	9	8.0	16	4.8
Doctor of science	1	0.9	2	0.6
Total	112	100.0	331	100.0

- **Educational background of SID Bank and SID Bank Group employees as at 31 December 2011**



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

In line with SID Bank Action Strategy, the Bank encourages acquisition of the needed knowledge and skills and their transfer into practice. In 2011, 102 employees (99 percent of the average headcount in 2011) attended various forms of training. The number of hours spent on training averaged at 32. The bank places great emphasis on internal transfer of newly acquired knowledge and training evaluation.

The payment of salaries and other remuneration complies with the provisions of existing legislation and the Collective Agreement of Banks and Savings Banks in Slovenia, whereas promotion and performance benefits are regulated with an internal SID Bank Act. Project work is assigned special value in performance assessments as it forms the basis for further development of individual employees and team work. The remuneration and promotion scheme put in use at SID Bank was designed to reward and motivate high-performance personnel and utilize their capabilities to achieve ambitious business plans. Wishing to upgrade the system, SID Bank started activities to establish and introduce a competence-based system and revise the existing pay system.

Internal communication

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

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

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

At the end of 2011, SID Bank conducted a hierarchical leadership/manager assessment survey in order to gather employee feedback on a variety of issues: information flow; the attitude towards independent work, responsibility and self-initiative of colleagues; career development; relationships; organization of work and time management; fostering of innovation; delegation of tasks, etc. The results of the survey were very positive, exceeding the strategic goal of 70 percent employee satisfaction rate. These results will be the basis for improvements for all employees, in particular the managers, and a firm commitment for the future.

Communication with external public

SID Bank, as a promotional and development bank, places great emphasis on the transparency of its business operations and, correspondingly, open communication.

The increased need for market-gap services in the recent years of the financial and economic crisis has considerably increased the importance of SID Bank in its domestic market, Slovenia. During this time, the Bank has regularly informed the general public about its promotional and development programmes, and kept the public up to date with the activities undertaken to combat the crisis. With most anti-crisis measures expiring in 2011, SID Bank again strengthened its communication activities in the field of its core business, i.e. development and promotional financing services.

The focus of external communication is on the corporate community, in particular with business partners and the media. SID Bank provides these with comprehensive information about its programmes and eligibility conditions. In 2011 SID Bank complemented its regular press conferences, press releases and website news with several workshops and presentations for companies and municipalities to inform these about its new and existing products. It also kept strong communication links and upgraded its relations with banks as the intermediaries between SID Bank and final beneficiaries.

8. Review of Operations in 2011

8.1. International Economic Environment and Slovenian Economy in 2011

World economy in 2011³

After continued recovery of the world economy in the first half of 2011, economic activity slowed again in the second half, slipping into recession in several countries. Although certain confidence indicators point to favourable trends, unstable market conditions render all predictions highly unreliable. Particularly uncertain are the forecasts for the euro area, which is currently faced with severe fiscal problems, low market confidence, and macroeconomic imbalance. In developed markets, the outlook is favourable for the US, Japan and developing countries (in particular BRIC⁴ countries), which were the main engine of economic growth in 2011.

According to estimates, annual growth of real GDP in the euro area ranged between 1.5 percent and 1.7 percent in 2011. The fundamental business activity in the euro area is mainly restrained by slow global demand and the unfavourable impact which the public debt securities markets within the euro area currently have on the general financing terms and confidence levels.

Economic recovery continued in the EU member states outside the euro area and in other Central and East European countries, and growth was strong in many countries (e.g. Poland). Growth also remained strong in small CEE states, but showed signs of a slowdown. The rising trend was mainly fuelled by exports; also, these countries saw an increase in domestic demand as an internal factor of growth despite high unemployment figures.

In the Russian Federation, economic growth slowed in the first half of 2011, only to strengthen again in the second half. In the US, slow growth in the first half of the year was followed by a period of economic recovery in the second half of 2011. Japan reported negative growth in the first three quarters of the year, but towards the end of 2011 economic activity was relatively strong.

2011 was also marked by further tightening of the conditions in financial markets, and the downgrading of credit ratings of most euro area countries and, consequently, banks and other economic entities. Price segmentation for euro area sovereign bonds was high in particular in the second half of 2011, which was one of the main reasons behind the intervention of the European Central Bank. Money market interest rates dropped in the studied period, reversing the rising trend observed at the beginning of the year.

From the beginning of September 2011, the exchange rate of euro followed the negative trend, mainly in relation to the US dollar, and volatility was high. As a result, the euro lost some of the value it had gained in the period of growth earlier in the year, in particular between January and April.

Consumer prices in the euro area climbed high in 2011, more than in 2010 and more than in Slovenia. Average inflation in 2011 was 2.7 percent in the euro area, and three percent in the EU member states, mainly due to a rise in energy prices and other primary raw materials.

Harsh economic conditions also impacted the labour market, pushing the euro area unemployment rate above the 10 percent mark.

³ The data presented is obtained from the following sources: Umar – Slovenian Economic Mirror (January 2012); Bank of Slovenia – Eurosystem Bulletin, January 2012, Statistical Office of the Republic of Slovenia.

⁴ Brazil, Russia, India, and China.

Slovenian economy in 2011

After posting a rise in five consecutive quarters, GDP dropped in real terms in the second half of 2011. GDP showed a year-on-year growth of 0.8 percent for the first nine months of 2011, but the real manufacturing volume from processing, having already dropped in mid-2011, remained unchanged in the autumn months. Total construction activity remained low, dropping 10 percent year-on-year from the end of 2010. Stagnant for most of 2011, production in high technology industries strengthened slightly towards the end of the year.

In 2011, exports in were up 12.2 percent from 2010, whereas the imports rose by 11.2 percent. The foreign exchange volume amounted to EUR 1.6 billion, with import-export coverage at 92.5 percent. The current account balance of payments reported a minimum deficit of EUR 41.7 million in 2011.

Similarly to the previous three years, annual inflation averaged at 2.1 percent in 2011. The prices of non-energy commodities recorded an average rise of 17.8 percent; which is less than in 2010, when they went up by 26.4 percent. Domestic producer prices for sale on the domestic market rose by 2.6 percent in 2011. The annual growth of industrial products prices at the manufacturer fell 2.1 p.p. below the euro area in 2011.

Insolvency of business entities increased in 2011 as a whole relative to the year before. In 2011, almost a fifth more legal entities and sole proprietors and other registered individuals than in 2010 had outstanding matured liabilities for more than five consecutive days in a month, on average. The total average daily amount of their outstanding liabilities increased even more than their number. In December 2011 the number of legal entities with outstanding liabilities was more than a tenth lower than in December 2010, but the total outstanding amount was more than 50 percent higher, at EUR 602.3 million.

Registered unemployment rate reached 12.1 percent at the end of 2011, with the total number of unemployed exceeding 112 thousand, an increase of 2.5 percent over the end of 2010.

The general government deficit amounted to EUR 1.4 billion in the first ten months of 2011 and was approximately EUR 500 million lower than in the same period of the preceding year. On the revenue side, receipts from corporation tax increased and a modest growth was observed in receipts from other important taxes and social security contributions, whereas receipts from non-tax revenue were lower. Year-on-year growth in general government expenditure has been slowing down since the adoption of measures to contain budgetary expenditure in mid-2011 and the revision of the state budget. The budgetary deficit of the Republic of Slovenia reached 4.3 percent of GDP in 2011. Expenditures on capital and capital transfers, payments into the EU budget, subsidies, and to a small extent, wages, salaries and other personnel expenditures were down year-on-year in 2011. On the other hand, expenditures on interest and transfers to individuals and households continued to grow at high rates year-on-year.

Slovenia's net budgetary surplus towards the EU budget totalled EUR 407 million in 2011, a quarter more than in 2010. Slovenia received EUR 812 million from the EU budget, 95 percent of the level envisaged in the revised budget, in comparison with EUR 723 million received in 2010.

In 2011, cost competitiveness improved y-o-y, but Slovenia remained in the group of euro-area countries with relatively greater losses in cost competitiveness during the crisis. The drop in real unit labour costs was among the smallest in the EU, as in most EU Member States wage growth lagged more notably behind labour productivity growth than in Slovenia. In terms of the gain in price competitiveness, which averaged at 0.5% in 2011, Slovenia's improvement was larger than that of its main trading partners

According to unaudited and unconsolidated data for the year 2011, the banking system reported a loss after taxes in the amount of EUR 388 million. The loss is a result of high costs associated with impairments and provisions, which amounted to EUR 1.1 billion in 2011, 40.9% more than the year before.

The total net repayments of loans from domestic non-banking sectors were close to EUR 1 billion in 2011. Companies offset the shortage of domestic sources of financing with loans taken abroad, but those also saw a downturn in the last months of the year. In the first eleven months of 2011, banks operating in Slovenia paid a total of EUR 1.7 billion of net repayments of loans and deposits, i.e. two fifths more than in the same period of 2010.

The SBI TOP fell by 30.7% over the year, the second largest fall since 2003. The market capitalization of shares on the Ljubljana Stock Exchange was up by 9.6% in year-on-year terms as a result of new issues of government bonds.

Influences on SID Bank's operations in 2011

• **Financing**

Slow and unstable economic growth, deteriorating payment discipline, deleveraging of banks abroad, growing impairments and provisions, a decrease in loans to companies, a decrease in bank portfolio quality, increasing costs for obtaining finance and harsher financing conditions, but predominantly the lack of development projects and companies suffering under the load of loans are just a few of the factors that profoundly affected the dynamics and composition of SID Bank's loans extended to the corporate sector in 2011.

The year continued to show the banking sector's extreme reluctance towards providing corporate financing; as a result, loans to corporations dropped while the structure of loans to clients other than banks pointed to a rise in the share of long-term loans. Banks became considerably more conservative in assessing risks and tightened their credit insurance requirements. Enhanced monitoring and assessment of risks was also reflected in higher financing costs, which, given a limited supply of sources of finance, pushed up interest margins.

The companies singled out several factors which contributed to the current situation and negatively affected the credit activity of banks, SID Bank included, in 2011:

- inappropriate balance-sheet structure, in combination with the absence of recovery and/or restructuring techniques; shortage of capital and insufficient measures to secure it;
- lack of financial knowledge, in particular in regard to definition and implementation of all required measures;
- limited investment in RDI⁵ projects, marketing activities, and internationalisation;
- lack of suitable projects which involve change or an upgrade to business models and business transformation, in accordance with the altered economic conditions;
- absence or lack of own funds and inadequate insurance to cover the planning and implementation of projects;
- slow restructuring of enterprises subject to insolvency proceedings.

In 2011 SID Bank, aiming to assist the recovery of Slovenia's economy and provide the much-needed long-term finance in support of new, development-oriented projects in the Slovenian corporate sector, secured long term earmarked funds, of which EUR 965.9 million was extended as new loans via commercial banks.

• **Asset-liability management and borrowing**

In 2011 the crisis in international capital markets continued and took on new dimensions, in particular in Europe. Several countries in the euro area, i.e. the PIIGS⁶ countries, were no longer able to acquire fresh finance in international capital markets, and have become dependent on the aid of the European Central Bank, the European Union, and the International Monetary Fund. Their problems have impacted the credit risk of all euro area countries, including the Republic of Slovenia. The yields on government bonds of the Republic of Slovenia are the benchmark, or the basis, for calculating the costs of capital raised by SID Bank in the international financial markets.

In 2011, the easiest way to access fresh funds was in international capital markets, and the issuers were mainly countries with higher credit ratings, and transnational organizations and banks issuing state guarantee backed bonds. Primarily due to absence of concrete measures to reduce the budgetary deficit and fast accumulation of the country's debt burden, Moody's downgraded the credit rating of Slovenia with a negative outlook in September and again in December. By the end of the year, the rating of Slovenia was also cut by other credit

⁵ Research, development, and innovation.

⁶ Portugal, Ireland, Italy, Greece, and Spain.

rating agencies. The negative outlook increased the possibility that Slovenia might be downgraded further over the medium term, which would have adverse effects on the cost of government borrowing and the cost of bond issuers based in the Republic of Slovenia.

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

Influences on SID Bank's state business operations in 2011

- **Insurance against non-marketable risks**

Serbia continues to be SID Bank's main focus in the insurance area, despite economic crisis. As the economic policy in Serbia is overseen by the International Monetary Fund, the Serbian government has to run a restrictive fiscal policy, whilst the EU monitors the country's accession process. Nevertheless, Kosovo remained in the focus of Serbia's internal political affairs. Serbia still refuses to recognize Kosovo's independence but it seeks to find a compromise solution, which would allow it to continue its path towards EU membership. However, in December 2011 Serbia was not granted candidate status because of its unresolved issues with Kosovo.

GDP growth in Russia continued to expand as a result of government's anti-crisis measures, a rise in export demand, and low interest rates. In the first half of 2011 high oil prices drove the upward pressure on the value of ruble, but in the second half of the year the ruble was weakened by the global economic uncertainty, forcing the Russian government to intervene by selling its foreign currency reserves. Russia's foreign trade surplus, which began to rise in 2010, continued its growth in 2011. High foreign trade surplus and foreign currency reserves have increased the country's ability to meet its debt liabilities. After having posted a high general government deficit for two consecutive years (4 to 6 percent), Russia's general government deficit was reduced to two percent in 2011. In March 2011 the Russian government adopted the new Banking Sector Development Strategy, which sought to harmonise the Russian banking sector with international standards as well as Basel II and Basel III capital adequacy and liquidity requirements. Furthermore, Russia is taking steps to improve the transparency of its banking industry in order to ensure compliance with the requirements of the International Monetary Fund and the World Bank. Towards the end of 2011, Russia was confirmed as member of the World Trade Organization and given until the end of 2012 to ratify its membership. Despite the improved macroeconomic conditions, Russia's domestic demand shrank, which, compounded with the adverse situation in the Slovenian market, added to the decline in the volume of export credit insurance provided by SID. The decline in medium-term export credit insurance is closely related to limited ability of Slovenian firms to bid on construction projects in Russia and increased competitive edge of Russian banks who are able to provide financing at favourable conditions compared to Slovenian banks.

Given the slow recovery of Slovenian economy and weaker demand across South Eastern European markets, the demand for medium-term insurance remained limited. Trade was largely centered around exports of goods with short-term payment, which are covered by PKZ, where we noted a considerable increase in the pharmaceutical sector trade.

Low demand for medium-term export credit insurance was followed by a drop in the demand for investment insurance. The key reason is the crisis-impacted contraction of investments cycles, accession of key markets to the EU (lower country risk), and servicing of insured loans.

- **Guarantee schemes**

Aiming to mitigate the effects of the financial crisis, SID Bank, acting as an agent of the Republic of Slovenia, ran three guarantee schemes: for enterprises, for individuals, and for investments of enterprises into development projects. These schemes have facilitated access to funds acquired with commercial banks. By way of guarantee schemes, banks enabled the borrowers to acquire guarantees of the Republic of Slovenia to back up a part of their loan related liabilities and meet the requirements for the loans to be reinsured by commercial banks. In 2011 new guarantees were only issued for investment projects, whereas the activities in the guarantee scheme for enterprises and individuals focused on the restructuring of loans to legal entities and on various tasks relating to the monitoring, encashment, and collection of guarantees. The tightened conditions that pervaded the international business environment in 2011 have also increased the pressure for collection of bank guarantees.

Influence on the operations of other companies within SID Bank Group

- **SID-Prva kreditna zavarovalnica (PKZ)**

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

PKZ insures risks (of buyers purchasing the goods or services of the persons insured) in various countries. However, its operations are most sensitive to the economic situation in the countries that form the largest part of the total PKZ portfolio in terms of premiums, business insured, or exposure. As regards insurance volume, PKZ's main markets are Slovenia, ranked first, followed by Germany, Russia, Italy, and Croatia.

The gradual economic upturn in the first half of 2011, followed by a slowdown in the second half of the year, and compounded with the increasingly pessimistic outlook, shaped the outcome of PKZ's business operations in 2011. The rising awareness of the importance of risk mitigation in the uncertain economic conditions kept the demand for credit insurance high, but on the other hand reinsurance limits declined as a result of the crisis. The possibilities to undertake insurance were limited due to persistently low credit ratings of clients. Even in such adverse conditions, PKZ managed to exploit the increased economic activity of persons insured, acquire new clients and expand the volume of existing contracts, thereby securing a growth in its insurance business and maintaining the premiums at the high level indicative of increased risk. In the second half of 2011, the growth rate of insurance volume began to decline. In 2011 the majority of growth came from export credit insurance.

In most main PKZ markets, payment discipline remained low in 2011, and this tightened PKZ's operating conditions both in terms of credit insurance limits as well as the possibility of claims arising from undertaken risks. Such conditions required the company to establish more intensive monitoring of high-risk industries and countries. In 2011 claims paid remained high, mostly to cover the risks insured in the previous years. The loss result from newly insured risks began to stabilize, mostly as a result of more favourable conditions experienced in 2010 and the first half of 2011, and due to the measures taken to adjust business operations to the tightened economic environment. However, although these measures are still in effect, the increasingly pessimistic outlook adds to the uncertainty about the loss ratio in the future, and negatively affects the accuracy of predictions regarding the future business operations of PKZ.

Among the companies in SID Bank Group, PKZ is most exposed to the effects of the unfavourable business cycle. PKZ is a specialized credit insurance company, dealing exclusively in insurance of short-term credits to private-law entities against commercial and non-commercial risks. This class of insurance is characterized by severe fluctuations which are in close connection with the economic cycles, and can be mitigated with appropriate measures, but not entirely eliminated. Compared to other classes of insurance which are not as exposed in terms of premiums and claims, the effects of the crisis on the insurance of credits were much more severe. In 2009 the crisis had a profound and manifold effect on PKZ operations. The decline in the economic

activity of its clients pushed down the volume of business insured by PKZ, although the company retained most of its existing clients, and acquired new accounts. Premiums were lower, claims climbed as a result of tightened liquidity situation, recovery collection deteriorated. There was high uncertainty as to the affect of future events on the final payment of claims. With credit insurance heavily dependent on economic trends, the economic recovery of 2010 had a profound effect on PKZ operations, even when compared with other insurance classes. Following the plunge in 2009 (-23%), business insured rose again in 2010 (+21%); and the measures taken to mitigate the effects of the crisis pushed the rise in premium even higher (up by 80 percent, after dropping 21 percent in 2009). The growth, although more moderate, was also achieved in 2011 (business insured up by nine percent; premiums up by six percent). Such an increase in premium is exceptional when compared with other Slovenia-based insurance companies, as in 2011 the premium in the class of property insurance rose by a low one percent from the year before.

Good business results of 2011 were driven by the overall economic upturn, the company's measures to mitigate the effects of the economic crisis, and the increase in capital which PKZ carried out at the beginning of 2010. The capital injection sent positive signals to PKZ partners (insured and reinsurers) that after being hit badly by the crisis in 2009, PKZ would continue its consistent performance of risk mitigation measures and the current reinsurance program to cater to the needs of its existing clients and acquire new clients, thereby increasing its business volume and securing positive operating results. Also, the positive business results achieved by PKZ in 2010 and 2011 have clearly shown that the decision of PKZ owner was justified, as more than a half of the funds SID Bank had invested were already repaid in 2011 by way of dividend payment.

- **PRVI FAKTOR Group**

The harsh economic climate in South East Europe continued to affect the operations of the PRVI FAKTOR Group in 2011. The economic recovery is slow in this line of business, and in certain segments negative trends still persist. In terms of liquidity and credit risk portfolio, the overall situation saw a further turn for the worse from the year before.

The conditions in Slovenia were very uncertain in 2011: economic growth was low, with export and import growth rates just slightly higher. The general government deficit is high, and public debt is rising. Unemployment figures are pushing up, and the further drop in investment volume is another negative factor. PRVI FAKTOR, Ljubljana was most severely hit by these conditions in 2010; in 2011 the company managed to turn the trend around, and again achieved a positive business result.

In Croatia, GDP picked up slightly in 2011, and the upward trend was also observed in exports and imports. Croatia is troubled by its high foreign debt, government deficit, and current account balance deficit. Unemployment is soaring. Despite these challenges, PRVI FAKTOR Zagreb succeeded in meeting the set objectives thanks to its good market position and favourable client structure.

Serbia's GDP growth increased slightly. In 2011, the country saw a considerable rise in exports, whose share in the country's GDP is constantly rising. The country is burdened by large external debt and high general government deficit, as well as current account balance deficit. The unemployment rate dropped slightly, whereas inflation increased in 2011. In such an unstable environment, PRVI FAKTOR Beograd managed to generate very favourable operating results.

Of all the markets where the PRVI FAKTOR Group is present the situation was most demanding in Bosnia and Herzegovina. In addition to high foreign exposure, low GDP and large budget deficit, operating conditions are further tightened by a complex administrative system. Despite the adverse conditions, PRVI FAKTOR Sarajevo managed to turn the business around in 2011, increasing its business volume considerably and posting a positive operating result.

- **PRO KOLEKT Group**

The trading activity in the markets targeted by the PRO KOLEKT Group declined in 2011. As a result, the demand for credit rating reports for credit insurance lowered, as did the volume of debt collections, with tight liquidity further reducing the possibility of collection. In view of the above, the growth of the PRO KOLEKT Group in 2011 fell short of the plan despite increased efforts.

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

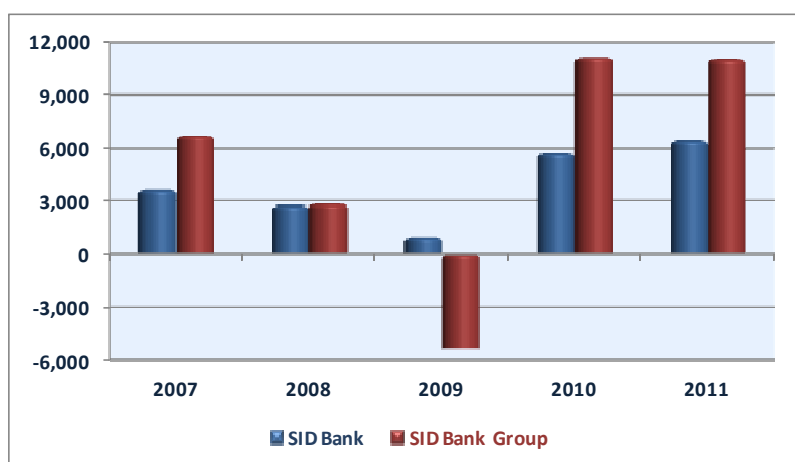
Income Statement

- Income Statement Summary for 2011

in EUR thousand	SID Bank		SID Bank Group	
	2011	Index 2011/2010	2011	Index 2011/2010
Net interest income	54,372	135.4	60,235	134.2
Net non-interest income	3,852	89.1	5,197	64.4
Net income from insurance	-	-	7,274	204.7
Operating costs	(7,605)	113.2	(14,188)	114.1
Impairments and provisions	(43,131)	141.1	(44,347)	149.6
- change in insurance contract liabilities	-	-	2,114	28.3
Pre-tax profit	7,488	104.3	14,171	98.3
Corporate income tax	(1,034)	71.2	(3,108)	95.0
Net profit/loss for the year	6,454	112.7	11,063	99.2

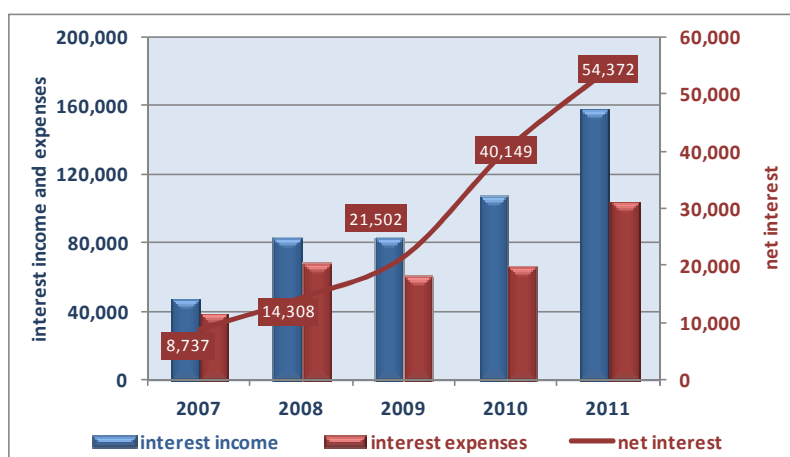
The net profit of SID Bank was EUR 6.5 million in 2011, a 12.7 percent rise on the year before. The net profit of SID Bank Group amounted to EUR 11.1 million in 2011, which accounts for 99.2 percent of the 2010 profit.

- Net profit/loss of SID Bank and SID Bank Group by year (in EUR thousand)



In SID Bank Income Statement for 2011, net interest amounted to EUR 54.4 million, rising 35.4 percent over 2010. The growth is mainly attributable to higher reference interest rates, although the total net interest was also affected by the premature withdrawal of the SI01 bond, which led to a reduction in interest expenses. Net interest takes up 93.4 percent of all net income generated by the Bank in 2011.

- **Interest income and expenses and net interest of SID Bank by year (in EUR thousand)**



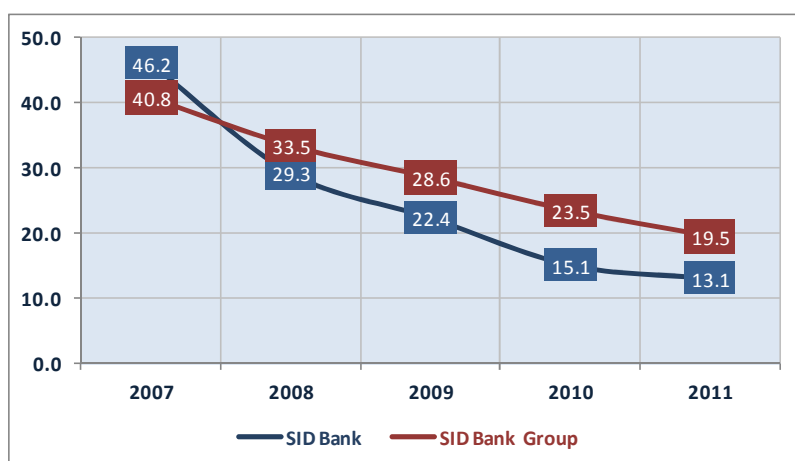
In 2011 net non-interest income of SID Bank was EUR 3.9 million, 10.9 percent below the 2010 figure. Income from the reimbursement SID Bank receives from the state for performing transactions on behalf and for the account of the Republic of Slovenia totalled EUR 2.7 million (2010: EUR 2.7 million), and net income from fees and commissions was EUR 1.1 million (2010: EUR 1.5 million).

The largest share in the structure of net income generated by SID Bank Group is taken up by net interest, which came to EUR 60.2 million in 2011 and was up 34.2 percent from the previous year. At 82.8 percent, however, the share of net interest as of net income for SID Bank Group was 10 percentage points lower than for SID Bank. In 2011 net income from insurance rose by 104.7 percent compared to the year before, to EUR 7.3 million. The share of net income from insurance as of net income of SID Bank Group was 10.0 percent in 2011.

In 2011 SID Bank continued its efficient cost management, as shown in the cost-income ratio, which was 13.1 percent in 2011 (2010: 15.1 percent). The percentage of operating costs as of assets remained at 0.19 percent in 2011. The operating costs of SID Bank totalled EUR 7.6 million in 2011 and were 13.2 percent higher compared to 2010. As a result of increased recruitment carried out in 2011, labour costs went up by 13.1 percent, taking up the largest share in total costs of 64.5 percent. Costs of services amounted to EUR 1.9 million, 20.9 percent above the year before, mainly as a result of higher costs of auditing services, other consulting services, costs associated with the supervisory bodies of the Bank, and software license fees.

The operating costs of SID Bank Group totalled EUR 14.2 million in 2011 and were 14.1 percent higher compared to 2010. Operating costs as of net income amounted to 19.5 percent (2010: 23.5 percent), and the share of operating costs as of assets retained its 2010 level of 0.34 percent. Labour costs were up 11.7 percent, and there was a 19.2 percent rise in the costs of material, services, and depreciation and amortization.

- **Cost-income ratio (in %)**



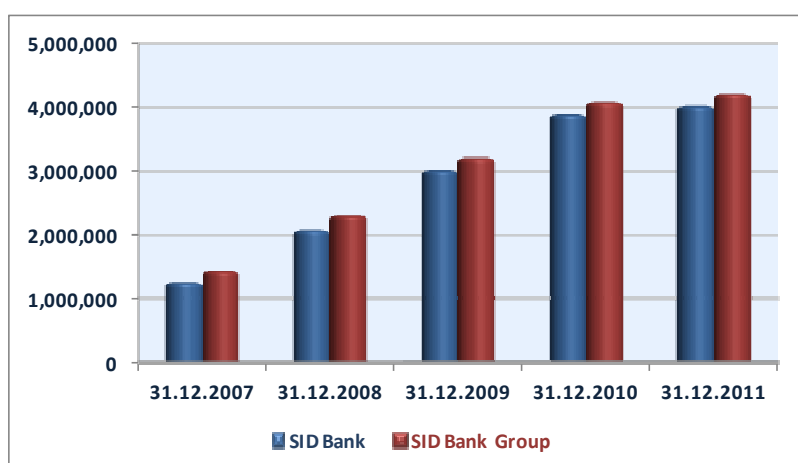
SID Bank's net expenses from impairments and provisions were EUR 43.1 million (EUR 30.6 million in 2010). For SID Bank Group, expenses from impairments and provisions totaled EUR 44.3 million; the figure includes changes in insurance contract liabilities of EUR 2.1 million, expenses from impairments and provisions (not including this item) of EUR 42.2 million (2010: EUR 37.1 million). The increase in expenses from impairments and provisions in SID Bank and SID Bank Group was largely attributable to the effects of the financial and economic crisis.

Statement of Financial Position

- **Statement of Financial Position Summary as at 31 December 2011 - Assets**

	SID Bank			SID Bank Group		
	in EUR thousand	as % of total	Index 2011/2010	in EUR thousand	as % of total	Index 2011/2010
Available-for-sale financial assets	212,240	5.3	191.3	243,646	5.8	183.7
Loans to banks	2,997,154	74.4	101.4	3,018,972	71.6	101.4
Loans to clients other than banks	701,410	17.4	88.0	810,720	19.2	88.8
Other assets	118,412	2.9	373.4	145,755	3.5	228.1
- reinsurers' assets and receivables from insurance business	-	-	-	32,166	0.8	84.0
Total assets	4,029,216	100.0	103.4	4,219,093	100.0	103.3

- **Total assets of SID Bank and SID Bank Group by year (in EUR thousand)**



At the end of 2011, total assets of SID Bank stood at EUR 4.0 billion, showing an increase of 3.4 percent compared to the end of 2010. In accordance with the annual plan, the growth of SID Bank showed a slightly lower intensity than in the year before. Loans to banks (including deposits totaling 153.0 EUR) went up 1.4 percent and took up, at 74.4 percent, the highest share of total assets. Compared with 2010, loans to clients other than banks saw a downturn of 12.0 percent in 2011. Securities, which take up 5.3 percent of total assets, increased by 91.3 percent.

In 2011, the total assets of SID Bank Group rose by 3.3 percent year-on-year, totalling EUR 4.2 billion at the end of 2011. The composition of assets of SID Bank Group is similar to the composition of assets of SID Bank.

- **Statement of Financial Position Summary as at 31 December 2011 - Liabilities and Equity**

	SID Bank			SID Bank Group		
	in EUR thousand	as % of total	Index 2011/2010	in EUR thousand	as % of total	Index 2011/2010
Deposits	119,503	3.0	-	119,503	2.8	-
Loans	2,116,704	52.5	99.7	2,241,175	53.1	99.9
Debt securities	1,404,906	34.9	97.8	1,404,906	33.3	97.8
Provisions	4,621	0.1	167.4	36,645	0.9	75.7
- obligations from insurance contracts	-	-	-	31,833	0.8	72.5
Other liabilities	51,474	1.3	1,008.9	64,425	1.5	493.4
Equity	332,008	8.2	101.3	352,439	8.4	102.2
Total liabilities and equity	4,029,216	100.0	103.4	4,219,093	100.0	103.3

The largest share in the structure of liabilities of SID Bank is taken up by loans (52.5 percent), which dropped by 0.3 percent in 2011, to EUR 2.1 billion. Liabilities from issued securities were down 2.2 percent, mostly due to the payment of matured SI01 bond in the amount of EUR 569 million. Debt securities amounted to EUR 1.4 billion at the end of 2011. In 2011 equity increased by EUR 4.2 million.

In view of the dominating influence of SID Bank in SID Bank Group and the specific nature of the Group, and considering the inter-company relations within the Group, the total assets of SID Bank Group were only 4.7 percent higher than those of SID Bank, standing at EUR 4.2 billion end of year. The composition structure of assets and liabilities in the consolidated financial statements of SID Bank Group is therefore very similar to that of the Statement of Financial Position of SID Bank.

• **Key figures of SID Bank and SID Bank Group**

in EUR thousand	SID Bank			SID Bank Group		
	2011	2010	2009	2011	2010	2009
Statement of Financial Position Summary						
Total assets	4,029,216	3,895,541	3,024,894	4,219,093	4,086,080	3,215,633
Loans of banks	1,966,530	2,023,693	1,799,948	2,091,001	2,143,572	1,921,338
Deposits from non-bank sectors	5	5	91,870	5	5	91,870
Equity	332,008	327,816	321,982	352,439	344,855	333,726
Loans to banks	2,997,154	2,955,894	2,292,668	3,018,972	2,976,328	2,306,883
Loans to clients other than banks	701,410	796,980	662,284	810,720	913,201	784,616
Impairments of financial assets measured at amortised cost, and provisions for off-balance-sheet liabilities	120,142	77,304	47,424	136,536	90,549	56,081
Off-balance-sheet operations (B.I.1 – B.I.4)	1,134,900	802,473	566,747	1,136,856	803,798	580,129
Net interest	54,372	40,149	21,502	60,235	44,875	28,471
Net non-interest income	3,852	4,322	6,939	5,197	8,071	8,934
Net income from insurance	-	-	-	7,274	3,554	2,078
Labour, general and administrative costs	(7,017)	(6,101)	(5,729)	(13,258)	(11,582)	(10,971)
Depreciation and amortization	(588)	(616)	(643)	(930)	(848)	(881)
Impairments and provisions	(43,131)	(30,576)	(20,891)	(44,347)	(29,649)	(34,152)
- change in insurance contract liabilities	-	-	-	2,114	7,465	(8,618)
Pre-tax profit/loss	7,488	7,178	1,178	14,171	14,421	(6,521)
Corporate income tax	(1,034)	(1,452)	(231)	(3,108)	(3,272)	1,137
Net profit/loss for the year	6,454	5,726	948	11,063	11,149	(5,384)
Number of employees*	112	94	87	331	303	306
Shares						
- number of shareholders	1	1	1			
- number of shares	3,121,741	3,121,741	3,121,741			
- nominal value per share (in EUR)	96.10	96.10	96.10			
- book value of a share (in EUR)	106.99	105.63	103.75			

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

as % of total	SID Bank			SID Bank Group		
	2011	2010	2009	2011	2010	2009
Selected indicators*						
<i>Equity:</i>						
- capital adequacy**	14.35	13.53	16.65	13.78	13.08	15.70
<i>Quality assets of the statement of financial position and contingent liabilities:</i>						
- impairments of financial assets measured at amortised cost, and provisions for contingent liabilities/classified on-balance-sheet items and classified off-balance-sheet items	3.11	2.03	1.46	3.20	2.23	1.66
<i>Profitability:</i>						
- interest margin	1.36	1.14	0.87	1.43	1.23	1.03
- financial intermediation margin***	1.46	1.27	1.15	1.73	1.78	1.50
- return on assets before tax	0.19	0.20	0.05	0.34	0.40	(0.24)
- return on equity before tax	2.23	2.20	0.53	4.02	4.25	(2.54)
- return on equity after tax	1.93	1.76	0.42	3.14	3.29	(2.09)
<i>Operating costs:</i>						
- operating costs / average assets	0.19	0.19	0.26	0.34	0.34	0.43
- operating costs / net income	13.06	15.10	22.40	19.51	23.48	28.57

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

** The computations of capital adequacy and the ratio of impairments and classified items for SID Bank Group considered the assets of SID Bank and 50 percent of assets of the PRVI FAKTOR Group (banking group of SID Bank).

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

Events after the statement of financial position date

After Moody's Investors Service cut the sovereign foreign credit rating for the Republic of Slovenia's credit rating in February 2012, the long-term credit rating of SID Bank from A1 to A2 with a negative outlook.

On 5th April 2012 the Government of the Republic of Slovenia discharged all Members of SID Bank's Supervisory Board and elected Štefan Gosar, Marjan Divjak, MSc., Martin Jakše, Matej Runjak, Robert Ličen, MSc., Milan Matos and Janez Tomšič as new Members of SID Bank's Supervisory Board.

8.3. SID Bank's Business Operations

8.3.1. Financing

Long-term development goals

SID Bank provides financial services to bridge existing market gaps and in so doing, supports the development and promotional tasks of financial nature and works towards its long-term development goals, in particular in the following areas:

- international business transactions and international economic cooperation,
- development of small and medium-sized enterprises (SMEs) and entrepreneurship,
- research, development, and innovation (RDI),
- environmental protection, energy efficiency, and climate change,
- regional development,
- commercial and public infrastructure.

In order to make a continuing contribution to the sustainable development goals of the Republic of Slovenia and the EU and to satisfy the needs of the economy, SID Bank has divided its services into four main purposes:

- development of a knowledge society and innovative entrepreneurship,
- development of an eco-friendly society and eco-friendly manufacturing,
- development of a competitive economy and internationalisation, and
- regional and social development.

In providing its financial services, SID Bank ensures that its services are appropriate in terms of sustainable development goals covering the economic, environmental and social development, and are defined in:

- Slovenia's Development Strategy 2005-2013 (adopted in June 2005 by the Government of the Republic of Slovenia, the Institute of Macroeconomic Analysis and Development) which was harmonised with the Slovenian Exit Strategy 2010-2013 (adopted in February 2010 by the Government of the Republic of Slovenia);
- Europe 2020 (Europe's growth strategy adopted by the European Commission; Memorandum by the Economic Commission adopted in March 2010), which is implemented through leadership initiatives and to the implementation of which Slovenia has committed itself with the National Reform Programme (Government of the Republic of Slovenia, April 2011).

SID Bank continuously updates and adapts its conditions and requirements to the principle of responsible lending. This mechanism promotes the equal weighing of arguments, which means that in assessing a transaction or a project, financial statement data are considered along with the intellectual capital, commodity, environment, energy and innovation balance sheets. Experience has shown that, on the supply as well as on the demand side, this segment places insufficient emphasis on the phase of searching, i.e. collection of resources, which is a reason why SID Bank has focused a part of its activities on the so-called project engineering, wishing to maximise support for such projects. Through such efforts, SID Bank maintained its level of credit activity in 2011, and managed to create and implement parallel system solutions, as well as to adjust its offer, in terms of content and technology, to the changes in credit activity of final beneficiaries and commercial banks, thereby successfully upgrading the Bank's range of direct financing products. This step forward in quality is presented in the scope of new achievements in the continuation of this Report, and is already expected to produce measurable effects on the operations of SID Bank in 2012

Business results in the field of financing

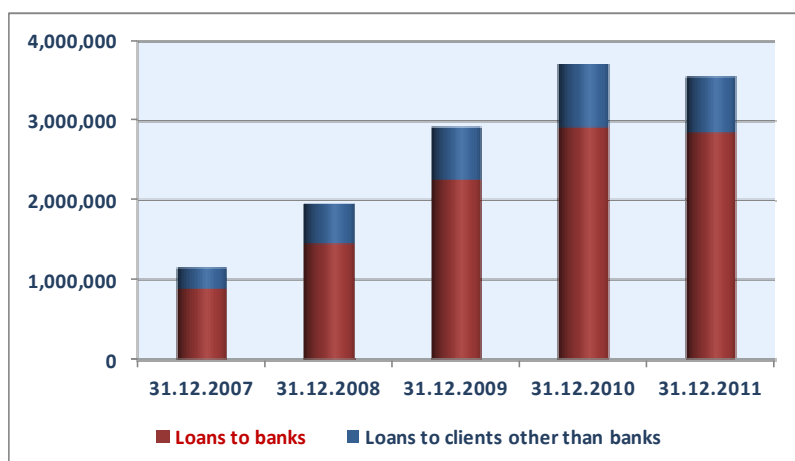
In 2011 SID Bank provided the financial market with long-term financial services designed to complement the financial market for the sustainable development of Slovenia within the framework of its two main areas, namely promotional and development financing on the one hand, and export and project financing on the other, in compliance with its mandates and in reply to the continuing harsh economic and financial conditions. SID Bank's financial services were focused on developing and promoting the internal potential of the national economy and on enhancing international economic cooperation, thereby co-creating the conditions which will strengthen the competitive position of the Republic of Slovenia and the European Union.

SID Bank designed all its financing services so as to complement the activity of other financial institutions in the market. This complementary offer of financing facilities was based on certain well-established instruments, e.g. loans, purchase of receivables, unfunded risk participation, project financing, and export credits. Fully aware that these instruments alone can not close the market gaps in its area of activity, the Bank developed a new instrument in 2011. This new instrument is a loan classified as state aid, which meets the challenges of our time and is classified as a mechanism to provide system co-financing of companies.

SID Bank ensured funds to its clients either directly or indirectly, via commercial banks. An important new direct financing facility which was introduced in 2011 is the co-financing of infrastructure and environment conservation projects of municipalities.

In 2011 SID Bank continued to include long-term special-purpose funds into its products. These funds, obtained from the European Investment Bank (EIB), the Council of Europe Development Bank (CEB), and the Ministry of Higher Education, Science and Technology, are primarily characterised by higher quality than the ordinary bank funds, which enables the Bank to create a higher added value for its target groups of final beneficiaries.

- **Outstanding loans (in EUR thousand)**



The maturity structure of SID Bank's loan portfolio confirms the orientation of SID Bank towards the activities specified in the ZZFMGP and ZSIRB; the share of long-term financing amounted to 99.7 percent of SID Bank's loan portfolio at the end of 2011.

Commercial banks remained SID Bank's most important partner even throughout 2011, their share in SID Bank's loan portfolio reaching 80.2 percent (2010: 78.5 percent). Loans to clients other than banks represented 19.8 percent of the total loan portfolio as at 31 December 2011 (2010: 21.5 percent).

The loan portfolio of SID Bank at the end of 2011 largely reflects the Bank's measures aimed at ensuring sustainable growth. In 2011 the Bank extended EUR 965.9 million of new funds in loans to support the Slovenian economy (2010: 1,182.9 million). The Bank's outstanding loan portfolio at the end of 2011 was EUR 3,545.1 million (2010: EUR 3,714.4 million) and was down 4.6 percent from the end of 2010.

The changes in the loan portfolio were a direct result of the macroeconomic conditions, as well as of the operations of the Slovenian banking system and the lending activity of Slovenian banks. As expected, the 2011 absorption capacity of commercial banks and final beneficiaries for special-purpose funds of SID Bank reflected the following factors:

- the growing uncertainty about the outlook of economic activity,
- the decline in investments into research, high energy efficiency, environment conservation etc., and the related drop in demand for earmarked loans which SID Bank can extend in the scope of its authorisation,
- the increased demand for working capital to support the continuation of existing business operations,
- successive disbursements of funds over a long-term period, depending on the progress of activities or investments which are the subject of financing (ensuring that the funds are allocated to the purpose for which they were obtained),
- extensions or postponements of project execution schedules, and the related disbursement delays,
- higher borrowing costs, which have increased further due to credit rating downgrades,
- high exposure of banks to certain sectors and/or industries,
- the shortage of capital in certain banks to cover current losses and to comply with the revised capital requirements imposed by the new Basel III regulations.

Despite challenging conditions pervading the international financial markets in 2011, SID Bank maintained the quality of its products measured as the combination of loan maturity, amount, pricing conditions, and the logistics of the loan granting procedure. The Bank made all the necessary arrangements for the earmarked funds to be placed in accordance with its role, mission and authorisation. In addition to the above mentioned, the volume of SID Bank's financing in 2011 was also affected by several other facts:

- in November 2010 SID Bank launched a credit line of EUR 385 million in new long-term funds, to be placed to the Bank's four financing areas. With these funds, Slovenian banks managed to cover a large part of the needs for funds placed in 2011;
- in the same period, SID Bank renewed its credit lines to commercial banks to enable banks to ensure new funding for already supported investments; and
- the European Central Bank strengthened its intervention role.

In regard to the above, and despite the fact that the clients repaid EUR 1.1 billion of loans which were extended within the framework of the anti-crises measures adopted in 2008, SID Bank, acting in cooperation with commercial banks, utilised the appropriate support instruments and managed to retain the level of support to the economy, and even increased it further in certain segments..

Target groups of final beneficiaries

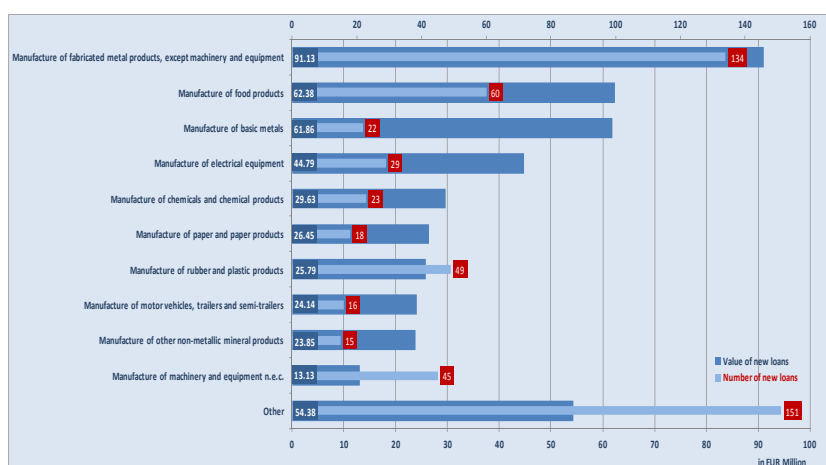
In 2011 SID Bank placed long-term high-quality funds, indirectly and directly, to support various projects, in particular those undertaken by small and medium-sized enterprises.

With its funds SID Bank provided finance, directly or indirectly (via banks), to 1,066 legal entities based in the Republic of Slovenia in the total value of EUR 763.7 million, which represents 66.9 percent of all eligible investment costs. The amount of eligible investment costs by various target groups of final beneficiaries totalled EUR 1.1 billion. The funds were mostly intended for job retention, job creation, company growth, pollution reduction, and higher environmental protection as well as for the support for internationalisation of business operations. In terms of underlying purpose, three quarters of new loans were allocated for the development of competitive economy and internationalization.

In regard to company size, loans were granted in support of 858 small and medium-sized companies based in the Republic of Slovenia (80.8 percent of all borrowers) in the total amount of EUR 274.7 million (35.9 percent of all loans), of which 165 were sole proprietors (19.2 percent of all SMEs) with loans totalling EUR 17.8 million (6.5 percent of all new loans extended to SMEs).

In terms of geographic distribution of Slovenia-based borrowers, most new loans were granted to borrowers from Central Slovenia (29.3 percent), followed by the Savinja region (20.4 percent) and Podravje region (15.2 percent), Gorenjska (7.2 percent), Koroška (5.5 percent), Goriška (5.1 percent), and other regions (17.3 percent).

- **Number and value of new loans from SID Bank's funds, by borrower activity**



Loans were extended to clients from manufacturing (59.9 percent of all new loans), trade (14.2 percent of all new loans), construction (4.4 percent of all new loans), and other industries. Within the manufacturing companies, 69.1 percent of all loans went to companies specialising in the manufacture of fabricated metal products, except machinery and equipment (19.2 percent), followed by the manufacture of food products (13.6 percent), the manufacture of basic metals (13.5 percent), the manufacture of electrical equipment (9.8 percent), the manufacture of chemicals and chemical products (6.5 percent), and the manufacture of paper and paper products (5.8 percent).

New developments in 2011 concerning financing

In addition to providing its standard and well-established products (e.g. export financing), SID Bank launched three new programmes in 2011:

- SID Bank's Development Programme for 2011;
- The Promotional and Development Programme for Financing Technological Development Projects 2011-2013; and
- the Promotional and Development Programme 'Co-financing of Infrastructure and Environmental Protection Projects of Municipalities'.

These programmes are complementary both in terms of the used promotional instruments and financing methods for targeted final beneficiaries, as well as in terms of final beneficiary groups and the intended use of SID Bank's funds. They present an important upgrade to the financial leverage of long-term financial services designed by SID Bank to complement the financial market for the sustainable development of Slovenia.

In the context of placing funds via commercial banks, SID Bank devised and implemented SID Bank Development Programme for 2011. The Bank offered all banks access to long-term finance intended to finance investments of targeted groups of final beneficiaries at the beginning of the business year, and placed these funds during the year for the following purposes:

- Research, development, innovation, and new technologies, leading to new or significantly improved products, services or processes, with the intent to ensure better competitiveness and higher added value, and with special emphasis placed on innovative entrepreneurship;
- Education, in particular with a view that promotes and improves the level of education, knowledge acquisition and management, as well as skill acquisition and skill management;
- Education infrastructure, in particular provision of adequate spatial infrastructure and equipment required for the performance of educational processes;
- Employment of persons possessing special qualifications and knowledge which is required to ensure company growth and to facilitate the retraining of workers;
- Environmental protection, in particular water protection, waste water drainage, drinking water supply, waste management, air pollution reduction, reduction of noise and other adverse environmental impacts,

land recovery, environmental measures related to traffic and transport, and other measures to strengthen environmental protection;

- Renewable energy, including solar, biomass, biogas, geothermal, wind, and water energy;
- Efficient use of energy and materials, in particular the measures which contribute to efficient energy use in business premises and residential units;
- Eco-friendly manufacturing and products which, in an innovative way, help to prevent or reduce environmental pollution or increase the material efficiency of the manufacturing process;
- Financing of projects for the growth and development of small and medium-sized enterprises;
- Business internationalisation of companies of all sizes;
- Telecommunications, transport, sport, tourism, culture, health care and other infrastructure, in particular the infrastructure facilitating regional development;
- Housing, particularly in regard to the purchase, construction, or renovation (including the implementation of energy efficiency measures) of social housing, housing for young people, elderly citizens homes, and sheltered housing.

SID Bank Development Programme for 2011 enables the Bank to promote, in cooperation with other intermediaries, the activities of target groups of final beneficiaries by constantly providing long-term special-purpose funds to banks under the pre-agreed financing conditions, methods and purposes, and, in so doing, assists banks in their planning and execution of business activities. Also, SID Bank incorporated certain leverages into SID Bank Development Programme for 2011, which positively impact the placement of funds and complement the mission of the Bank. The placement of earmarked funds from SID Bank Development Programme for 2011 will also affect the lending activity of banks in the following years, shifting the focus of funding extended to the economy towards SID Bank's development goals, and thereby helping the companies to improve their competitive position, create higher added value, retain jobs, create new jobs, and contribute to the achievement of sustainable development goals. In addition to ensuring the direct financing of companies and other related desired effects, SID Bank Development Programme for 2011 was also focused on stimulating the regional and social development, mostly in regard to ensuring appropriate housing, health care, culture, sport, tourism and education care and in regard to providing the required infrastructure connections, both in terms of transport and telecommunications. The inclusion of financial intermediaries, i.e. banks, contributed greatly to the multiplicative and geographical access to funds. SID Bank used the mechanisms integrated into the programme to stimulate the lending activity of banks.

With its Development Programme for 2011, SID Bank maintained the continuity of its operations with banks. The current practice has shown that banks are an important partner in the comprehensive promotion of business internationalisation carried out through international trade financing in the form of long-term loans, which enable the market participants to enter and do business in foreign markets.

Since the banks remained, for objective reasons, rather reluctant to provide innovation financing, in particular the financing of innovations based on corporate research and development, SID Bank devised, in cooperation with the Ministry of Higher Education, Science and Sport of the Republic of Slovenia, a financial engineering product called 'Development Programmes for Financing Technological Development Projects' (in totalled value of EUR 150 million), as its first product to contain the elements of state grants. This is the government's first financial measure which SID Bank performs on its own behalf and for its own account, and is also the pilot project of the Development Promotion Platform (DPP), which is key to strengthening the competitive positions of companies, and ensuring product diversification and growth of innovative companies. For the purpose of implementing this measure, SID Bank developed the Promotional and Development Programme for Financing Technological Development Projects, which is a state aid scheme as required by the Commission Regulation (EC) No. 800/2008. The first funds will be granted to the beneficiaries in 2012. This SID Bank scheme provides a public offering of new funds, i.e. ensures permanent direct access of undertakings to new funds, all with an aim to encourage undertakings to engage in research and development activities. Also, this is SID Bank's first financing product which constitutes allowable state aid to the targeted final beneficiaries, compared to the remainder of the product portfolio, which does not contain aid elements. The only way to ensure such extremely favourable conditions for long-maturity financing is from the favourable European Investment Bank funding sources, totalling EUR 100 million and the funds of EUR 50 million provided by the Ministry of Higher Education, Science and Technology.

SID Bank developed its promotional and development programme aimed at co-financing infrastructure and environmental protection projects of municipalities worth a total of EUR 100 million in order to finance higher shares of development projects, in cooperation with banks, and to offer longer maturity (up to 20 years) and more favourable interest rates. This programme introduces system co-financing as a new fund allocation mechanism, thus speeding up regional development projects and indirectly effecting the economy. It is the platform for further functional upgrade of the content and instruments relating to providing support in this segment. The first allocations and effects are expected to be seen in 2012. Favourable financing conditions are due to the inclusion of the European Investment Bank funds and Council of Europe Development Bank funds.

In the future, SID Bank intends to abide by its commitment to include the finance provided by the European Investment Bank and the Council of Europe Development Bank as well as other high-quality sources of funds, and to facilitate access to financing. This commitment is the focus of its product development efforts, which are concentrated, in terms of content, on creating added value for the Bank's service users and on ensuring the simple and efficient bridging of market gaps.

8.3.2. Asset Liability Management

In 2011 SID Bank, managed its liquidity effectively by holding sufficient liquidity in short-term deposits with Slovenian and foreign commercial banks, and in other short-term and medium-term debt instruments issued by high-rated issuers. Transactions in securities were concluded as an investment option supplementing the Bank's core activities and as a way to control the Bank's liquidity, and not for the purpose of trading.

The Bank gives priority to the investments which are ECB eligible or can be used as eligible collateral for repo transactions. SID Bank operates in the financial markets of EEA and OECD member states, conducting transactions with partners rated BBB or higher and with certain unrated Slovenian banks whose credit rating is not below the investment-grade by the Standard and Poor's or other credit rating agency. SID Bank also cooperates with certain unrated Slovenian banks whose credit rating under the methodology of SID Bank is not lower than B. Generally, SID Bank does not hold investments that are not settled by an independent institution.

As at 31 December 2011 SID Bank's liquidity funds amounted to EUR 406.9 million, representing 10 percent of the Bank's total assets. The majority of investments, namely EUR 212 million, was held in securities and EUR 195 million were placed in deposits. The investments include mainly Slovenian and foreign government bonds, market bonds issued by other issuers, and deposits. All the investments are denominated in euro.

In accordance with its investment policy, SID Bank's placements in this segment are to investments rated investment-grade or higher. More than 69 percent of all investments are rated A- or higher (S&P or Moody's), and almost 23 percent are held in investments to unrated issuers, mostly from the Republic of Slovenia. Deposits were placed with foreign and Slovenian commercial banks with appropriate credit ratings, and to unrated Slovenian banks whose credit rating according to SID Bank methodology was not lower than B. As at 31 December 2011, 90 percent of all investments for the purpose of managing liquidity were taken up by fixed rate investments.

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

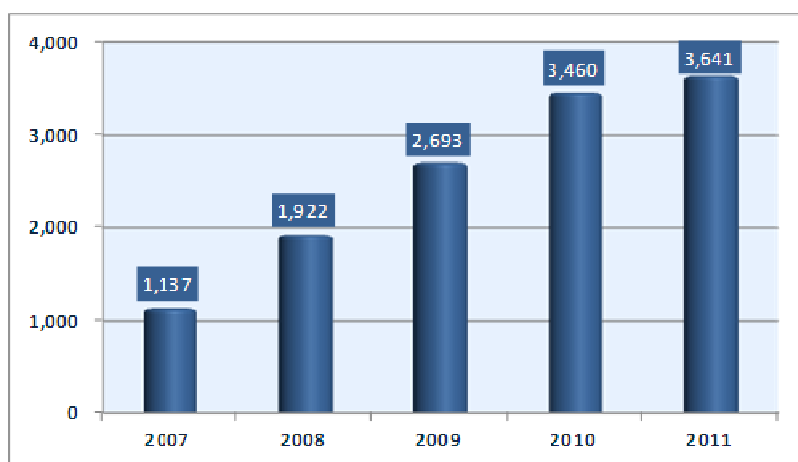
8.3.3. Borrowing

SID Bank, as an authorized institution under the ZSIRB, strives to obtain sources of long-term financing in international markets and in Slovenia. In raising funds, SID Bank focuses on selecting flexible instruments that can be fully tailored to meet investment needs. Accordingly, the Bank has a diversified portfolio of borrowings, funds obtained varying in maturity, size and the dynamics of disbursements. The Bank aims to obtain long-

term sources of funding comparable to the funding levels of the Republic of Slovenia, with due consideration paid to the mark-up on government borrowing.

Since SID Bank is committed to provide favourable long-term sources of financing for its clients, it continued to raise funds through diverse financial instruments, largely in the international financial market. SID Bank's new long-term borrowings acquired in 2011 amounted to EUR 600 million.

- **Financial liabilities measured at amortised cost, by year (in EUR thousand)**



In 2011 SID Bank concluded a long-term loan agreement totalling EUR 100 million with the European Investment Bank, and another agreement worth EUR 40 million with the Council of Europe Development Bank. In order to implement its financial engineering measure aimed at promoting technological and development projects 2011-2013, SID Bank also acquired EUR 50 million in long-term funds from the Ministry of Higher Education, Science and Technology.

In foreign capital markets SID Bank issued bonds amounting to EUR 350 million in March 2011, and expanded the April 2010 volume of the existing issue of 5-year bonds, quoted on the Luxembourg Stock Exchange, to a total amount of EUR 1.1 billion. In October 2011 SID Bank also issued a one-year bond totalling EUR 150 million. This bond was also issued in the international financial market and is listed on the Vienna Stock Exchange.

Both bonds were issued under very favourable conditions although the market conditions in 2011 were highly unstable and deteriorated during the year in response to the escalating global crisis and Slovenia's credit rating downgrade. For SID Bank, these bond issues were an inexpensive source of funds to be channeled into long-term loans for specific purpose, as laid down in the ZSIRB. Also, they increased the Bank's reputation and recognizability among foreign investors.

In addition to bonds, SID Bank also issued several emissions of debt instruments (i.e. *Schuldscheindarlehen*), amounting to EUR 10 million, and concluded two bilateral loan agreements with European banks for a total amount of EUR 40 million.

In 2011 the Bank obtained a limited amount of short-term fixed interest rate funds in the domestic inter-bank money market, i.e. from Slovenian commercial banks.

8.4. Risk Management

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

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

The first step in the risk management process is to establish an appropriate organizational structure and regulated work processes, which facilitates the achievement of business objectives and implementation of safe business operations in compliance with existing regulations. The key objective pursued in the implementation of risk management measures, however, is to ensure the appropriate level of risk awareness at all levels of the Bank's operation.

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

- Credit Risk Committee: management of credit risk and large exposures,
- Liquidity Risk Committee: liquidity and currency risks,
- Asset - Liability Committee: balance sheet structure, capital adequacy, aggregate risks,
- Risk Management Department: preparation of risk management policies, risk monitoring,
- Credit Rating Department: assessment of the clients' financial position and projections of their business operations, assessment of soft factors, selection of suitable indicators to determine the burden of financial commitments,
- Back Office and Payment Transactions: daily follow-up of currency and liquidity risk in accordance with the set limits.

Like every year, SID Bank calculated its risk profile and set up a portal for the revision and evaluation of its adequate internal capital assessment process.

In compliance with its risk management strategy, and in accordance with its capital risk and capital management policy, SID Bank established an adequate internal capital assessment process, which:

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

This comprehensive process, which is adapted to assumed risks, ensures that the risks which SID Bank undertakes remain within the limits of the Bank's capacity to withstand risks.

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

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

International Commercial Transactions (ZZFMGP) requires additional funds to be appropriated from the budget of the Republic of Slovenia.

To prevent a conflict of interest and to maximize the efficiency of these operations, credit and investment insurance transactions are carried out by a special department, which is separated from banking operations up to the level of the Management Board. Similar to the banking segment, the authorisation to conclude transactions is clearly defined, with all transactions of EUR 5 million or more requiring an approval from the International Trade Promotion Commission. The Commission also holds ultimate authority over other risk management issues, e.g. approving insurance policies for certain countries or groups of countries, which are used in addition to the insurance limits specified in the ZZFMGP to limit the potential amount of loss. Moreover, SID Bank uses the risk management model for the portfolio of insurance conducted on behalf and for the account of the Republic of Slovenia to calculate, on the basis of the data on concluded insurance contracts, the amount of expected loss and to assess the adequacy of reserves to cover potential losses, maximum expected loss, and the impact of new insured transactions on the amount of expected loss.

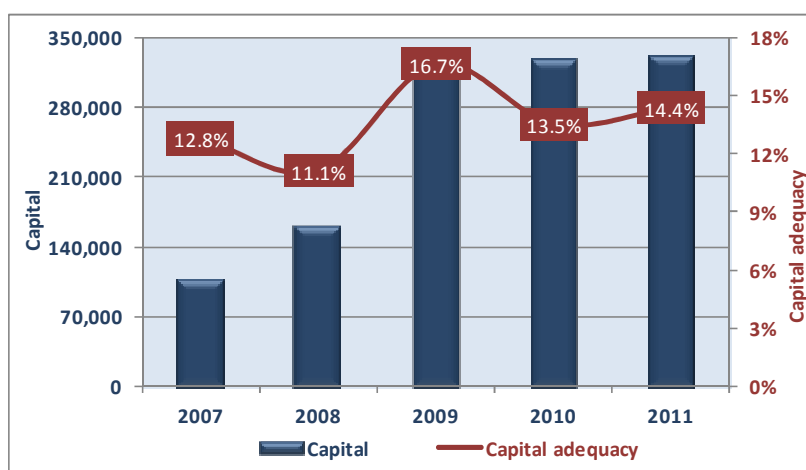
Capital and capital adequacy

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

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

SID Bank's capital for the purpose of capital adequacy, as calculated in accordance with the Regulation on the Capital Adequacy of Banks and Savings Banks (CABSB), which covers all SID Bank's transactions conducted for own account, amounted to EUR 322.5 million as at 31 December 2011, and was EUR 6.4 million higher than at the end of 2010.

- **Capital and capital adequacy of SID Bank, by year (in EUR thousand or in %)**



The capital adequacy ratio is the ratio between the capital and the sum of capital requirements relating to credit, currency, and operational risks. In accordance with the Regulation on Reporting on the Capital and Capital Requirements of Banks and Savings Banks, SID Bank was not required to form capital requirements for currency risks at the end of 2011.

Capital adequacy, as calculated based on the Basel II requirements, stood at 14.35 percent as at 31 December 2011 (in 2010: 13.53 percent).

Credit risk

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

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

Notwithstanding SID Bank's introduction of individual assessment of losses and the calculation of impairments under the IFRS, as a result of which it did not have to monitor impaired financial assets against the Bank of Slovenia classification into categories A to E, SID Bank Group continued to maintain such classification⁷. The clients with the highest credit rating are rated 'A', while the clients with the lowest credit rating are rated 'E'. The quality of credit portfolio can thus be monitored continuously against these rating classes and compared with other banks.

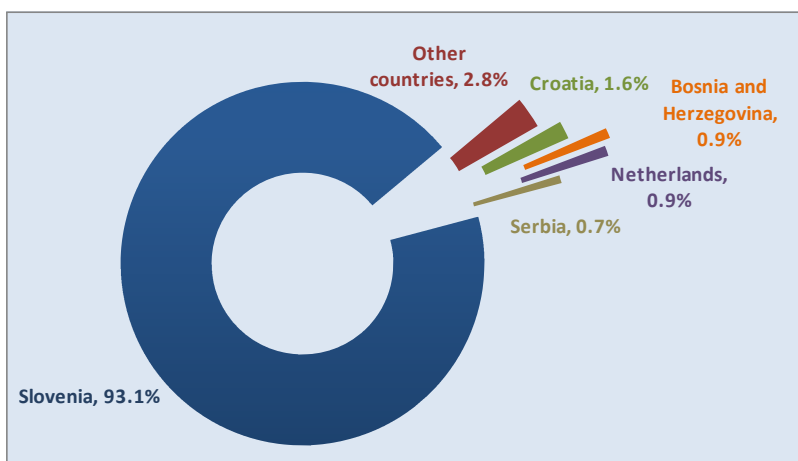
- **SID Bank credit portfolio by credit rating category as at 31 December 2011**



The balance of SID Bank's credit portfolio as at 31 December 2011 shows that 7.4 percent of all loans, other claims and off-balance sheet liabilities are classified in the highest credit rating class, 'A', further 86.8 percent of the portfolio falls into the 'B' credit rating class, 4.8 percent in 'C', whereas classes 'D' and 'E' together account for 1.0 percent. In 2011 the portfolio of SID Bank changed markedly compared to 2010: in that year, 78.5 percent of all loans were classified in the highest credit rating class 'A', with only 18.9 percent of loans falling into the 'B' category. The difference can be attributed to the changed evaluation of the criteria applied to financial assets and off-balance-sheet items and the downgraded credit rating of banks, which hold a 73.8 percent in Sid Bank's credit portfolio. Had there been no change in assessment procedure, 79.3 percent of all loans would have been classified as category 'A' loans.

⁷ For its internal use, SID Bank uses more detailed credit rating classes expressed in three-letter codes.

- **SID Bank credit portfolio by debtor country as at 31 December 2011**

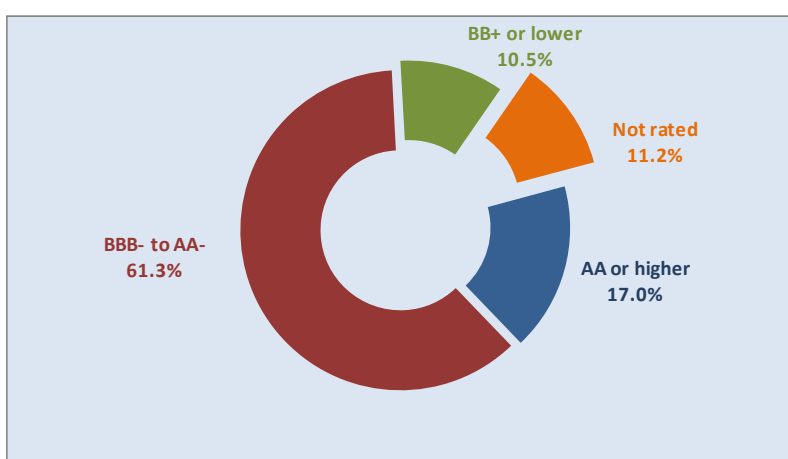


Claims and off-balance sheet liabilities from Slovenian debtors account for the major part, 93.1 percent, of the credit portfolio, followed by exposure to the countries of South East Europe (Croatia, Bosnia and Herzegovina, Serbia), and Central and North European countries.

Impairments and provisions are an important element of managing the risk of loss arising from credit transactions (the impairment and provision creation policy is described in more detail in point 2.2, Chapter II, of Notes to Financial Statements). As at 31 December 2011, SID Bank's impairments and provisions totalled EUR 120.1 million, which was EUR 42.8 million more than as at 31 December 2010. Impairments for non-performing loans were EUR 115.7 million, and provisions for off-balance-sheet liabilities amounted to EUR 4.4 million. Impairments and provisions are derived from group and individual assessments of losses, with losses arising from exposures in credit rating classes 'C', 'D' or 'E' assessed on an individual basis. The ratio between total provisions and impairments and total exposure classified in these classes is 54.9 percent, 21.1 percentage points higher than in 2010.

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

- **Securities portfolio by issuer credit rating as at 31 December 2011**



* The chart is based on calculations made by international credit rating agencies.

Detailed breakdown of the securities portfolio by issuer credit rating as at 31 December 2011 is available in point 2.4.2. of Notes to the Financial Statements.

Liquidity risk

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

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

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

SID Bank also monitors its exposure to liquidity risk by means of liquidity ratios (i.e. ratios between inflows and outflows over one- and six-month periods). The Bank of Slovenia set the minimum value of 1.0 for this ratio for the period of up to 30 days. During the year, the daily value of this ratio for SID Bank exceeded the value set by the Bank of Slovenia. However, despite the tightening financial and economic conditions, SID Bank experienced no liquidity problems, thanks to the long maturity of its liabilities and adequate secondary liquidity.

Liquidity risk in its broader sense, that is the risk of the Bank having to acquire additional funding at a higher interest rate (funding risk), and the risk that due to its liquidity needs the Bank will have to sell non-monetary investments at a discount (market liquidity risk), is low thanks to an excess short-term liquidity position and adequate secondary liquidity. Secondary liquidity contains a relatively high proportion of government and other securities of high quality and liquidity. The liquidity ratio for the periods up to 30 days, calculated using the Bank of Slovenia methodology, was 10.93 as at 31 December 2011.

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

On the basis of the new Basel II standards, the Bank carries out quarterly calculations of the Liquidity Coverage Ratio⁸, for information purposes only. Banks will become officially liable to report their LCR's in 2013. However, in order to determine its short-term liquidity, SID Bank carried out its quarterly calculations of the above-mentioned ratio in accordance with the Regulation on prudential requirements for banks and found that its LCR was above the stipulated limit of 1.

• Statement of financial position by maturity as at 31 December 2011*

Maturity class	Assets		Liabilities		Gap	Ratio**
	in EUR thousand	% of total assets	in EUR thousand	% of total liabilities	in EUR thousand	v %
Up to 1 month***	203,674	5.1	85,852	2.1	117,822	237
1 month to 3 months	166,675	4.1	50,261	1.2	116,414	272
3 months to 1 year	149,033	3.7	352,217	8.7	(203,184)	106
1 year to 5 years	2,035,073	50.5	1,862,681	46.2	172,392	109
Over 5 years	1,457,211	36.2	1,341,328	33.3	115,883	109
Total	4,011,666	99.6	3,692,339	91.6	319,327	

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

** The table only shows the balance of financial assets and financial liabilities (non-financial assets and liabilities are excluded from this segment).

⁸ LCR measures the ratio between the stock of high-quality liquid assets and the total net cash outflows (defined as the total expected cash outflows minus total expected cash inflows) over a 30 day significant stress period. Cash inflows are capped at 75 percent of cash outflows.

*** Under the Decision on Books of Account and Annual Reports of Banks and Savings Banks, SID Bank is not required to report its "sight" assets, and these are included under the assets listed as "up to 1 month".

Detailed breakdown of assets and liabilities items as at 31 December 2011 by maturity is available in point 3.2. of Notes to the Financial Statements.

Interest rate risk

Interest rate risk is the exposure to loss arising from unfavourable fluctuations (referring both to the increase and decrease in interest rates) in the interest rate market. Any change in interest rates has a significant impact on the Bank's revenues and expenses. In the conduct of its business operations, SID Bank encounters two types of interest rate risks. The first type arises from the difference between SID Bank lending and borrowing interest rates, i.e. the difference in the sensitivity of these interest rates to changes in the overall level of market interest rates. The second type arises from the interest rate sensitivity of investments financed from SID Bank's capital.

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

Taking advantage of more favourable conditions than applicable for variable-rate instruments, the Bank took out borrowing and acquired funds at a fixed interest rate. In order to reduce interest rate risk from these operations, SID Bank increased its use of derivative financial instruments (interest rate swaps) and implemented thorough risk monitoring and hedge accounting.

At the end of 2011, SID Bank held 13 derivative financial instruments (interest rate swaps) in a total amount of EUR 1,085 million. As these instruments are included in the off-balance-sheet records, the effect of their use is not considered in the table below.

• Assets and liabilities by period remaining to interest rate repricing as at 31 December 2011*

Maturity class	Assets		Liabilities		Gap
	in EUR thousand	% of total assets	in EUR thousand	% of total liabilities	in EUR thousand
Non-interest bearing	79,740	2.0	35,403	0.9	44,337
Up to 1 month	302,877	7.6	336,629	8.3	(33,752)
1 month to 3 months	660,548	16.4	435,952	10.8	224,596
3 months to 1 year	2,748,076	68.2	1,606,311	39.9	1,141,765
1 year to 5 years	151,986	3.8	1,163,916	28.9	(1,011,930)
Over 5 years	68,439	1.7	114,127	2.8	(45,688)
Total	4,011,666	99.6	3,692,339	91.6	319,327

* The table only shows the balance of financial assets and financial liabilities (non-financial assets and liabilities are excluded from this segment).

Detailed presentation of the Statement of Financial Position by exposure to interest rate risk as at 31 December 2011 is available in point 3.4. of Notes to the Financial Statements.

Currency risk

When managing currency risk, SID Bank determines the potential loss which could arise as a result of changes in foreign exchange rates, through the application of an open foreign currency position, i.e. the difference between the sum of all investments denominated in a foreign currency and liabilities in a foreign currency. Open foreign currency position, constrained by internal limits, was minimal throughout 2011.

• **Statement of financial position of SID Bank by currency structure as at 31 December 2011***

	Assets		Liabilities		Gap	
	in EUR thousand	% of assets	in EUR thousand	% of liabilities	in EUR thousand	% of capital**
EUR	3,996,115	99.2	3,676,877	91.3	319,238	99.0
USD	15,551	0.4	15,462	0.4	89	0.0
Other currencies	0	0.0	0	0.0	0	0.0
Total	4,011,666	99.6	3,692,339	91.6	319,327	99.0

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

** The table only shows the balance of financial assets and financial liabilities (non-financial assets and liabilities are excluded from this segment).

Detailed presentation of the Statement of Financial Position by currency structure as at 31 December 2011 is available in point 3.3. of Notes to the Financial Statements.

Operational risk

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

The main factors affecting operational risk are human resources, business processes, information technology and other infrastructure, organizational structure, and external events.

Operational risk exposure increases with the strengthening of the role of SID Bank as a main Slovenian development institution for financing and promotion, with the growth of its business volume, and with the gradual increase in the complexity of its products. Notably, planned new activities will require recruitment of appropriate qualified staff and introduction of new information technologies in order to secure the required data and application support.

The Bank monitors its operational risk using the basic indicator approach. The management of operational risk is based on the established system of internal controls, the decision-making and authorization systems, appropriate substitution for absent workers, suitable staff qualifications, and investments in information technology. System risks inherent in information technology are increasing in line with the level of computerisation. These risks were minimized through the implementation of additional mitigation measures such as the business continuity plan, server clusters, and through the implementation of other measures aimed at increasing information security, e.g. intrusion prevention systems, intrusion detection systems, and surveillance systems.

Risk management in SID Bank Group

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

Business relations among the Group companies affect the type and volume of shared risks. Particular attention is paid to areas in which the nature of business transactions could lead to a concentration of the same risk; this is of particular importance in cases where credit and insurance risks are concentrated on the same debtor (taking into account the risk/debtor relations).

Similar to SID Bank, the primary objective of risk management in SID Bank Group is to reduce the likelihood of risk incidents and minimise losses when a loss event occurs. Particular attention is paid to the measurement and management of credit risk at SID Bank Group level as well as to the exposure of SID Bank Group to individual clients, industries, or countries.

All Group companies have established an appropriate organizational structure which enables effective risk management by determining risk assumption procedures and the procedures aimed at identifying, measuring and mitigating risks.

SID Bank Group has adopted adequate policies and guidelines relating to risk management and protection against risk. SID Bank, as the controlling company of the Group, has upgraded the adopted policies and directions with specific instructions governing the management of a particular risk class, and has coordinated the operations of its subsidiaries so as to ensure relevant and efficient risk management at the level of the entire Group.

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

The primary responsibility for the management of risks assumed by the companies of SID Bank Group lies with the management of a particular Group member which is obliged to pursue the business and strategic goals of SID Bank Group's risk management policy. The management and the bodies of each subsidiary transfer their risk management authorisations to lower management levels.

SID Bank Group places great emphasis on credit risk, as the most significant risk at the level of the Group. In its organizational structure SID Bank Group has established a hierarchical model to define credit limits on the basis of the required credit amount and the type of transaction. In factoring transactions, low limits are approved by commercial units, higher credit limits are approved by the credit committee of the subsidiary company, and the highest limits are approved by the credit committee of the parent company. The highest limits are limits exceeding EUR 2 million. All these transactions are reassessed and reevaluated by the Credit Rating Department of the controlling bank. The transactions are carefully inspected at SID Bank Credit Committee meetings, where careful consideration is given to the economic and legal aspects of such transactions, in particular credit insurance.

The companies of SID Bank Group make regular monthly reports on their operating results, which include reports on exposure to various risk types. The submitted reports are regularly discussed at the meetings of SID Bank's competent bodies, which review them and, when appropriate, give instructions for activities to be taken.

Risk profile and internal capital adequacy assessment

SID Bank has prepared its risk profile, which is a documented and categorized set of quantitative and qualitative assessments of risks which the Bank assumes in the course of its operation, and of the control environment used to manage those risks.

The risk profile serves as the basis for the Bank's comprehensive risk management process, internal capital adequacy assessments, planning of internal audit procedures, and direct supervision by the Bank of Slovenia.

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

The following risks and factors are taken into account in assessing the adequacy of the Group's internal capital:

- Pillar I risks (credit risk, market risk, operational risk),
- Pillar II risks (concentration risk, transfer risk, interest rate risk, liquidity risk, profitability risk, settlement risk, reputation risk, strategic risk, capital risk),

- other elements and external factors (regulatory changes, impact of economic cycles, stress tests).

In the internal capital adequacy assessment, capital requirements for credit risks hold a 82.6 percent share, followed by 2.6 percent share for operational risks, and 14.8 percent for strategic risk, concentration risk, and external factors.

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

Sensitivity analysis

Every year, SID Bank and SID Bank Group conducts a sensitivity analysis to define the sensitivity of all interest-bearing assets and liabilities to changes in interest rates, and a separate analysis for available-for-sale financial assets.

The sensitivity analysis of all interest-sensitive assets and liabilities items is based on a change in market rates of 100 basis points (1% p.a.). This analysis calculates the impact on the interest income in the first year of the change. Detailed calculation is presented in point 3.3. of Notes to the Financial Statements.

8.5. SID Bank Operations under the Authorisation of the Republic of Slovenia

8.5.1. Insurance against non-marketable risks

SID Bank as an authorized institution working on behalf and for the account of the State covers select commercial and non-commercial risks (non-marketable risks), which private reinsurance market lacks either willingness or capacity to cover. According to the EU legislation, non-marketable risks are defined as commercial and political risks exceeding two years in the OECD countries, and all risks in the countries which are not OECD members. In the area of non-marketable risks, Republic of Slovenia plays a key role, as without an insurance cover most such business transactions, especially medium-term, would not be carried out. By means of appropriate insurance, exporters and investors in higher-risk countries are able to reduce the risks arising from business operations, thereby creating a sense of economic safety.

SID Bank has demonstrated consistent growth in the volume of business insured in all years except 2011, when the business volume declined due to the crisis conditions. Nevertheless, SID Bank continued to provide adequate support to the economy, reaching satisfactory results.

Review of operations in 2011

in EUR thousand	2011	2010	Index 2011/2010
Business insured	1,203,430	1,440,059	83.6
Exposure (31 Dec.) – net*	747,571	1,032,307	72.4
Premiums	9,130	8,243	110.8
Potential claims	805	446	180.5
Claims under consideration	3,972	4,059	97.8
Claims paid	(1,171)	(2,990)	39.1
Number of claims	4	2	200.0
Recoveries	94	90	104.1
Surplus of revenues over expenses	5,530	4,180	132.3
Contingency reserves	129,749	124,219	104.5

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

- **Business insured**

Volume of business insured against non-marketable risks amounted to EUR 1,203.4 million in 2011, posting a 16.4 percent decline from the previous year. The reduction was caused by the financial crisis; with negative effects most severely felt in export financing. The realized volume represents 15.7 percent of the maximum amount of new yearly obligations as defined in the ZZFMGP⁹.

The largest share in the structure of generated business insured, amounting to 60,6 percent, was taken up by insurance of outward investment, totalling EUR 729.6 million, followed by reinsurance of short-term export credits (renewable insurance against non-marketable risks) in the amount of EUR 438.6 million, or 36.4 percent, of total business insured.

The majority of export credits (trade receivables), investments, and medium-term credits insured in 2011 were linked to exports to Serbia, followed by Russia, Bosnia and Herzegovina, Croatia, Ukraine, Kazakhstan, Macedonia, Albania, and Great Britain.

Outward investment insurance amounted to EUR 729.6 million in 2011; the figure includes insurance renewals as well as new insurance policies. Compared to the year before, the volume of outward investment decreased by 28.7 percent, primarily due to lower corporate investments, pending accession of certain countries to the EU and subsequent lower country risks of these countries, as well as servicing of insured loans.

The growth in business insured can be partly attributed to insurance of non-shareholder loans or loans to subsidiaries of Slovenian investors abroad, which were introduced in 2008. This product covers commercial as well as non-commercial risks, and as such provides Slovenian companies with better access to sources of financing. In 2011 new insurance policies were issued for investments into construction and metal processing, manufacturing, food processing, tourism and motor fuel trade sectors, mainly across South East Europe and Russia.

Financial crisis has had both a negative and a positive impact on the demand for investment insurance. On one hand the crisis has eroded investment volume, in particular abroad, which in turn has reduced the demand for insurance of equity stakes and credit facilities. On the other hand, insurance of non-shareholder loans, especially against commercial risks, is very often a precondition for banks to consider financing and has also positive impact on pricing. This particular product is also available for reprogrammed loans, hence the volume of business insured is expected to remain high in 2012 as well.

(Re)insurance of export credits, trade receivables and guarantee insurance amounted to EUR 438.6 million, an increase of 8.3 percent over the 2010. The growth was largely driven by the economic crisis and reflects the decision of private reinsurers to withdraw from certain markets as well as of exporters' fear of non-payment. Additionally, the rise was fueled by higher exports and the consequent growth in volume of trade receivables covered by primary insurers.

Withdrawal of private reinsurers enabled SID Bank to replace them and assume the role of the authorized institution. In 2009 altered market conditions led to a shortage in reinsurance capacity and the withdrawal of private reinsurers from certain countries and industries, causing reinsurers to reduce or cancel reinsurance cover limits. In turn, this made it impossible for credit insurers to provide sufficient insurance cover for companies, which further constrained sales in already harsh economic conditions.

In accordance with the provisions of the Temporary Framework¹⁰, and, following consent from the European Commission, SID Bank started implementing a reinsurance scheme for temporarily non-marketable risks in March 2010, thus bridging the market gap in short-term export credit insurance. For the purpose of this scheme, SID Bank and its subsidiary PKZ, signed an agreement concerning the reinsurance of risks in the

⁹ Pursuant to the ZZFMGP, the volume of new commitments (new insurance contracts) assumed in each calendar year shall not exceed 1/3 of this latest officially established value of yearly exports of Slovenian goods and services (in 2010 exports was EUR 22.7 billion, source: UMAR 2011). The volume of new commitments assumed in the period from 1 January to 31 December 2011 totalled EUR 747.5 million and was within the limit laid down in the ZZFMGP of EUR 7.6 billion. The rate of utilization of the limit is 15.9 percent as at 31 December 2011.

¹⁰ OJ C 16, of 22 January 2009, p. 1

private (re)insurance market TU/1¹¹ (covering EU and OECD members states, excluding Japan). The scheme terminated on 31 December 2011. SID Bank did not apply for an extension of the scheme for 2012 due to very limited interest.

The major portion of the short-term export credit insurance was linked to revolving export credits covered by the reinsurance agreements which were concluded between SID Bank and PKZ and between SID Bank and Zavarovalnica Triglav. Under these reinsurance agreements, SID Bank only covers the risks which private reinsurers are not able to cover due to insufficient capacity (non-marketable risks), while a small part of the business insured refers to insurance of individual export transactions. The majority of business insured in 2011 relates to export transactions to Russia, followed by exports to Ukraine, Croatia, Kazakhstan, Serbia, etc.

The volume of medium-term export credit insurance fluctuates from year to year due to a low number of projects executed on a yearly basis. In 2011 medium-term export credit insurance (loans and guarantees) totalled EUR 35.2 million and was 2.9-times higher than in the previous year. The changing structure of Slovenia's economy is the main reason for the relatively low number of transactions for which insurance and, normally, financing support, would be required.

Medium-term export credit insurance has declined mostly for the following reasons:

- Slovenian construction companies which had been actively present in the Russian market had already found themselves in financial difficulties when the Russian construction market turned around in 2010,
- Chinese corporations are becoming increasingly competitive in select sectors where Slovenian firms held strong market positions,
- shortage of competent engineering firms,
- improved financing terms by Russian banks as compared to Slovenian banks,
- foreign banks in Slovenia are somewhat less agile as they are constrained by policies of their central offices.

The volume of business insured is also affected by less favourable insurance conditions for the South Eastern European markets stemming from their unfavourable risk classification (consistent with OECD classification), and by the fact that export financing terms offered by Slovenian banks are less competitive than those provided by foreign banks.

• **Exposure**

Exposure from insurance policies totaled EUR 746.2 million at the end of 2011; another EUR 1.4 million exposure was due to binding insurance offers, which contributes to total net exposure pursuant to the ZZFMGP. Total exposure from insurance transactions amounted to EUR 747.6 million at the end of 2011, down by 27.6 percent from the year before. The decline was driven by a 28.7 percent drop in exposure from outward investment insurance, mainly due to the reinsurance taken out with MIGA¹², while exposure from insurance against medium-term commercial and non-commercial risks was 2.9 times higher than in 2010. Exposure from short-term export credit and guarantee (re)insurance increased by 8.3 percent compared to 2010.

In insurance portfolio, SID Bank's exposure was highest to Serbia (33.4 percent), Russia (27.7 percent) and Bosnia and Herzegovina (17.6 percent).

Exposure represents 29.9 percent of the limit as defined in the Republic of Slovenia Budget for 2011 Implementation Act, and 3.3 percent of the limit as defined in the ZZFMGP.

¹¹ TU/1 is the top-up scheme.

¹² MIGA (Multilateral Investment Guarantee Agency) provides reinsurance for non-commercial risks related to insured investments (into ownership shares and shareholder loans), which the Mercator Group holds in the countries of former Yugoslavia. Reinsurance rate for coverage of non-commercial risks is 80%. Although insurance has been concluded for all investments related to the Mercator Group (including non-shareholder loans to foreign subsidiaries), the decline in exposure is not evident in cases when the loans are insured against commercial as well as against non-commercial risks, as in these cases exposure is primarily recognised for commercial risks which are subject to reinsurance.

- **Insurance technical figures**

Premium from insurance against non-marketable risks amounted to EUR 9.1 million in 2011, up by 10.5 percent from the 2010 figure. The growth in 2011 is largely attributable to premiums from short-term export credit (re)insurance, which increased by 25.7 percent in volume compared to 2010. Income from fees was negligible because SID Bank, in conformity with its business policy and valid price lists, returns the amount charged to exporters and other insured entities, or includes it in the premium charged provided the project is implemented.

Claims paid totalled EUR 1.2 million in 2011, a 60,9 percent drop from the year before. A large portion of claims paid is related to medium-term business transactions (Kazakhstan) while the share of claims from short-term export credit reinsurance remained relatively low at 7.2 percent (Iran, Turkmenistan, Uzbekistan).

Claims under consideration (claims filed) stood at EUR 4.1 million as at 31 December 2011. The Kazakhstan claim from medium-term insurance totaling EUR 3.5 million is reduced by a yearly installment of approximately EUR 1.0 million, in accordance with the amortisation schedule. Other claims filed totaling EUR 0.4 million arise from (re)insurance of short-term export credit transactions in Romania, Ukraine, and Croatia. The volume of potential claims rose by 80.5 percent in 2011, to EUR 0.8 million, mostly with regard to claims from (re)insurance of short-term export credits.

The business result for the account of the State was positive in 2011 despite the claims paid. The surplus of revenues over expenses amounted to EUR 5.5 million, a 32.3 percent rise from the year before. As a result of positive business results, contingency reserves rose as well, totalling EUR 129.7 million at the end of 2011.

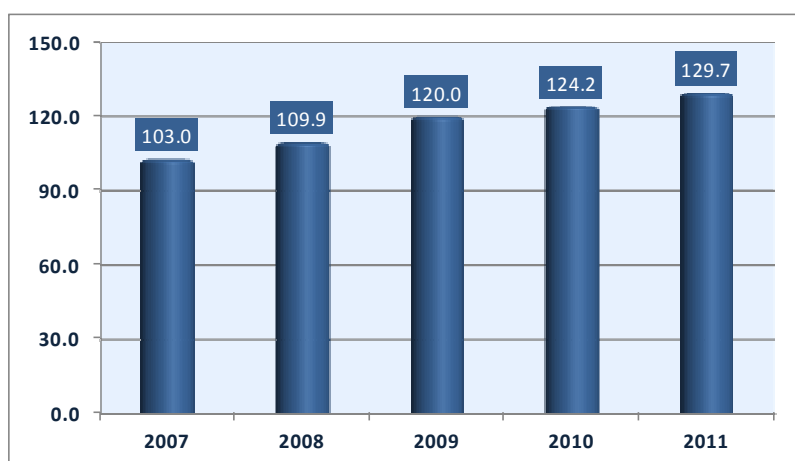
- **Contingency reserves**

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

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

Positive business result from 2011 insurance operations led to an increase in contingency reserves, which rose to EUR 129.7 million. As at 31 December 2011, contingency reserves were largely composed of long-term domestic currency loans extended to commercial banks based in the Republic of Slovenia, totalling EUR 59.6 million (46.0 percent of all assets); investments in securities of A-rated Slovenian and foreign issuers in a total value of EUR 42.7 million (32.9 percent of all assets); short-term deposits in banks amounting to EUR 26.4 million (20.3 percent of all assets); and other assets of EUR 1.0 million (0.8 percent of all assets).

- **Contingency reserves by year (in EUR million)**



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

Following the introduction of new product, credit insurance to cover pre-shipment export financing, as a tool to complement the existing range of insurance products (working capital financing under pre-shipment export credit financing guarantee scheme); new ways to help expand the coverage of performance risk and commercial risks will be available to Slovenian exporters in 2012.

8.5.2. Interest Rate Equalisation Programme

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

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

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

8.5.3. Guarantee Scheme for Enterprises

The Guarantee Scheme Act of the Republic of Slovenia (hereinafter ZJShemRS) set up a system for the issue of government-backed guarantees to assume liabilities of A-, B- or C- rated companies arising from long-term loans acquired with commercial banks. The purpose of the Act was to relieve the credit crunch resulting from the global financial crisis which has reduced access to liquid assets of commercial banks, thereby decreasing the flow of funds into Slovenia's economy. By 31 December 2010, when the deadline for the issue of guarantees expired, EUR 809.4 million of the approved guarantee quota of EUR 1,2 billion was granted at a total of 15 auctions.

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

In 2011, SID Bank received 77 claims under the guarantees issued by the Republic of Slovenia (the number of claims in the period 2009-2011 totalled 104). In close consideration of the conditions stated in the ZJShemRS, the Ministry of Finance of the Republic of Slovenia honoured 61 guarantee claims, and paid out a total of EUR 19.7 million (in the period 2009-2011 the Ministry of Finance paid out EUR 23.4 million from 72 guarantee claims). If the conditions are met, SID Bank initiates a collection procedure for guarantees paid in accordance with the applicable regulations and the guarantee agreement.

8.5.4. Guarantee Scheme for Individuals

The Guarantee Scheme for Individuals Act (hereinafter ZJShemFO) enabled individuals to obtain guarantees of the Republic of Slovenia for loans up to EUR 100,000 or EUR 10,000, depending on the category of borrower. The guarantee scheme for individuals lists four categories of borrowers, namely employees on fixed-term contracts, persons seeking to resolve their housing issue for the first time, young families, and unemployed persons. The total guarantee quota to be distributed in the period 2009-2010 under the ZJShemFO was EUR 350 million, of which EUR 50 million was held for the category of unemployed borrowers. By the end of 2010, SID Bank held six auctions and awarded the banks a total of EUR 88.9 million of guarantee quota. The number of loans as at 31 December 2011 was 351 (without guarantees called), and the balance of loan principals at the same day was EUR 7.5 million. The deadline for the issue of state guarantees under the ZJShemFO expired on 31 December 2010.

In 2011, SID Bank received 29 claims under the guarantees issued (in 2010, 38 claims were filed). In close consideration of the conditions stated in the ZJShemFO, the Ministry of Finance of the Republic of Slovenia honoured 18 guarantee claims, and paid out a total of EUR 189 thousand. All the claims paid were related to the group of unemployed borrowers. In 2011 the funds for four claims paid were collected by commercial banks and returned to the state budget. If the guarantee is honoured and the conditions are met, SID Bank initiates a collection procedure for guarantees paid.

8.5.5. Guarantee Scheme for Investments

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

In 2011 SID Bank published its first invitation related to the issue of guarantees of the Republic of Slovenia to cover liabilities arising from loans acquired from first-class commercial banks and savings banks which are intended for the financing of development projects. The total guarantee quota to be distributed was EUR 50 million. By the end of 2011 SID Bank received three guarantee applications; two applications referred to the first call for RS guarantees in a total value of EUR 9.8 million, and one application was made for a guarantee amounting to EUR 1.9 million. In 2011, SID Bank honoured four applications for guarantees of the Republic of Slovenia in a total amount of EUR 11.5 million. Two of these companies were classified as SME's. In terms of regional distribution, guarantees were issued to two companies from Central Slovenia, one company from the Zasavje region, and one company from the Coastal-Karst region.

8.5.6. Management of Kyoto Units and Emission Coupons

The Environmental Protection Act (hereinafter ZVO-1) authorizes SID Bank to carry out the management of Kyoto units and emission coupons and to conduct public auctions of emission coupons pursuant to the EU regulation which governs emission allowance trading. In 2011, preparations were underway at SID Bank to carry out the above-mentioned authorizations. The external regulatory framework, however, did not yet provide detailed definitions of all the activities and therefore did not allow the Bank to begin implementing this measure.

8.5.7. Transparency of financial relations between SID Bank and the Republic of Slovenia

In order to ensure separate record-keeping for the activities performed under the authorisation of the Republic of Slovenia, SID Bank has established a system of cost centres and cost drivers which captures all business events which occur during a business activity and as such form the basis to determine the revenues and direct expenses related to this activity. Separate statements of financial position are compiled for insurance against non-marketable risks and the interest rate equalisation programme, in the provision of which the Bank also manages the funds which it has been entrusted (see point 2.5.3 of Notes to Financial Statements). The below table shows total (direct and indirect) revenues and expenses per activity, as realised in 2011. Income from these activities is the amount of reimbursements which SID Bank receives from the state for performing transactions on the basis of concluded contracts or as stipulated by the law. Indirect income from these activities is determined by means of the criteria set forth in the Bank's internal act 'Criteria for the allocation of indirect costs from transactions performed under the authorisation of the Republic of Slovenia'.

- **Revenues and expenses by activity, as realised in 2011**

Operations under special authorisation of the Republic of Slovenia (in EUR thousand)	Revenues	Expenses
Insurance against non-marketable risks	2,075	(2,115)
Interest rate equalisation programme	78	(48)
Guarantee scheme for enterprises	471	(738)
Guarantee scheme for individuals persons	36	(320)
Guarantee scheme for investments	23	(212)

8.6. Review of SID Bank Group Operations

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

in EUR thousand	2011	2010	Index 2011/2010
Total assets	67,911	72,551	93.6
Equity	22,857	20,256	112.8
Gross claims paid	19,070	24,977	76.4
Net profit	5,607	6,844	81.9
Loss ratio	91%	126%	-
Business insured	5,225,603	4,782,986	109.3

Despite the unfavourable economic situation in 2011, PKZ managed to increase its business volume, producing a favourable loss ratio and a positive operating result. The positive outcome was driven largely by PKZ's measures to mitigate the effects of the economic crisis on the company's operations, by changes in the behaviour patterns of insured entities (beginning to show more concern for receivables management), and by the fact that it took some time for the worsening of economic conditions in the second half of 2011 to take its toll on PKZ's business results (tightened economic conditions slowed down the growth of business insured in the second half of 2011, but did not yet result in higher claims; the future effect on claims remains unpredictable).

In 2011 PKZ continued, and upgraded, its set of measures carried out to alleviate the effects of the economic crisis. In 2010 the impact of these measures became evident in an increase in premium written, which retained in high level in 2011, as well as in loss ratio, although the claims load for that year was high because of an exceptional claim case. Due to the depth of the crisis and the related time delay in reporting the claims, the full effect of the measures on the claims result was more clearly seen in 2011. In adopting and implementing these crisis mitigation measures PKZ sought to maintain the balance between tightening its insurance conditions in the light of the changed economic environment and catering, to the highest extent possible, to the transactions performed by its clients. A welcome contribution to this aim was the increase in capital carried out at the beginning of 2010 in uncertain economic conditions and following a year of poor business results, which strengthened the firm and sent positive signals to PKZ partners (insured and reinsurers). An additional capital injection was provided by the favourable business result achieved in 2010, which considerably increased profit reserves.

The volume of business insured recorded a rise of 9 percent to EUR 5.2 billion (in 2010: an increase of 21 percent), the growth pushing above Slovenia's macroeconomic indicators (GDP and export growth) for 2011. The 2011 figure marks the highest annual premium written in the company's history, exceeding by 2 percent the previous record-breaking result of 2008. A large portion of the growth came from export credit insurance. At EUR 21.1 million, premiums written were up by 6 percent from the year before (2010: +80 percent). Gross premiums written in 2011 were the highest so far; the premium rates retained the high level illustrative of increased risks.

Although the liquidity situation remained tight in most of PKZ's strongest markets in 2011, the number and total value of claims were lower than in 2010. Total claims paid in 2011 amounted to EUR 19.1 million, shrinking by 24 percent compared to the previous year (2010: +116 percent). A considerable part of claims paid was related to risks insured in 2009 and 2010. However, the exceptional claim case which occurred and was partly paid in 2010 also had a marked effect on the claims paid in 2011. The major portion of this claim was paid out in 2011, making up almost a half of total claims paid. This claim case was considered in the provisions for 2010, and the payment made in 2011 did not cause any additional expenses for the company in the given year. Favourable loss experience, which started to pick up in 2010, retained its positive trend in 2011 despite the tightening liquidity. Loss provisions decreased as a result of high claims payments and positive trends. Largely, this was attributable to the favourable outcome of the claims cases in the period 2008-2010, which ended up much better for PKZ than we were able to estimate at the end of 2010. Due to positive trends, net income from premium written in 2011 exceeded net expenses for claims by EUR 7.0 million (similar to 2010 figure: expenses for claims exceeded income from premium written by EUR 6.8 million).

Generated net profit totaled EUR 5.6 million (2010: EUR 6.8 million). The equalisation provisions (provisions for credit risks) went up by EUR 1.0 million, to EUR 2.7 million (2010: an increase of EUR 0.9 million). The net profit for 2011 was used to increase the legal (EUR 0.2 million) and statutory profit reserves (EUR 2.2 million).

In 2011 the expectations for the year were exceeded in terms of volume of insurance business and premium written. Claims paid were lower than expected and received recoveries higher. Costs stayed within the planned range, and the expense rate was more favourable than anticipated due to the rise in premium. Net profit rose above the planned values for the year, largely because the outcome of claims cases from previous years was more favourable than originally estimated.

In 2012 PKZ has conducted its contract renewal activities as planned. The claims filed and paid showed no obvious signs of deterioration at the beginning of 2012. For 2012, PKZ has already renewed its insurance contracts with private reinsurers under the conditions consistent with the year 2011, and extended its reinsurance contract with SID Bank to cover certain high-risk non-OECD markets.

PKZ will continue to adapt its operations to the changed conditions. It will explore market opportunities for new and supplementary forms of credit insurance (also in combination with reinsurance schemes which started to run in 2009, were implemented throughout 2010 and 2011, and partially stayed in effect in 2012), which PKZ could acquire through its controlling company. PKZ will support its clients in their traditional markets and in entering new emerging markets. In pursuing this aim, the company will benefit from its membership in specialized credit insurance agencies as it will be able to assess risks more quickly and more

reliably, thereby gaining an important competitive advantage in traditional and, even more so, in new markets, in particular at times of uncertainty.

In 2011 PKZ took active measures to update its IT support systems (seen in increased investment volume) and will continue these efforts in 2012. In response to increased needs for space of its parent company, PKZ purchased business premises in 2011, which was the company's main investment so far.

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

In 2012 PKZ will intensify its efforts to meet the new requirements laid down in the EU Solvency Directive II, covering all fields of PKZ's operation.

8.6.2. PRO KOLEKT Group

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

in EUR thousand	2011	2010	Index 2011/2010
Total assets	469	496	94.6
Equity	294	268	109.7
Net profit	26	79	32.9
Value of debts collected	8,818	8,269	106.6

- **PRO KOLEKT Group**

in EUR thousand	2011	2010	Index 2011/2010
Total assets	4,211	4,268	98.7
Equity	343	370	93.0
Net profit or loss	10	74	13.5
Net profit/loss for majority owner	(15)	23	-
Value of debts collected	17,643	15,480	114.0

In 2011, 2,464 new debt collection cases in the total value of EUR 50.4 million were referred to the PRO KOLEKT Group. The Group resolved 946 debt collections in the total value of EUR 17.6 million, with the total value of collected funds amounting to EUR 9.6 million. In 2011, the PRO KOLEKT Group continued to conduct monitoring and credit rating reports, generating revenue in the amount of EUR 465 thousand from these activities.

In 2011 the PRO KOLEKT Group strengthened its presence in South East Europe, focusing in particular on forming high-quality local teams which are quick to respond to harsh conditions, both with regard to assessing the creditworthiness of companies and with regard to debt collection.

8.6.3. PRVI FAKTOR Group

- **PRVI FAKTOR, faktoring družba, d.o.o.**

in EUR thousand	2011	2010	Index 2011/2010
Total assets	137,176	129,917	105.6
Equity	4,209	3,246	129.7
Net profit/loss	962	(3,929)	-
Value of receivables purchased	236,902	227,832	104.0

- **PRVI FAKTOR Group**

in EUR thousand	2011	2010	indeks 2011/2010
Total assets	338,485	332,745	101.7
Equity	6,443	6,156	104.7
Net profit/loss	1,859	(4,743)	-
Value of receivables purchased	908,217	862,850	105.3

In 2011 the value of accounts receivable purchased by the PRVI FAKTOR Group was EUR 908 million. The 2011 figures are 5 percent greater than receivables purchased in 2010, and are 5 percent above the plan for 2011. Subsidiaries contributed more than 77 percent to the total turnover of the PRVI FAKTOR Group. The 2011 turnover target was surpassed by all the companies of the Group. PRVI FAKTOR Zagred continues to generate the highest share in the revenue of the PRVI FAKTOR Group: it was 41 percent in 2011, at the same level as achieved in the year before.

The majority of receivables financed by the PRVI FAKTOR Group arose from deliveries of goods or services among the Slovenian undertakings. In 2011, factoring of domestic receivables accounted for 88 percent of the total business volume (in 2010: 91 percent), export factoring for 7 percent, and import factoring for 5 percent.

Total assets of PRVI FAKTOR, Ljubljana stood at EUR 137.2 million at the end of 2011, up by 5.6 percent compared to the previous year.

Consolidated total assets stood at EUR 338.5 million as at 31 December 2011, marking a year-on-year rise of 2 percent. In terms of total assets, the largest company in the PRVI FAKTOR Group is PRVI FAKTOR, Zagreb, with total assets totalling EUR 157 million at the end of the year. The increase in total assets was slightly lower than the rise in business volume, which points to an improvement in the company's asset management performance.

Despite the adverse business conditions, all the companies of the Group again generated positive operating results in 2011; the result for the Group was also positive.

The objectives of the PRVI FAKTOR Group for the year 2012 are to maintain the Group's share in the existing markets and to further improve the services which the Group delivers to its clients. The Group plans to generate a slightly lower business volume and maintain its profit at the level achieved in 2011.

8.6.4. Centre for International Cooperation and Development

in EUR thousand	2011	2010	Index 2011/2010
Operating income	388	411	94.4
Total project value	5,198	8,300	62.6

In 2011 the Centre for International Cooperation and Development (hereinafter CMSR) met most of the goals set for the year. The priority objective of its operations was to carry out bilateral development cooperation. CMSR maintained and expanded its contact network of Official Development Assistance (ODA) recipient countries, and cooperated with Slovenian contractors who are potential providers of development assistance. In 2011 CMSR allocated all the available donations. Furthermore, it has positioned itself as an institution which is able to invest budgetary funds by means of ODA instruments into development projects abroad, thereby securing exports transactions for Slovenian companies, which in turn generates economic growth, recruitment, and increase in budgetary income in Slovenia and beyond.

The publication *Doing Business in Slovenia* (DBS), available in paper form and as an e-book on the Slovenian Business Portal, was the main source of income from sales and advertising, although the advertising activities were negatively affected by the tightened economic climate. In 2011, CMSR continued its publication of the magazine *Mednarodno poslovno pravo* (International Business Law), and took measures to stop the declining subscription numbers with direct marketing. Also, CMSR carried out several small-scale projects, i.e. sold brief analyses over the Euromoney portal run by ISI Emerging Markets.

II. FINANCIAL STATEMENTS OF SID BANK AND SID BANK GROUP

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

On 31 January 2012 the Management Board confirmed the financial statements of SID Bank and consolidated financial statements of SID Bank Group for the year ended 31 December 2011. The financial statements have been compiled in line with the International Financial Reporting Standards (IFRS) as adopted by the EU.

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

The management is responsible for the following:

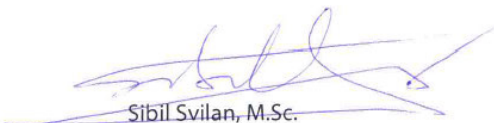
- Appropriate accounting policies which are applied consistently,
- Business estimates and judgements that are reasonable and prudent,
- To make sure any material deviations from the applied accounting standards are appropriately disclosed and explained,
- To oversee that the financial statements are prepared on an ongoing concern basis for SID Bank and SIDSID Bank Group, unless there are substantiated reasons to anticipate discontinuation of operations.

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

The tax authorities may inspect the operations of the bank at any time within five years from the date when the tax was charged, which may result in additional tax liability, penalty interest and penalties related to income tax or other taxes or duties. The Management Board is not aware of any circumstances which could lead to potentially significant liability in this respect.

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


Jožef Bradeško
Member


Sibil Svilar, M.Sc.
President

Statement of the independent auditor on the financial statements of SID Bank and SID Bank Group



Independent Auditor's Report

To the Shareholders of SID – Slovenska izvozna in razvojna banka, d.d.

We have audited the accompanying financial statements of SID – Slovenska izvozna in razvojna banka, d.d. which comprise the statement of financial position as at 31 December 2011, the income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SID – Slovenska izvozna in razvojna banka, d.d. as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.


Other matters

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.


Simona Korošec Lavrič, M.Sc.Ec.
Certified Auditor

Ljubljana, 5 April 2012

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.


Boris Drobnič, B.Sc.Ec.
Certified Auditor
Partner

KPMG Slovenija, d.o.o.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only.



Independent Auditor's Report

To the Shareholders of SID – Slovenska izvozna in razvojna banka, d.d.

We have audited the accompanying consolidated financial statements of the company SID – Slovenska izvozna in razvojna banka, d.d and its subsidiaries (SID Bank Group), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the SID Bank Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other matters

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

Simona Korošec Lavrič, M.Sc.Ec.

Certified Auditor

Ljubljana, 5 April 2012

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Boris Drobnič, B.Sc.Ec.

Certified Auditor

Partner

KPMG Slovenija, d.o.o.

1

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only.

1. Financial statements of SID Bank and SID Bank Group

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

1.1. Income statement

In EUR thousand	Notes	SID Bank		SID Bank Group	
		2011	2010	2011	2010
Interest income and similar income		157,372	106,283	170,168	117,436
Interest expenses and similar expenses		(103,000)	(66,134)	(109,933)	(72,561)
Net interest income	2.3.1.	54,372	40,149	60,235	44,875
Dividend income	2.3.2.	2,574	0	0	0
Fee and commission income		1,954	2,256	6,049	6,314
Fee and commission expenses		(894)	(796)	(1,762)	(1,686)
Fee and commission net income	2.3.3.	1,060	1,460	4,287	4,628
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss	2.3.4.	(1,598)	439	(1,598)	444
Gains and losses on financial assets and liabilities held for trading		(3)	(47)	(20)	(47)
Gains and losses on financial assets and liabilities designated at fair value through profit or loss		31	0	31	0
Fair value adjustments in hedge accounting	2.3.5.	(980)	(449)	(980)	(449)
Exchange differences	2.3.6.	6	6	1,213	958
Gains and losses on derecognition of assets other than held for sale		(4)	(6)	(22)	8
Other operating net income	2.3.7.	2,766	2,919	9,560	6,083
- Net income from non-banking services		2,766	2,919	2,286	2,529
- Net revenues from insurance operations		0	0	11,948	11,962
- Net expenses for insurance operations		0	0	(4,674)	(8,408)
Administration costs	2.3.8.	(7,017)	(6,101)	(13,258)	(11,582)
Depreciation	2.3.9.	(588)	(616)	(930)	(848)
Provisions	2.3.10.	(1,862)	1,616	466	9,339
- Bank provision		(1,832)	1,667	(1,832)	1,667
- Income/expenses for provisions in insurance contracts		0	0	2,114	7,465
- Provisions for pensions and similar liabilities to employees and other provisions		(30)	(51)	184	207
Impairment	2.3.11.	(41,269)	(32,192)	(44,813)	(38,988)
Total profit before tax from continuing operations		7,488	7,178	14,171	14,421
Tax expenses (income) related to profit from continuing operations	2.3.12.	(1,089)	(1,557)	(3,223)	(4,163)
Deferred taxes	2.3.12.	55	105	115	891
Net profit for the financial year		6,454	5,726	11,063	11,149
Basic earnings per share	2.3.13.	2.08	1.85		

1.2. Statement of comprehensive income

In EUR thousand	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Net profit for the financial year after tax	6,454	5,726	11,063	11,149
Other comprehensive income after tax	(2,264)	108	(3,482)	(19)
Available for sale financial assets	(2,830)	135	(4,142)	183
-Net valuation losses taken to equity	(2,830)	135	(4,142)	183
Other items	0	0	(14)	(165)
Income tax on relating to components of other comprehensive income	566	(27)	674	(37)
Total comprehensive income for the financial year after tax	4,190	5,834	7,581	11,130

1.3. Statement of financial position

In EUR thousand	Notes	SID Bank		SID Bank Group	
		31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash and cash balances with the central banks	2.4.1.	41,696	12	41,697	13
Financial assets held for trading		3	0	3	0
Available-for-sale financial assets	2.4.2.	212,240	110,956	243,646	132,638
Loans	2.4.3.	3,698,564	3,752,874	3,829,692	3,889,529
- Loans to banks		2,997,154	2,955,894	3,018,972	2,976,328
- Loans to non - bank customers		701,410	796,980	810,720	913,201
Derivatives – hedge accounting	2.4.4.	58,847	14,563	58,847	14,563
Property, plant and equipment	2.4.5.	3,893	4,135	6,863	4,435
Investment property		0	0	261	157
Intangible assets	2.4.5.	222	252	1,142	882
Investments in subsidiaries, associates and joint ventures	2.4.6.	11,919	8,831	419	419
Tax assets	2.4.7.	1,516	426	3,826	2,230
- Current tax assets		473	0	1,195	416
- Deferred tax assets		1,043	426	2,631	1,814
Other assets	2.4.8.	316	404	32,697	41,213
- Assets from insurance operations		0	0	32,166	38,313
- Other assets		316	404	531	2,900
Non-current assets classified as held for sale		0	3,088	0	1
TOTAL ASSETS		4,029,216	3,895,541	4,219,093	4,086,080
Deposits from central banks	2.4.9.	50,014	1,001	50,014	1,001
Financial liabilities held for trading		35	29	35	29
Financial liabilities measured at amortised cost	2.4.10.	3,641,113	3,559,862	3,765,584	3,679,742
- Deposits from banks		119,498	0	119,498	0
- Deposits from non-bank customers		5	5	5	5
- Loans and advanced from banks		1,966,530	2,023,693	2,091,001	2,143,572
- Loans and advanced from non-bank customers		150,174	99,998	150,174	99,999
- Debt securities		1,404,906	1,436,166	1,404,906	1,436,166
Provisions	2.4.11.	4,621	2,761	36,629	48,426
- Bank provisions		4,408	2,577	4,408	2,577
- Liabilities from insurance contracts		0	0	30,485	43,933
- Provisions for pensions and similar liabilities to employees and other provisions		213	184	1,736	1,916
Tax liabilities	2.4.7.	248	1,472	467	3,524
- Current tax liabilities		130	1,349	349	3,401
- Deferred tax liabilities		118	123	118	123
Other liabilities	2.4.12.	1,177	2,600	13,925	8,503
TOTAL LIABILITIES		3,697,208	3,567,725	3,866,654	3,741,225
Basic equity		300,000	300,000	300,000	300,000
Share premium		1,139	1,139	1,139	1,139
Revaluation reserves		(2,173)	90	(3,194)	273
Reserves from profit		31,300	25,191	50,132	35,671
Treasury shares		(1,324)	(1,324)	(1,324)	(1,324)
Ratained earnings (including income from the current year)		3,066	2,720	5,686	9,096
TOTAL EQUITY	2.4.13.	332,008	327,816	352,439	344,855
TOTAL LIABILITIES AND EQUITY		4,029,216	3,895,541	4,219,093	4,086,080

1.4. Statement of changes in equity

1.4.1. SID Bank

- For the 2011 financial year

In EUR thousand	Basic equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including income from the current. year)	Treasury shares	Total Equity
Balance at 1 January 2011	300,000	1,139	90	25,191	2,720	(1,324)	327,816
Comprehensive income for the financial year after tax	0	0	(2,263)	0	6,454	0	4,191
Appropriation to profit reserves	0	0	0	6,109	(6,109)	0	0
Balance at 31 December 2011	300,000	1,139	(2,173)	31,300	3,066	(1,324)	332,008
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR					3,066		

- For the 2010 financial year

In EUR thousand	Basic equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including income from the current. year)	Treasury shares	Total Equity
Balance at 1 January 2010	300,000	1,139	(18)	21,735	450	(1,324)	321,982
Comprehensive income for the financial year after tax	0	0	108	0	5,726	0	5,834
Appropriation to profit reserves	0	0	0	3,456	(3,456)	0	0
Balance at 31 December 2010	300,000	1,139	90	25,191	2,720	(1,324)	327,816
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR					2,720		

Further explanation in Item 2.4.13.

1.4.2. SID Bank Group

- For the 2011 financial year

In EUR thousand	Basic equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including income from the current year)	Treasury shares	Total Equity
Balance at 1 January 2011	300,000	1,139	273	35,671	9,096	(1,324)	344,855
Comprehensive income for the financial year after tax	0	0	(3,482)	0	11,064	0	7,582
Appropriation to profit reserves	0	0	0	14,461	(14,459)	0	2
Other*	0	0	15	0	(15)	0	0
Balance at 31 December 2011	300,000	1,139	(3,194)	50,132	5,686	(1,324)	352,439

* Currency changes in the consolidation

- For the 2010 financial year

In EUR thousand	Basic equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including income from the current year)	Treasury shares	Total Equity
Balance at 1 January 2010	300,000	1,139	126	36,809	(3,024)	(1,324)	333,726
Comprehensive income for the financial year after tax	0	0	(19)	0	11,149	0	11,130
Appropriation to profit reserves	0	0	0	1,816	(1,816)	0	0
Settlement of losses from previous years	0	0	0	(2,954)	2,954	0	0
Other	0	0	166	0	(167)	0	(1)
Balance at 31 December 2010	300,000	1,139	273	35,671	9,096	(1,324)	344,855

Further explanation in Item 2.4.13.

1.5. Cash flow statement

In EUR thousand	Notes	SID Bank		SID Bank Group	
		2011	2010	2011	2010
A. CASH FLOWS FROM OPERATING ACTIVITIES					
a) <u>Total profit before tax</u>		7,487	7,178	14,170	14,421
Depreciation	2.3.9.	588	616	931	848
Impairments of tangible fixed assets, investment property, intangible long-term assets and other assets	2.3.11.	41,269	32,171	44,813	38,988
Net losses from exchange differences		(6)	(6)	(1,213)	(958)
Net (gains)/losses from sale of tangible assets and investment properties		4	6	22	(8)
Other (gains)/losses from financing	2.3.2.	(2,574)	0	0	0
Other adjustments to total profit before tax		2,837	4,108	516	5,724
Cash flows from operating activities before changes in operating assets and liabilities		49,605	44,073	59,239	59,015
					(883,83)
b) <u>(Increases,)/decreases in operating assets</u>		4,192	(876,632)	13,645	2)
Net (increase)/ <u>decrease</u> in financial assets held for trading		(3)	2,349	(3)	2,349
Net (increase)/ <u>decrease</u> in financial assets available for sale		(104,089)	(61,176)	(114,438)	(60,609)
Net (increase)/ <u>decrease</u> in assets - hedge accounting		2,449	(8,823)	2,449	(8,823)
					(812,71)
Net (increase)/ <u>decrease</u> in loans and receivables		105,748	(811,479)	117,104	8)
Net (increase)/ <u>decrease</u> in deferred costs		87	134	30	120
Net (increase)/ <u>decrease</u> in other assets		0	2,364	8,503	(4,150)
Net (increase)/ <u>decrease</u> in assets held for sale and discontinued operations		0	(1)	0	(1)
c) <u>Increases/(decreases) in operating liabilities</u>		81,564	852,521	79,361	843,670
Net increase/(<u>decrease</u>) in assets with the central banks		49,013	1,001	49,013	1,001
Net increase/(<u>decrease</u>) in financial liabilities held for trading		8	(489)	6	(490)
Net increase/(<u>decrease</u>) in deposits and loans measured at amortized cost		112,712	(23,598)	115,887	(24,813)
Net increase/(<u>decrease</u>) in debt securities measured at amortized cost		(71,406)	883,889	(71,406)	883,889
Net increase/(<u>decrease</u>) in liability - hedge accounting		(7,369)	(7,096)	(7,369)	(7,096)
Net increase/(<u>decrease</u>) in deferred income		99	(2,002)	6,474	1,443
Net increase/(<u>decrease</u>) in other liabilities		(1,493)	816	(13,244)	(10,264)
d) <u>Cash flow from operating activities (a+b+c)</u>		135,361	19,962	152,245	18,853
e) <u>Income taxes (paid)/refunded</u>		(3,283)	348	(7,051)	39
f) <u>Net cash flow from operating activities (d+e)</u>		132,078	20,310	145,194	18,892
B. CASH FLOWS FROM INVESTING ACTIVITIES					
a) <u>Receipts from investing activities</u>		2,576	52	3	66
<u>Receipts</u> from the sale of property, plant and equipment and investment property		2	52	3	66
<u>Receipts</u> from the sale of intangible assets		0	0	0	0
Other <u>receipts</u> from investment activities	2.3.2.	2,574	0	0	0
b) <u>Cash payments on investing activities</u>		(310)	(4,431)	(3,714)	(377)
(Cash payments to acquire tangible assets and investment properties)		(206)	(194)	(3,228)	(316)
(Cash payments to acquire intangible assets)		(104)	(31)	(486)	(61)
Cash payments for the acquisition of equity investments in subsidiaries, associates and joint ventures		0	(4,206)	0	0
c) <u>Net cash flow from investing activities (a-b)</u>		2,266	(4,379)	(3,711)	(311)
C. CASH FLOWS FROM FINANCING ACTIVITIES					
a) <u>Receipts from financing activities</u>		0	0	0	0
b) <u>Cash payments from financing activities</u>		0	0	0	0
c) <u>Net cash flow from financing activities (a-b)</u>		0	0	0	0
D. Effects of change in exchange rates on cash and cash equivalents		0	2	0	2
E. Net increase in cash and cash equivalents (Af+Bc+Cb)		134,344	15,931	141,483	18,581
F. Cash and cash equivalents at beginning of the year	2.4.1.	38,008	22,075	52,688	34,105
G. Cash and cash equivalents at end of the year(D+E+F)*	2.4.1.	172,352	38,008	194,171	52,688

- **Cash flows from interest and dividends**

In EUR thousand	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Operational cash flows from interest and dividends				
- <i>Interest received</i>	147,326	89,209	170,384	102,887
- <i>Interest paid</i>	(96,712)	(47,892)	(107,688)	(60,277)
- <i>Dividends received</i>	2,574	0	0	0
Total	53,188	41,317	62,696	42,610

2. Notes to the financial statements

Items 1.1. to 1.5. of this report present the Income statement for financial year 2011, Statement of comprehensive income for the financial year 2011, Statement of financial position as at 31.12.2011, Statement of changes in equity for the financial year 2011 and Statement of cash flows for the year 2011 for SID Bank (separate accounts) and SIDSID Bank Group (consolidated statements). Statements also include comparable data as at 31 December 2010 or for the 2010 financial year.

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

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

2.1. Basic information

2.1.1. SID Bank

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

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

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

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

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

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

In 2011 SID Bank had on average 103 employees. As at 31 December 2011 there were 112 employees, of which 15.2 percent had finished secondary school, 8.9 percent had finished post-secondary vocational studies (level VI), 67.0 percent had finished higher education (level VII), 8.0 percent had a master's and 0.9 percent a doctoral degree.

As at 31 December 2011, SIDSID Bank Group (including the PRO KOLEKT Group and the CIDC institute) had 331 employees. 18.7 percent of the employees in SIDSID Bank Group had finished secondary school, 11.5 percent had finished post-secondary vocational studies (level VI), 64.4 percent had finished higher education (level VII), 4.8 percent had a master's and 0.6 percent a doctoral degree.

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

2.1.2. SID Bank Group

Parent company

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

Subsidiary companies

- SID - Prva kreditna zavarovalnica d.d., Ljubljana (SID - First Credit Insurance Company Inc., Ljubljana; hereinafter: PKZ), registered at Davčna ulica 1, 1000 Ljubljana, Slovenia, in which SID Bank holds a 100 percent ownership share,
- PRO KOLEKT, družba za izterjavo, d.o.o. Ljubljana, registered at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia (hereinafter: PRO KOLEKT Ljubljana or PK Ljubljana) in which SID Bank holds a 100 percent ownership share and which has six affiliated companies:
 - PRO KOLEKT d.o.o. Zagreb, registered at Radnički 55a, 10000 Zagreb, Croatia (hereinafter: PRO KOLEKT Zagreb or PK Zagreb),
 - PRO KOLEKT d.o.o. Skopje, registered at (Bulevar Goce Delčev 11, 91000 Skopje, Macedonia (hereinafter: PRO KOLEKT Skopje or PK Skopje).
 - PRO KOLEKT, društvo za naplatu duga, d.o.o. Beograd, registered at Internacionalnih brigada 59, 11000 Belgrade, Serbia (hereinafter: PRO KOLEKT Belgrade or PK Belgrade),
 - PRO KOLEKT Credit Management Services Bucuresti s.r.l., Bukarešta , registered at Str. Prof. George Murgoci - Munteanu nr.2, Sector 4, 040526 Bucharest, Romania (hereinafter: PRO KOLEKT Bucharest or PK Bucharest),
 - PRO KOLEKT SOFIA EOOD, Sofija, registered at 65, Shipchenski prohod Blvd.,1574 Sofia, Bulgaria (hereinafter: PRO KOLEKT Sofia or PK Sofia),
 - PRO KOLEKT d.o.o., društvo za finansijsko posredovanje, Sarajevo, registered at Ulica Hamdije Čemerlića 2, 71000 Sarajevo, Bosnia and Herzegovina (hereinafter: PRO KOLEKT Sarajevo or PK Sarajevo).

Joint ventures

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

Co-foundation

- The Centre for International Cooperation and Development, Ljubljana, registered at Kardeljeva ploščad 1, 1000 Ljubljana, Slovenia (hereinafter: CICD), a public institute for business and entrepreneurial consulting. SID Bank is a co-founder of the CIDC institute with the Republic of Slovenia, but has no investments in it.

2.2. Accounting policies

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

2.2.1. Statement of compliance

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

2.2.2. Basic premises for the preparation of financial statements

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

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

The financial statements of SID Bank and SIDSID Bank Group are prepared on the basis of original purchase values, except in the case of financial assets held for trading, derivative financial instruments and financial assets available for sale, which are measured at fair value.

Accounting policies shall only change if the change:

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

2.2.3. Use of estimates and assessments

The compilation of the financial statements in accordance with the IFRS in SID Bank and SIDSID Bank Group demands use of estimates and assessments which affect the book value of reported assets and liabilities, the disclosure of potential assets and liabilities at the reporting date and the amount of revenues and expenses during the reporting period. The main assessments were used in the classification of financial instruments, especially the division between the portfolio to maturity and the portfolio held for trading. The allocation of financial instruments is carried out before the initial recognition of a financial instrument according to the policy of SID Bank and SID Bank Group. Estimates were used for: impairment of loans, provisions for off-balance sheet risk, depreciation period of plant, property and equipment and intangible assets and intangible assets, potential tax items, provisions for liabilities to employees and legal disputes. Further explanations are available in Item 2.2.5 of chapter on Loans and receivables.

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

2.2.4. Consolidation

Companies included in consolidation

The consolidated financial statements include the following companies:

- By method of full consolidation:
 - Parent company - SID Bank,
 - Subsidiary – PKZ,
- By the proportional consolidation method the PRVI FAKTOR Group (joint venture).

In the consolidation process, all mutual receivables and liabilities between the companies of SID Bank Group were excluded, as well as revenues and expenses generated within SID Bank Group. There were no unrealized profits or losses arising from mutual transactions. In the case of the PRVI FAKTOR Group, all accounting categories are included and mutual relationships are excluded, accounting for 50 percent. There is no minority stake.

Companies excluded from consolidation

Due to immateriality for the true and fair representation of the Income statement, Statement of comprehensive income, Statement of financial position, Statement of changes in equity and the Statement of cash flows, SID Bank excluded from consolidation the PRO KOLEKT Group and the CIDC institute.

The total assets of all companies of the PRO KOLEKT Group and of the CIDC institute account for less than 1 percent of the total assets of SID Bank. The consolidated income of all companies of the PRO KOLEKT Group and of the CIDC institute also accounts for less than 1 percent of the income of SID Bank. Pursuant to the indicated key figures the PRO KOLEKT Group and the CIDC institute have no material effect on SID Bank Group, therefore they are not included in the consolidation. The companies of the PRO KOLEKT Group and the CIDC institute are excluded from consolidation also in accordance with provisions of the Decree on Supervision of Banks and Savings Banks on Consolidated Basis.

2.2.5. Financial assets and financial liabilities

Financial assets

On initial recognition, SID Bank and SID Bank Group sort financial assets according to the purpose of acquisition, holding time and type of financial instrument to:

- Financial assets measured at fair value through profit or loss, which are divided into:
 - Financial assets held for trading and
 - Other financial instruments at fair value through profit or loss;
- Loans and receivables;
- Financial assets held to maturity and
- Available-for-sale financial assets.

- **Cash assets**

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

Assets with original maturity of less than 3 months after acquisition are disclosed as cash equivalents. This item comprises all cash assets, bank deposits and loans, as well as available-for-sale securities. In the cash flow statement, all assets which correspond to the definition above, are disclosed as cash and cash equivalents. All items of cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash.

- **Financial assets held for trading**

Financial assets held for trading are measured at fair value through the statement of comprehensive income. This item comprises derivative financial instruments, which are not used for hedging against risk.

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

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

- **Derivative financial instruments held for hedging**

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

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

When the bank introduces hedging against risk, it has to compile a formal document which describes the relation between the hedged item and the hedging instrument, the purpose of risk management, methodology of valuation and the hedging strategy. An estimation of effectiveness of the hedging instruments, when facing exposure to changes in fair value of the hedged item, must also be recorded. These conditions must be satisfied in order to ensure adequate hedge relationships. The bank estimates the effectiveness of hedging when concluding the transaction and then in the period of continuation of hedging relation; effectiveness of hedging always moving in the span of 80 to 125 percent. Hedge accounting ceases if a hedging instrument expires or is sold and when the hedge no longer meets the criteria described above for hedge accounting.

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

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

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

- **Available-for-sale financial assets**

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

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

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

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

Equity instruments have to be impaired, if a value-significant or prolonged decline in fair value arises. It is assumed that objective evidence of impairment occurs when the fair value falls by more than 40 percent below the original cost or when the fair value is lower than the purchase value for more than 9 months.

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

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

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

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

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

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

- **Loans and receivables**

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

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

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

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

– Impairment of loans and guarantees

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

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

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

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

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

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

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

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

In the calculation of losses from credit risk of an individually significant financial asset, prime and adequate security are taken into account as well as other collateral which fully meets the conditions stipulated under Item 9 of the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks. Suitable insurance is such, for which SID Bank or SID Bank Group SID has documentation showing that the pledged movable property or real estate is an effective and appropriate means of secondary repayment; in case of insurance with real estate it is in possession of the latest assessment of the market value of the real estate; the only considered part of the value of the insurance is what remains after the deduction of all liabilities which are secured by the same property and are registered in the land Registry with a better ranking on this real estate,

or after deducting the proportionate share of the amounts of those liabilities, which are registered in the Land Registry in the same order for this real estate.

If financial assets are assessed individually but impairment is not necessary nor consequently recognized, these assets are subject to collective assessment in the full amount.

– Impairment of factoring receivables

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

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

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

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

– Restructured loans

Loans, which for the purposes of assessing impairment losses are individually assessed and for which due to deterioration of the debtor's solvency, the terms of payment were renegotiated, are no longer considered as overdue receivables, but are treated as new loans and are impaired separately in case of separate significant financial asset, or collectively in case of other than separate significant financial asset.

Financial liabilities

Financial liabilities represent:

- Liabilities recognized at fair value through profit or loss, including financial liabilities held for trading and recognized at fair value, and
 - Financial liabilities measured at amortized cost.
- **Financial liabilities measured at amortized cost**

Financial liabilities measured at amortized cost are liabilities for deposits and loans from banks and clients other than banks, as well as debts for the issued debt securities. Financial liabilities measured at amortized cost are recognized in the amount of money received, reduced by the direct costs of the transaction. After the initial recognition, the financial liabilities are measured by the amortized cost; the difference between the initially recognized amount and the amount at maturity is recognized in the income statement using the effective interest rate method.

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

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

2.2.6. Property, plant, equipment and intangible assets

• Property, plant and equipment

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

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

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

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

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

	SID Bank Group in percent
Buildings and parts of buildings	2.0 - 5.0
Computer equipment	25.0 - 50.0
Passenger cars	12.5 - 20.0
Furniture	11.0 - 20.0
Other equipment	20.0 - 25.0
Small tools	20.0 - 100.0

Tangible fixed assets are impaired, when their carrying amount exceeds their recoverable amount. The value of impairment loss is recognized as expenses in the income statement. At the balance sheet cut-off at the end of each financial year it is assessed if there are any signs of impairment of an asset. If such signs exist, the recoverable value of the asset is estimated, equalling the:

- Fair value reduced by costs of sale or
- Value in use, whichever is higher.

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

• Intangible assets with a definite useful life

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

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

- Fair value reduced by costs of sale or
- Value in use, whichever is higher.

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

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

- **Intangible assets with an indefinite useful lifespan**

The item includes goodwill.

At the end of each financial year, at the balance sheet cut-off date, the impairment of goodwill is tested by comparing the total carrying amount of the asset consisting of equity interest and goodwill with the recoverable value – value in use. The value in use is the present value of future cash flows calculated by using the discounted rate which reflects the required rate of return on investment. Calculated discounted rate for the year 2011 was 15%. The discount factor was calculated using the CAPM (Capital Asset Pricing Model). Additionally the country risk and the risk of small size were taken into account. Future cash flows are expected profits or dividends. The valuation was done based on the pessimistic scenario of operation of the company in which SID Bank has an investment and assuming its unlimited duration of action. Financial plan is made for the period of operation until the end of year 2016. In the valuation it was presupposed that profits after 2016 are the same as they were in 2016.

2.2.7. Long-term investments in equity of subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are accounted in separate financial statements using the cost method; dividends are recognized in profit or loss when the right to receive dividends arises.

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

Joint ventures are companies established by SID Bank and more venturers (parties to a joint venture). They control the operations of the company on the basis of a contractual agreement in accordance with their share rights. SID Bank holds a 50 percent stake in the joint venture PRVI FAKTOR Ljubljana, therefore the PRVI FAKTOR Group is consolidated proportionally.

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

Investment impairment tests are performed in line with business expectations of the individual investments. The test is the basis for the valuation of investments. Input data for the valuation are the business expectations, which are justified by the business plan of an individual company in which SID Bank has its investment. In argumentation the influence of SID Bank on the business of each subsidiary or joint venture is taken into account.

The model of valuation is based on the measurement of discounted cash flows. The discount factor is calculated in accordance with risks to which an individual investment is exposed.

Impairment tests were carried out each year for the joint venture investments. For the subsidiaries, where SID Bank has a majority stake, no signs of impairment have been detected so far, so these tests have not yet been carried out in these companies.

List of subsidiaries and joint ventures is presented in Item 2.4.6.

2.2.8. Other assets

- **Assets from insurance operations**

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

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

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

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

- Receivables due from policyholders arising from insurance premiums and benefits, and other receivables

The fair, i.e. realizable value of these receivables (and their adjustments) is assessed on the basis of an individual assessment of the insurer's solvency, taking into account also the financial position of the insurer and his fulfilment of the insurer's obligations in the previous periods. The receivables due from policyholders are not secured, and thus not taken into account in the assessment of value adjustments.

- Recourse receivables

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

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

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

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

- **Other assets**

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

2.2.9. Provisions for liabilities and costs

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

- **Bank provision**

The bank recognizes provisions for liabilities and costs due to the present obligation (legal or constructive), which arises from a past event and for which it is likely that the outflow of factors that allow an inflow of economic benefits will be needed, and the amount of obligation can be reliably measured.

The bank recognizes provisions for guarantees for off-balance-sheet liabilities based on the risk of the client and the concluded transaction, based on similar estimates as estimates of loan impairment. This item includes impairments for issued guarantees, approved undrawn credit facilities and credit lines, calculated according to the procedures shown in the item 2.2.5. under chapter on Loans and receivables.

- **Liabilities from insurance contracts**

- Unearned premiums

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

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

- Provisions for outstanding claims

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

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

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

Provisions for appraisal costs have also been formed.

- Provisions for bonuses

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

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

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

- Provisions for unexpired risks

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

- **Provisions for pensions and similar liabilities to employees and other provisions**

- Provisions for loyalty bonuses

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

- Provisions for retirement severance pay

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

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

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

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

2.2.10. Other liabilities

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

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

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

No interest is accrued on other liabilities.

2.2.11. Capital

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

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

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

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

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

Equalization provisions are disclosed in a separate item credit risk equalization provisions and serve as a reserve for credit risk, as are their changes.

If the technical account of the credit insurance is positive, equalization provisions are created in the amount of 75 percent of the former, but may not exceed 12 percent of the written net premium for the year. Provisions are made to the ceiling, which represents 150 percent of the maximum gross net premium over the last five financial years including the year for which the equalization provisions are calculated. If the technical account is negative, the provisions are used in the amount of negative outcome, but not exceeding the available balance of provisions.

2.2.12. Contingent liabilities and assumed financial liabilities

Assumed financial liabilities disclose financial and service guarantees, undrawn approved loans and credit lines; in the consolidated statement of financial position they also disclose contingent liabilities, which include outstanding recourse receivables.

Assumed financial liabilities for guarantees represent irrevocable payment liability, if a client fails to meet its liabilities to a third person.

Risks related to contingent liabilities and assumed financial liabilities are estimated on the basis of applicable accounting policies and internal provisions concerning risk control. Any increase in liabilities is reflected in item Provisions.

2.2.13. Operations on behalf and for the account of another person

Operations carried out on behalf of the Republic of Slovenia are kept in separate accounts, which were defined by the Bank of Slovenia for the keeping of transactions pursuant to special authorization. Assets and liabilities from these transactions are not included in the statement of financial position of the bank. For these services the bank charges compensation, which is broken down by separate items in Note 2.3.7.

2.2.14. Interest income and expenses

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

In the income statement, income and expenses arising from granted and received loans and other interest are recognized in the relevant period on the basis of the applicable interest method.

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

2.2.15. Fees and commissions received and paid

Revenues from fees and commissions comprise commissions from granted loans and guarantees. The recognition method is presented in Item 2.2.5. of the chapter on Loans and receivables.

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

2.2.16. Dividend income

In the income statement, income from dividends is recognized when the right to receive payments arises and there is likelihood that past economic benefits will be associated with the transaction.

2.2.17. Realized profits and losses from financial assets not measured at fair value through profit or loss

Realized profits and losses from financial assets held for trading and financial liabilities measured at amortized cost are recognized in the income statement upon realization of sales, maturity or other elimination of recognition of financial instruments.

2.2.18. Net profits and losses from financial assets held for trading

Net profits and losses from trading include realized profits and losses from financial assets held for trading. The group of items held for trading includes derivative financial instruments, which are not defined as financial instruments held for hedging.

2.2.19. Foreign exchange profits and losses

Foreign exchange differences are recognized when the assets and liabilities denominated in foreign currency are calculated by the exchange rate of functional currency at the date of the statement of financial position.

2.2.20. Other net operating profits/losses

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

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

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

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

2.2.21. Taxes

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

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

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

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

The Tax Act on banks balance sheet assets entered into force on 27 July 2011; the banks began using it on 1 August 2011. The aim of introducing a new tax is to encourage banks and savings banks to be more active in lending to the non-financial sector. The tax is stimulative, so that the tax liability may be reduced to null due to relief or exemption, if the bank increases lending to non-financial corporations and sole proprietors up to the

prescribed percentage of total assets during the current calendar year. The tax amounts to 0.1 percent of the annual average of total assets, minus 0.167 percent of annual average credit balances before making impairments. The balance sheet assets tax is recognized in the income statement as other expenses (taxes and other charges of income) and is a tax deductible expense.

SID Bank is not liable to pay balance sheet assets tax as the balance of loans to non-financial corporations does not exceed 20 percent of the total assets of the bank.

2.2.22. Employee earnings

Employee benefits include retirement severance pay and loyalty bonuses. Employee earnings are included in labour expenses and liabilities for provision for severance pay and loyalty bonuses. SID Bank and SID Bank Group form such provisions on the basis of actuarial calculations every year, only in the PRVI FAKTOR Group the calculation is made for a three-year period.

In accordance with legislation employees retire after 35-40 years of service, when they are, upon fulfilment of certain conditions, entitled to severance pay in a single lump sum. Employees are also entitled to a loyalty bonus in accordance with the collective agreement.

Social security contributions are deducted from monthly salaries and mean expenses of the period to which they relate; they are shown under labour costs in the income statement.

2.2.23. Calculation of net profit per share

It is calculated as the ratio of net profit recorded in the bank's income statement per the number of shares that comprise the share capital of the bank. Treasury shares are not included in this calculation. The net profit per share is equal to the revised profit per share because SID Bank has no dilutive instruments.

2.2.24. Segment reporting

The bank operates as a single business segment, as the business within the bank has no significantly different risks and returns.

Distribution and disclosures by business segments is done based on business characteristics of separate activities of SID Bank and SID Bank Group. In accordance with IFRS 8 SID Bank Group has the following reported business segments: banking, credit insurance and factoring.

2.2.25. Effect of changes in foreign exchange rates

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

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

At each statement of financial position date:

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

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

2.2.26. Special features of the disclosure items in the financial statements

In cases when data for SID Bank and SID Bank Group are identical, they are presented only once.

In disclosing individual items of financial statements differences may occur in the sum due to the rounding of individual amounts.

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

In the reporting year an amendment to IFRS 7 Financial Instruments Disclosures was adopted.

This amendment requires the disclosure of information that enables the users of financial statements to understand the relationship between the transferred financial assets for which recognition has not been fully resolved and the associated liabilities and assessment of the nature of further participation in financial assets for which the recognition was removed and related risks (effective for annual periods beginning on 1 July 2011 or later).

SID Bank and SID Bank Group decided not to use the non-incumbent standard before its effect and at the same time estimate that the application of this standard will have no material impact on their financial statements.

2.3. Notes to the Income statement

(In EUR thousand)

2.3.1. Net interest income

	SID Bank			
	2011		2010	
	Income	Expenses	Income	Expenses
Interest from financial assets held for trading	44	(63)	28	(64)
Interest from available-for-sale assets	3,648	0	2,258	0
Interest from loans and deposits	127,281	(35,890)	90,557	(31,765)
Interest from financial assets held for hedging	26,369	(15,974)	13,406	(5,505)
Interest for issued securities	0	(46,177)	0	(28,800)
Interest from other financial assets	30	(4,897)	34	0
Total	157,372	(103,000)	106,283	(66,134)
Net interest income	54,372		40,149	

	SID Bank Group			
	2011		2010	
	Income	Expenses	Income	Expenses
Interest from financial assets held for trading	44	(63)	28	(64)
Interest from available-for-sale assets	4,272	0	2,827	0
Interest from loans and deposits	139,452	(42,823)	101,141	(38,192)
Interest from financial assets held for hedging	26,369	(15,974)	13,406	(5,505)
Interest for issued securities	0	(46,177)	0	(28,800)
Interest from other financial assets	31	(4,897)	34	0
Total	170,168	(109,933)	117,436	(72,561)
Net interest income	60,235		44,875	

2.3.2. Dividend income

	SID Bank	
	2011	2010
Dividend income	2,574	0
Total	2,574	0

Dividend was paid by subsidiary PKZ.

2.3.3. Fees and commission net income

	SID Bank			
	2011		2010	
	Income	Expenses	Income	Expenses
Fees and commissions on banking services	0	(5)	0	(17)
Fees and commissions from loans	1,757	(627)	1,855	(486)
Fees and commissions for guarantee transactions	197	0	401	(9)
Fees and commissions for stock and other securities transactions	0	(128)	0	(123)
Other fees and commissions	0	(134)	0	(161)
Total	1,954	(894)	2,256	(796)
Fees and commission net income	1,060		1,460	

	SID Bank Group			
	2011		2010	
	Income	Expenses	Income	Expenses
Fees and commissions on banking services	0	(5)	0	(147)
Commissions for payment transactions	9	(114)	8	(87)
Fees and commissions from factoring transactions	5,843	(984)	5,901	(791)
Fees and commissions for guarantee transactions	197	(275)	401	(351)
Fees and commissions for stock and other securities transactions	0	(129)	0	(123)
Other fees and commissions	0	(256)	4	(187)
Total	6,049	(1,762)	6,314	(1,686)
Fees and commission net income	4,287		4,628	

2.3.4. Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss

	SID Bank			
	2011		2010	
	Income	Expenses	Income	Expenses
Available-for-sale financial assets	66	(144)	459	(20)
Losses on financial liabilities measured at amortized cost	0	(1,519)	0	0
Losses from loans	0	(2)	0	0
Total	66	(1,665)	459	(20)
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss		(1,598)	439	

	SID Bank Group			
	2011		2010	
	Income	Expenses	Income	Expenses
Available-for-sale financial assets	66	(144)	470	(26)
Losses on financial liabilities measured at amortized cost	0	(1,519)	0	0
Losses from loans	0	(2)	0	0
Total	66	(1,665)	470	(26)
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss		(1,598)	444	

2.3.5. Fair value adjustments in hedge accounting

	SID Bank and SID Bank Group			
	2011		2010	
	Income	Expenses	Income	Expenses
Derivative financial instruments held for hedging	46,733	(7,370)	5,740	0
Net gains from derivative instruments held for hedging	39,363		5,740	
Hedged items (loans, bonds)	7,665	(48,008)	0	(6,189)
Net loss on hedged items		(40,343)		(6,189)
Total		(980)		(449)

With financial accounting the bank hedged the fair value of issued bonds and two hired loans in the total amount of EUR 17 million. Explanation in Item 2.4.4.

2.3.6. Exchange differences

	SID Bank			
	2011		2010	
	Income	Expenses	Income	Expenses
Foreign exchange differences	6,671	(6,665)	6,380	(6,374)
Total	6,671	(6,665)	6,380	(6,374)
Net foreign exchange profits/losses	6		6	

	SID Bank Group			
	2011		2010	
	Income	Expenses	Income	Expenses
Foreign exchange differences	13,738	(12,525)	14,343	(13,385)
Total	13,738	(12,525)	14,343	(13,385)
Net foreign exchange profits/losses	1,213		958	

2.3.7. Other operating net income

- Operating net income on non-banking services

	SID Bank			
	2011		2010	
	Income	Expenses	Income	Expenses
Income from activities under special authorization	2,683	0	2,691	0
- <i>Insurance against non-marketable risks</i>	2,075	0	2,075	0
- <i>Interest Rate Equalization Programme</i>	78	0	88	0
- <i>Companies guarantee schemes</i>	471	0	499	0
- <i>Natural persons guarantee schemes</i>	36	0	29	0
- <i>Investment guarantees</i>	23	0	0	0
Income from non-banking services	224	0	385	0
- <i>Rents and other services</i>	123	0	203	0
- <i>Credit rating information services</i>	101	0	182	0
Other operating income	26	0		0
Subscriptions	0	(142)	0	(122)
Other operating expenses	0	(25)	0	(35)
Total	2,933	(167)	3,076	(157)
Other net operating profits/losses	2,766		2,919	

	SID Bank Group			
	2011		2010	
	Income	Expenses	Income	Expenses
Income from non-banking services	2,683	0	2,691	0
- <i>Insurance against non-marketable risks</i>	2,075	0	2,075	0
- <i>Interest Rate Equalization Programme</i>	79	0	88	0
- <i>Companies guarantee schemes</i>	471	0	499	0
- <i>Natural persons guarantee schemes</i>	36	0	29	0
- <i>Investment guarantees</i>	23	0	0	0
Income from non-banking services	47	0	137	0
- <i>Rents and services to companies of the group</i>	28	0	29	0
- <i>Credit rating information services</i>	19	0	108	0
Other operating income	135	0	80	0
Subscriptions	0	(249)	0	(217)
Other operating expenses	0	(331)	0	(161)
Total	2,866	(580)	2,908	(379)
Other net operating profits/losses	2,286		2,529	

- Net revenues from insurance operations

	SID Bank Group			
	2011		2010	
	Income	Expenses	Income	Expenses
Gross insurance premiums written	20,926	0	19,716	0
Reinsurance commissions	2,631	0	3,495	0
Reinsurance premiums written	0	(12,631)	0	(12,237)
Credit rating information written	1,022	0	988	0
Total	24,579	(12,631)	24,199	(12,237)
Net revenues from insurance operations	11,948		11,962	

- **Net expenses for insurance operations**

	SID Bank Group			
	2011		2010	
	Income	Expenses	Income	Expenses
Gross claims settled	0	(18,898)	0	(24,833)
Settled bonuses	0	(471)	0	(345)
Credit rating information expenses	0	(897)	0	(840)
Settled gross recourses	8,860	0	6,025	0
Reinsurance share in claims and recourses	6,677	(268)	11,400	0
Reinsurance share in bonuses	323	0	185	0
Total	15,860	(20,534)	17,610	(26,018)
Net expenses for insurance operations		(4,674)		(8,408)

2.3.8. Administration costs

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Labour costs	4,909	4,342	9,335	8,357
- Gross salaries	3,548	3,151	6,688	6,177
- Costs of pension insurance	317	280	489	465
- Social security costs	264	230	742	657
- Payroll tax	0	0	8	9
- Other labour costs	780	681	1,408	1,049
General and administrative costs	2,108	1,759	3,923	3,225
- Material costs	162	149	326	287
- Service costs	1,946	1,610	3,597	2,938
Total	7,017	6,101	13,258	11,582

- **Total amount of payments to auditors (part of the service costs item)**

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Auditing of the annual report	71	64	144	117
Other auditing services	79	11	116	12
Tax advisory services	0	0	2	0
Total	150	75	261	129

2.3.9. Depreciation

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Depreciation of tangible fixed assets	454	442	701	591
Amortization of intangible assets	134	174	229	257
Total	588	616	930	848

2.3.10. Income/Expenses for provisions

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Income/Expenses for banking operations	(1,832)	1,667	(1,832)	1,667
Income/Expenses for provisions in insurance contracts	0	0	2,114	7,465
Income/Expenses for other provisions	(30)	(51)	184	207
Total	(1,862)	1,616	466	9,339

- Income/Expenses for banking operations**

	SID Bank and SID Bank Group	
	2011	2010
Net changes in provisions for guarantees	(716)	634
- <i>Provision expenses</i>	(1,720)	(5,322)
- <i>Revenues from the release of provisions</i>	1,004	5,956
Net change in provisions for undrawn loans	(1,116)	1,033
- <i>Provision expenses</i>	(2,577)	(4,144)
- <i>Revenues from the release of provisions</i>	1,461	5,177
Total	(1,832)	1,667

- Income/expenses for provisions in insurance contracts**

	SID Bank Group	
	2011	2010
Changes in gross unearned premiums	(311)	(1,833)
Changes in unearned premiums - reinsurers' share	206	1,391
Changes in gross provisions for outstanding claims	14,169	6,137
Change in provisions for outstanding claims – reinsurers' share	(11,857)	862
Changes in gross provision for bonuses and rebates	(327)	(899)
Reinsurers' share in expenses for bonuses and rebates	288	449
Changes in provisions for unexpired risks	(82)	2,957
Changes in provisions for unexpired risks – reinsurers' share	28	(1,599)
Total	2,114	7,465

- Income/expenses for provisions for pensions and similar liabilities and for other provisions**

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Net change in provisions for pensions and similar liabilities	(30)	(51)	(49)	(75)
- <i>Provision expenses</i>	(30)	(51)	(49)	(78)
- <i>Revenues from the release of provisions</i>	0	0	0	3
Net deferred revenues from reinsurance commissions	0	0	234	286
- <i>Provision expenses</i>	0	0	(413)	(399)
- <i>Revenues from the release of provisions</i>	0	0	647	685
Net changes in provisions for factoring	0	0	0	(4)
Total	(30)	(51)	184	207

The provision balance is presented in detail in item 2.4.11.

2.3.11. Impairments

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Impairment of loans, guarantees and receivables measured at amortized cost	(64,279)	(49,228)	(70,871)	(57,648)
Impairment of available-for-sale financial assets	(262)	(506)	(262)	(506)
Impairments of other assets	(3)	(94)	(33)	(749)
Adjustment to impairments of loans granted to companies of the group	0	0	647	948
Income from loans, guarantees and receivables measured at amortized cost	23,271	17,563	25,621	18,894
Income from the elimination of impairments of available-for-sale financial assets	1	0	83	0
Income from the elimination of impairments of other assets	3	73	3	73
Total	(41,269)	(32,192)	(44,813)	(38,988)

2.3.12. Corporate income tax on ordinary activities

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Income tax	(1,089)	(1,557)	(3,223)	(4,163)
Deferred taxes	55	105	115	891
Total	(1,034)	(1,452)	(3,108)	(3,272)

Receivables and liabilities due to deferred taxes are presented in detail in item 2.4.7.

Income tax and tax calculated according to applicable tax rates (difference between accounting profit and tax profit) differ as shown bellow.

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Profit/loss	7,488	7,178	14,171	14,421
Tax profit (according to applicable tax rates in respective countries)	(1,498)	(1,436)	(3,282)	(3,398)
Tax base reducing revenues	515	0	515	0
Tax base increasing revenues	(5)	5	661	1,504
Expenditures not recognized in tax	(120)	(157)	(4,306)	(7,417)
Expenditures recognized in tax	0	0	3,134	5,076
Increase in tax base	(26)	(9)	(26)	(38)
Tax reliefs	45	40	82	110
Tax	(1,089)	(1,557)	(3,223)	(4,163)

Current tax represents the tax amount which has to be paid according to the Corporate Income Tax Act at the prescribed tax rate. The statutory tax rate for the year 2011 was 20 percent; the effective tax rate was 14.5 percent.

In SID Bank Group the statutory tax rate for companies in Slovenia and Croatia amounted to 20 percent; for companies in Serbia and Bosnia and Herzegovina it amounted to 10 percent. The effective tax rate for SID Bank Group for 2011 was 22.7 percent.

SID Bank and SID Bank Group had no outstanding tax liabilities on 31 December 2011.

2.3.13. Basic earnings per share

	SID Bank	
	2011	2010
Number of ordinary registered no-par value shares	3,121,741	3,121,741
Treasury shares	18,445	18,445
Net profit for the period (in 000 EUR)	6,454	5,726
Basic earnings per share (in EUR)	2.08	1.85

2.4. Notes to the Statement of financial position

(In EUR thousand)

2.4.1. Cash assets

- Cash and cash balances with the central banks

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash in hand	0	0	1	1
Settlement account	10	12	10	12
Overnight deposits with the central bank	41,686	0	41,686	0
Total	41,696	12	41,697	13

- Cash equivalents

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash in hand and balances on the settlement account with the central bank	41,696	12	41,697	13
Cash in business accounts	26	52	2,817	2,355
Bank deposits	130,630	37,944	149,657	50,320
Total	172,352	38,008	194,171	52,688

2.4.2. Available-for-sale financial assets

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Short-term debt securities	8,058	10,030	8,058	10,030
Long-term debt securities	204,048	100,788	225,902	122,246
Equity instruments	134	138	9,686	362
Total	212,240	110,956	243,646	132,638
Listed	203,999	108,758	235,405	130,218
Unlisted	8,241	2,198	8,241	2,420
Total	212,240	110,956	243,646	132,638

- **Available-for-sale financial assets - breakdown by instrument types**

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Bonds	166,396	100,788	186,836	122,246
- <i>Countries</i>	93,765	52,370	102,403	60,126
- <i>Banks</i>	63,392	44,165	71,097	53,619
- <i>Bonds of other issuers</i>	9,239	4,253	13,336	8,501
Treasury bills of the Republic of Slovenia	37,652	0	39,066	0
Certificates of deposit	8,058	10,030	8,058	10,030
- <i>Bank certificates</i>	5,057	3,029	5,057	3,029
- <i>Certificates of other issuers</i>	3,001	7,001	3,001	7,001
Shares at fair value	134	138	9,686	362
- <i>Certificates of other issuers</i>	134	138	9,686	362
Total	212,240	110,956	243,646	132,638

- **Available-for-sale financial assets - breakdown by interest accrual method**

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
At fixed interest rate	184,629	98,144	197,268	109,830
At variable interest rate	27,477	12,674	36,692	22,447
Interest free	134	138	9,686	361
Total	212,240	110,956	243,646	132,638

- **Changes in available-for-sale financial assets**

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Balance as at 1 January	110,956	50,051	132,638	72,390
Recognition of new financial assets	135,103	88,872	149,778	92,956
Accrued interest	3,649	2,258	4,274	2,828
Paid interest	(3,874)	(1,680)	(4,646)	(2,450)
Net revaluation through capital	(2,829)	134	(4,818)	182
Net foreign exchange differences	217	0	308	0
Derecognition of financial assets	(30,720)	(28,173)	(33,707)	(32,762)
Impairment through profit or loss	(261)	(506)	(180)	(506)
Balance as at 31 December	212,240	110,956	243,646	132,638

Debt securities of SID Bank include EUR 1,694 thousand in subordinated securities; those of SID Bank Group include EUR 2,223 thousand in subordinated securities.

The condition for the use of monetary policy instruments of the European Central Bank is the provision of adequate insurance, which means a sufficient amount of eligible financial assets. As at 31 December 2011 SID Bank had pledged debt securities (ECB eligible) in the amount of EUR 105,075 thousand; the undrawn portion amounts to EUR 55,061 thousand (EUR 29,168 thousand on 31 December 2010).

2.4.3. Loans

- Loans to banks

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Short-term loans	0	0	0	5,020
Long-term loans	2,855,539	2,921,038	2,855,539	2,921,038
- In EUR	2,844,542	2,908,399	2,844,542	2,908,399
- In foreign currency	10,997	12,639	10,997	12,639
Deposits	154,079	38,475	175,908	53,889
- In EUR	153,280	36,457	172,992	49,826
- In foreign currency	799	2,018	2,916	4,064
Value adjustments on loans and deposits	(12,464)	(3,619)	(12,475)	(3,619)
Total loans and deposits	2,997,154	2,955,894	3,018,972	2,976,328
Value adjustments on loans and deposits	12,464	3,619	12,475	3,619
Gross exposure	3,009,618	2,959,513	3,031,447	2,979,947

- Changes in adjustments of loans of banks

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Balance as at 1 January	3,619	3,180	3,619	3,180
Value adjustments	11,609	2,597	11,620	2,597
Elimination of value adjustments	(2,764)	(2,158)	(2,764)	(2,158)
Balance as at 31 December	12,464	3,619	12,475	3,619

- Loans to non - bank customers

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Short-term loans	8,350	11,291	27,849	32,383
- In EUR	8,350	11,291	6,041	8,973
- In foreign currency	0	0	21,808	23,410
Long-term loans	785,623	844,165	749,061	804,658
- In EUR	785,110	843,465	748,548	803,958
- In foreign currency	513	700	513	700
Claims arising from guarantees	10,706	12,632	10,706	12,632
Claims arising from factoring operations	0	0	142,757	147,881
Value adjustments on loans and other receivables	(103,269)	(71,108)	(119,653)	(84,353)
Total	701,410	796,980	810,720	913,201
Value adjustments	103,269	71,108	119,653	84,353
Gross exposure	804,679	868,088	930,373	997,554

- **Breakdown of loans to clients other than banks by sector (not including receivables from factoring transactions)**

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Non-financial organizations	557,388	600,914	560,135	601,157
Other financial institutions	86,619	94,677	64,184	72,263
State	27,924	23,467	27,924	23,467
Foreign entities	132,749	149,030	135,373	152,786
- <i>Financial institutions</i>	47,495	52,833	28,311	33,179
- <i>Non-financial organizations</i>	85,254	96,197	107,062	119,607
Value adjustments of loans	(103,269)	(71,108)	(100,463)	(66,635)
Total	701,410	796,980	687,153	783,038

- **Claims arising from factoring operations**

	SID Bank Group	
	31.12.2011	31.12.2010
Receivables from domestic factoring	99,053	111,349
Receivables arising from export factoring	10,485	6,370
Receivables arising from import factoring	6,551	6,007
Receivables from domestic factoring - loan	26,518	23,997
Receivables arising from export factoring - loan	149	157
Value adjustments of receivables from factoring transactions	(19,190)	(17,717)
Total	123,567	130,163

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

- **Changes in adjustments of loans of clients other than banks**

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Balance as at 1 January	71,108	39,862	84,353	46,501
Value adjustments of loans	52,686	45,743	58,425	50,779
Elimination of value adjustments of loans	(20,524)	(14,497)	(23,125)	(12,927)
Balance as at 31 December	103,269	71,108	119,653	84,353

- **Realized average interest rates (in percent)**

	SID Bank and SID Bank Group	
	2011	2010
Banks		
- <i>Loans</i>	3,017	2,292
- <i>Deposits</i>	1,245	3,750
Total	2,895	2,292
Clients other than banks		
- <i>Loans</i>	4,547	3,917
- <i>Deposits</i>	2,257	-
Total	4,547	3,917
Total loans and deposits	3,243	2,650

2.4.4. Financial assets held for hedging

	SID Bank and SID Bank Group		
	Contract value	Fair value	
Interest rate swap		Asset	Liability
31.12.2011	1,083,000	44,196	45,665
31.12.2010	733,069	4,833	5,322

The bank entered into several interest rate swaps in order to hedge the issued bonds and two hired loans in the amount of EUR 17 million against interest rate risk. The instruments are accounted by the bank subject to "Hedge Accounting" rules as fair value hedges.

The amount of realized losses from the valuation of derivative financial instruments and hedged items in 2011 amounted to EUR 980 thousand; taking net interest into account, a positive effect of EUR 9,415 thousand was realized. Further explanations are in Item 2.3.1. and 2.3.5.

2.4.5. Tangible fixed assets and intangible assets

• Changes in tangible fixed assets and intangible assets for SID Bank

	SID Bank				
	Land and building	Computers	Other equipment	Total tangible fixed assets	Intangible assets (software)
2011					
<u>Purchase value</u>					
Balance as at 1 January 2011	6,589	762	730	8,081	1,036
Other changes	0	0	0	0	0
Increase	40	56	122	218	103
Decrease	0	(95)	(29)	(124)	0
Balance as at 31 December 2011	6,629	723	823	8,175	1,139
<u>Amortization value adjustments</u>					
Balance as at 1 January 2011	(2,800)	(671)	(475)	(3,946)	(784)
Other changes	0	0	0	0	0
Depreciation, amortization	(316)	(66)	(72)	(454)	(133)
Decrease	0	95	23	118	0
Balance as at 31 December 2011	(3,116)	(642)	(524)	(4,282)	(917)
Book value as at 31 December 2011	3,513	81	299	3,893	222
2010					
<u>Purchase value</u>					
Balance as at 1 January 2010	6,589	827	759	8,175	1,005
Other changes	0	0	0	0	0
Increase	0	69	126	195	31
Decrease	0	(134)	(155)	(289)	0
Balance as at 31 December 2010	6,589	762	730	8,081	1,036
<u>Amortization value adjustments</u>					
Balance as at 1 January 2010	(2,484)	(748)	(502)	(3,734)	(610)
Other changes	0	0	0	0	0
Depreciation, amortization	(316)	(57)	(69)	(442)	(174)
Decrease	0	134	96	230	0
Balance as at 31 December 2010	(2,800)	(671)	(475)	(3,946)	(784)
Book value as at 31 December 2010	3,789	91	255	4,135	252

• **Changes in tangible fixed assets and intangible assets for SID Bank Group**

	SID Bank Group						
	Land and building	Computers	Other equipment	Total tangible fixed assets	Goodwill	Intangible assets	Total intangible assets
2011							
<u>Purchase value</u>							
Balance as at 1 January 2011	6,589	1,108	1,373	9,070	488	1,494	1,982
Other changes	0	(1)	(2)	(3)	0	(1)	(1)
Increase	2,273	452	462	3,187	0	494	494
Decrease	0	(106)	(119)	(225)	0	0	0
Balance as at 31 December 2011	8,862	1,453	1,714	12,029	488	1,987	2,475
<u>Amortization value adjustments</u>							
Balance as at 1 January 2011	(2,800)	(939)	(898)	(4,637)	0	(1,100)	(1,100)
Other changes	0	2	0	2	0	(8)	(8)
Depreciation, amortization	(371)	(169)	(163)	(703)	0	(226)	(226)
Decrease	0	107	64	171	0	0	0
Balance as at 31 December 2011	(3,171)	(999)	(997)	(5,167)	0	(1,334)	(1,334)
Book value as at 31 December 2011	5,691	454	717	6,862	488	653	1,141
2010							
<u>Purchase value</u>							
Balance as at 1 January 2010	6,589	1,158	1,443	9,190	488	1,441	1,929
Other changes	0	(1)	(18)	(19)	0	(6)	(6)
Increase	0	94	227	321	0	60	60
Decrease	0	(142)	(280)	(422)	0	(1)	(1)
Balance as at 31 December 2010	6,589	1,109	1,372	9,070	488	1,494	1,982
<u>Amortization value adjustments</u>							
Balance as at 1 January 2010	(2,484)	(964)	(898)	(4,346)	0	(851)	(851)
Other changes	0	0	16	16	0	(1)	(1)
Transfer	0	(7)	0	0	0	7	7
Depreciation, amortization	(316)	(117)	(159)	(592)	0	(256)	(256)
Decrease	0	142	150	292	0	1	1
Balance as at 31 December 2010	(2,800)	(946)	(891)	(4,630)	0	(1,100)	(1,100)
Book value as at 31 December 2010	3,789	163	481	4,433	488	394	882

SID Bank had no pledged tangible fixed assets or intangible assets on 31 December 2011. SID Bank Group had a mortgage on a building as insurance for a hired loan as at 31 December 2011.

Goodwill in SID Bank Group occurred as a result of a purchase of a share in capital of PRVI FAKTOR, Ljubljana. Pursuant to a test of impairments performed as at 31 December 2011, it was established that an impairment of the goodwill is not necessary.

2.4.6. Long-term investments in equity of subsidiaries and joint ventures

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Investment in PKZ Ljubljana	8,413	8,412	0	0
Investment in PRO KOLEKT Ljubljana	419	419	419	419
Investment in PRVI FAKTOR Ljubljana	3,087	0	0	0
Total	11,919	8,831	419	419

• Basic data on companies in SID Bank Group as at 31 December 2011

In EUR thousand	Ownership share of SID Bank (in percent)	Voting rights (in percent)	Nominal value of investment	Capital	Assets	Liabilities	Sales revenues	Net profit/loss	No. of employees
SID-PKZ	100	100	8,413	22,857	67,911	45,054	13,060	5,607	58
• PRO KOLEKT Group									
PK Ljubljana	100	100	419	294	469	175	508	26	8
PK Zagreb	100	100	24	58	3,643	3,585	416	2	6
PK Skopje	80	80	8	4	9	5	24	(3)	1
PK Belgrade	100	100	25	8	44	36	98	1	3
PK Bucharest	51	51	20	49	116	67	208	12	5
PK Sofia	63	63	26	95	105	10	150	53	2
PK Sarajevo	100	100	36	(27)	94	121	53	(27)	3
• PRVI FAKTOR Group									
PF Ljubljana	50	50	3,087	4,209	137,176	132,967	10,311	962	32
PF Zagreb	50	50	2,651	5,551	157,094	151,543	13,903	1,344	44
PF Belgrade	50	50	1,250	1,143	103,041	101,898	15,343	1,489	33
PF Sarajevo	50	50	1,451	197	16,349	16,152	1,995	161	14
PF Skopje	50	50	5	5	5	0	0	0	0

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

In EUR thousand	Ownership share of SID Bank (in percent)	Voting rights (in percent)	Nominal value of investment	Capital	Assets	Liabilities	Sales revenues	Net profit/loss	No. of employees
SID-PKZ	100	100	8,413	20,256	72,551	52,295	12,614	6,844	53
• PRO KOLEKT Group									
PK Ljubljana	100	100	419	268	496	228	675	79	7
PK Zagreb	100	100	24	58	3,660	3,602	431	1	6
PK Skopje	80	80	8	8	13	5	29	3	1
PK Belgrade	100	100	25	7	41	34	96	1	2
PK Bucharest	51.02	51.02	20	110	153	43	283	38	4
PK Sofia	62.5	62.5	26	80	93	13	101	24	2
PK Sarajevo	100	100	36	(22)	51	73	52	(42)	2
• PRVI FAKTOR Group									
PF Ljubljana	50	50	3,087	3,246	129,918	126,672	3,462	(3,924)	36
PF Zagreb	50	50	2,651	5,710	158,050	152,340	5,224	1,364	43
PF Belgrade	50	50	1,250	2,069	95,478	93,409	4,893	3	30
PF Sarajevo	50	50	225	(963)	12,929	13,892	827	(1,508)	13
PF Skopje	50	50	5	5	5	0	0	0	0

2.4.7. Corporate income tax assets and liabilities

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Receivables for prepaid corporate income tax	473	0	1,195	416
Long-term deferred tax assets	1,043	426	2,631	1,814
Total receivables	1,515	426	3,826	2,230
Income tax liabilities	130	1,349	349	3,401
Long-term deferred tax liabilities	118	123	118	123
Total liabilities	248	1,472	467	3,524

• Deferred taxes

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Long-term deferred tax assets				
- Value adjustments of receivables	0	0	1,408	1,293
- Provisions for fees and loyalty bonuses	33	30	63	61
- Revaluation expenses due to impairments, available-for-sale financial assets	348	295	366	295
- Valuation of available-for-sale financial assets	662	101	759	55
- Delimited costs or income	0	0	36	110
Total	1,043	426	2,631	1,814
Long-term deferred tax liabilities				
- Valuation of available-for-sale financial assets	118	123	118	123
Total	118	123	118	123
Included in the income statement	55	105	115	891
Included in capital	566	(27)	674	(37)

2.4.8. Other assets

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Insurers' assets	0	0	32,166	38,313
Other assets	316	404	531	2,900
Total	316	404	32,697	41,213

• Insurers' assets

	SID Bank Group	
	31.12.2011	31.12.2010
Reinsurers' assets in unearned premiums	2,436	2,230
Reinsurers' assets in claims provisions	13,521	25,376
Reinsurers' assets in bonuses and discounts	1,753	1,465
Reinsurers' assets in provision for unexpired risks	28	0
Receivables from premiums	3,502	3,671
Value adjustments of receivables from premiums	(326)	(578)
Grant receivables	13,806	7,598
Value adjustments of receivables from premiums	(2,645)	(1,900)
Receivables from credit ratings	112	154
Other value adjustments	(21)	(94)
Receivables arising from reinsurance	0	391
Total	32,166	38,313

- **Other assets**

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Fees and commissions receivables	36	37	44	985
Trade receivables	39	56	384	1,331
Other receivables	31	14	82	579
Value adjustments of receivables	(24)	(24)	(382)	(427)
Deferred costs and accrued revenues	234	320	403	432
- <i>Short-term prepaid expenses</i>	118	151	287	263
- <i>Accrued income</i>	116	169	116	169
Total	316	404	531	2,900

2.4.9. Financial liabilities with the central bank

	SID Bank and SID Bank Group	
	31.12.2011	31.12.2010
Short-term debt from the primary emission credits at the pledge of securities	0	1,001
Debts from other long-term loans from primary emissions	50,014	0
Total	50,014	1,001

2.4.10. Financial liabilities measured at amortized cost

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Bank deposits	119,498	0	119,498	0
Deposits of clients other than banks	5	5	5	5
Loans of banks	1,966,530	2,023,693	2,091,001	2,143,572
- <i>Short-term in EUR</i>	39,976	19,948	195,672	151,537
- <i>Short-term in foreign currency</i>	0	0	2,672	3,872
- <i>Long-term in EUR</i>	1,911,092	1,988,682	1,877,195	1,973,100
- <i>Long-term in foreign currency</i>	15,462	15,063	15,462	15,063
Loans of clients other than banks	150,174	99,998	150,174	99,999
Debt securities	1,404,906	1,436,166	1,404,906	1,436,166
Total	3,641,112	3,559,862	3,765,584	3,679,742

- **Breakdown of deposits and loans by sector**

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Deposits	119,503	5	119,503	5
- <i>Banks</i>	119,498	0	119,498	0
- <i>Non-financial organizations</i>	5	5	5	5
Loans	2,116,703	2,123,691	2,241,174	2,243,571
- <i>Banks</i>	1,966,530	2,023,693	2,091,001	2,143,572
- <i>Financial institutions</i>	58,657	58,452	58,657	58,453
- <i>Countries</i>	50,008	0	50,008	0
- <i>Foreign financial institutions</i>	41,508	41,546	41,508	41,546
Total	2,236,206	2,123,696	2,360,678	2,243,576

- **Debt securities**

	SID Bank and SID Bank Group		
	Interest rate	Maturity date	Balance
	in percent		31.12.2011
SEDABI 2.66 10/12 bond	2.66	28. 10. 2012	154,816
SEDABI Float 14 bond	6m Euribor + 0.83	14. 11. 2014	51,596
SEDABI3 04/21/15 bond	3.00	21. 4. 2015	1,144,156
Registered bond NPV	4,865	16. 12. 2024	54,338
Total			1,404,906

In March 2011, SID Bank successfully sold an increased issue of a Eurobond labelled SEDABI 3 04/21/15 on the international capital markets. The bond was issued at par of EUR 350 million. In April 2011, the bank purchased a SI01 bond in the nominal value of EUR 304.8 million for the purpose of early repayment of debt. Thus it realized a capital loss of EUR 1,519 thousand (see note in Item 2.3.4.); the economic effect has been positive, because the bank paid EUR 5,777 thousand less interest. The remaining part of SI01 was paid in December for a nominal amount of EUR 264.2 million. In October 2011, SID Bank realized an issue of SEDABI 2.66 10/12 bond on the domestic capital market. The bond was issued at a par value of EUR 150 million.

- **Realized average interest rates**

	SID Bank and SID Bank Group	
	2011 in percent	2010 in percent
Financial liabilities measured at amortized cost		
- <i>Loans</i>	1.910	1.484
- <i>Deposits</i>	1.506	1.429
- <i>Debt securities</i>	2.435	1.942
Total	2.126	1.642

2.4.11. Provisions

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Bank provisions	4,408	2,577	4,408	2,577
Liabilities from insurance contracts	0	0	30,485	43,933
Other provisions	213	184	1,737	1,916
- <i>Provisions for pensions and similar liabilities to employees</i>	213	184	387	333
- <i>Deferred income from reinsurance premiums</i>	0	0	1,349	1,583
Total	4,621	2,761	36,629	48,426

- **Changes in provisions SID Bank**

	Provisions for off-balance-sheet liabilities	Provisions for pensions and similar liabilities to employees	Total
Balance as at 1 January 2011	2,577	184	2,761
Formed	4,299	41	4,340
Released	(2,468)	(12)	(2,480)
Balance as at 31 December 2011	4,408	213	4,621
Balance as at 1 January 2010	4,234	133	4,367
Formed	9,468	51	9,519
Released	(11,125)	0	(11,125)
Balance as at 31 December 2010	2,577	184	2,761

- **Changes in provisions SID Bank Group**

	Provisions for off-balance-sheet liabilities	Provisions for pensions and similar liabilities to employees	Changes in liabilities from insurance contracts	Changes in deferred revenues from reinsurance commissions	Total
Balance as at 1 January 2011	2,577	333	43,933	1,583	48,426
Formed	4,299	60	0	413	4,772
Released	(2,468)	(13)	(13,448)	(646)	(16,575)
Foreign exchange differences	0	7	0	0	7
Balance as at 31 December 2011	4,408	387	30,485	1,350	36,630
Balance as at 1 January 2010	4,234	283	50,294	1,868	56,679
Formed	9,468	101	0	399	9,968
Released	(11,125)	(48)	(6,361)	(684)	(18,218)
Foreign exchange differences	0	(3)	0	0	(3)
Balance as at 31 December 2010	2,577	333	43,933	1,583	48,426

- **Liabilities from insurance contracts**

	SID Bank Group	
	31.12.2011	31.12.2010
Unearned premiums	3,589	3,278
Provisions for outstanding claims	23,550	37,719
- Provisions for incurred and reported loss events	4,918	13,689
- Provisions for incurred and unreported loss events	18,216	23,399
- Provisions for appraisal costs	416	631
Provisions for bonuses and discounts	3,080	2,752
Provisions for unexpired risks	266	184
Total	30,485	43,933

Liabilities from insurance contracts show gross technical reserves including the reinsurers' share.

Receivables and liabilities are due to deferred taxes presented in detail in Item 2.3.10. of the financial section of the annual report.

2.4.12. Other liabilities

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Liabilities to employees	419	369	708	651
Liabilities to suppliers	329	231	571	427
Other liabilities	43	1,634	1,144	2,427
Liabilities from insurance operations	0	0	90	58
Accrued costs and deferred income	386	365	11,414	4,940
- Accrued costs	291	256	568	431
- Accrued reinsurance statement	0	0	1,430	0
- Accrued costs of reinsurers for recourses	0	0	9,312	4,390
- Short-term deferred revenues	95	109	104	119
Total	1,177	2,599	13,925	8,503

2.4.13. Equity

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Basic equity	300,000	300,000	300,000	300,000
Reserves from profit	31,300	25,191	50,132	35,671
- Statutory reserves	8,689	8,366	9,574	9,021
- Reserves for treasury shares	1,324	1,324	1,324	1,324
- Reserves under articles of association	14,686	11,620	18,892	15,826
- Other reserves from profit	6,601	3,881	18,662	8,737
- Credit risk equalization provisions	0	0	1,680	763
Share premium	1,139	1,139	1,139	1,139
Revaluation reserves from available-for-sale financial assets	(2,173)	90	(3,194)	273
Treasury shares	(1,324)	(1,324)	(1,324)	(1,324)
Retained earnings (including income from the current year)	3,066	2,720	5,686	9,096
Total	332,008	327,816	352,439	344,855

In accordance with a decree of the General Meeting of Shareholders of SID Bank dated 27 July 2011, the net distributable profit of the year 2010 in the amount of EUR 2,270 thousand was allocated to other profit reserves.

Due to the positive underwriting outcome, credit risk equalization provisions of SID Bank Group were formed again in the year 2011, in the amount of EUR 1,012 thousand.

2.5. Other notes to the financial statements

(In EUR thousand)

2.5.1. Distributable profit for the financial year

	SID Bank	
	2011	2010
Net profit for the financial year	6,454	5,726
Portion of net profit allocated to statutory reserves	(322)	(286)
Portion of net profit allocated to reserves under articles of association	(3,066)	(2,720)
Distributable profit for the financial year	3,066	2,720

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

2.5.2. Contingent liabilities and possible liabilities

- **Breakdown of contract liabilities of off-balance sheet financial instruments arising from assumed liabilities**

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
- Guarantees	489	684	2,444	2,009
- <i>Financial</i>	272	0	2,227	1,325
- <i>Service</i>	217	684	217	217
- Long-term guarantees	30,183	31,168	30,183	31,168
- <i>Financial</i>	26,883	28,468	26,883	28,468
- <i>Service</i>	3,300	2,700	3,300	2,700
Total guarantees	30,672	31,852	32,627	33,177
Assumed liabilities from granted loans	18,852	34,565	18,852	34,565
Total assumed liabilities	49,524	66,417	51,479	67,742
Provisions for off-balance-sheet risks	(4,408)	(2,577)	(4,408)	(2,577)

In this item SID bank or SID Bank Group discloses the value of undrawn loans granted to domestic banks and companies as at 31 December 2011. The amount of granted loans to companies, as yet undrawn on 31 December 2011, amounted to EUR 9,047 thousand; the rest are undrawn loans granted to banks.

- **Contract value of derivative financial instruments**

	SID Bank and SID Bank Group	
	31.12.2011	31.12.2010
Interest rate swaps	1,085,377	736,056

The contract value of derivative financial instruments, which meet the criteria of hedge financial accounting amount to EUR 1,083,000 thousand. The difference in the amount of EUR 2,377 thousand is represented by the market interest rate swaps.

Derivative financial instruments which meet the criteria of hedge financial accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments and economic effects are disclosed in Item 2.4.4.

- **Unclaimed recourse receivables**

	SID Bank Group	
	31.12.2011	31.12.2010
Unclaimed recourse receivables	39,576	39,053

2.5.3. Operations under Special Authorization

SID Bank keeps assets managed on behalf and for the account of other persons in separate accounts, which were defined by the Bank of Slovenia for the keeping of transactions pursuant to special authorization.

As an authorized institution SID Bank insures on behalf and for the account of the Republic of Slovenia commercial and/or non-commercial risks of the nature and level for which private reinsurance market is not willing to cover or has limited capabilities to cover.

Pursuant to special authorization, on behalf and for the account of the Republic of Slovenia, SID Bank implements the Interest Rate Equalization Programme (IREP) for export credits falling within the scope of the OECD Arrangement on Officially Supported Export Credits.

	Insurance on behalf and for the account of the Republic of Slovenia	Interest Rate Equalization Programme	Total
Assets			
Cash in customer transaction accounts	4	3	7
Receivables from financial instruments	128,684	7,761	136,445
- Loans	86,005	3,178	89,183
- Available-for-sale financial assets	42,679	4,583	47,262
- Other	955	76	1,031
Total assets	129,643	7,840	137,483
Liabilities			
Liabilities to customers from cash and financial instruments	129,643	7,840	137,483
Total off-balance-sheet liability	129,643	7,840	137,483

2.5.4. Relations with associated persons

In the normal course of operations, certain banking transactions were conducted with associated persons, persons where one party controls another, or significantly influences its financial and business decisions.

• Significant relationships with subsidiaries and joint ventures

	2011			2010		
	Subsidiary companies	Total subsidiaries	Total	Subsidiary companies	Total subsidiaries	Total
Receivables						
- Loans	0	79,160	79,160	0	83,272	83,272
- Value adjustments of loans	0	5,482	5,482	0	5,036	5,036
Gross exposure	0	84,642	84,642	0	88,308	88,308

	2011			2010		
	Subsidiary companies	Total subsidiaries	Total	Subsidiary companies	Total subsidiaries	Total
Income from interest	0	4,972	4,972	0	4,120	4,120
Dividend income	2,574	0	2,574	0	0	0
Income from fees and commissions	0	105	105	0	101	101
Income from rent and other services	193	0	193	276	0	276
Expenses for rent and other services	(2)	(3)	(5)	(3)	0	(3)
Total	2,765	5,074	7,839	273	4,221	4,494

SID Bank issued soft comfort letters to the PRVI FAKTOR Group, which amounted to EUR 27.9 million on 31 December 2011; they amounted to EUR 64.9 million on 31 December 2010. The issued comfort letters represent no financial implications for SID Bank, since they generate no payment obligations; in this regard comfort letters differ significantly from warranties or guarantees, which SID Bank does not issue to PRVI FAKTOR Group for the needs of borrowing.

• Revenue

Revenues pursuant to attendance fees and travel reimbursement of members of the Supervisory Board, the Audit Committee and the Committee for Remuneration and Personnel Matters of SID Bank in 2011 amounted to: Ms. Andreja Kert (President of the Supervisory Board, President of the Committee for Remuneration and Personnel Matters) EUR 24.7 thousand; Mr. Samo Hribar Milič, M.Sc. (Vice-president of the Supervisory Board, Vice-president of the Committee for Remuneration and Personnel Matters) EUR 16.8 thousand; Dr. Aleš Berk

Skok: (Member of the Supervisory Board, Vice-president of the Audit Committee) EUR 18.4 thousand (of which EUR 0.1 thousand for travel reimbursement); Mr. Gregor Kastelic (Member of the Supervisory Board, President of the Audit Committee, Member of the Committee for Remuneration and Personnel Matters) EUR 25 thousand (of which EUR 5 thousand for travel reimbursement); Dr. Marko Jaklič (Member of the Supervisory Board) EUR 13.7 thousand; Dr. Peter Kraljič (Member of the Supervisory Board) EUR 12.5 thousand and Mr. Hugo Bosio (Member of the Supervisory Board) EUR 11.6 thousand.

After 27 July 2011 the Supervisory Board members received remuneration for the performance and attendance fees; before that they received only attendance fees.

In 2011 the representatives of SID Bank in the Supervisory Boards of affiliated companies received no attendance fees or other revenues from performing supervisory functions in the companies of SID Bank Group.

Revenues of members of the Management Board of SID Bank are disclosed in Chapter III. of this report, in Item 11.

- **Exposure to the Republic of Slovenia and to state-owned companies**

The Bank has contractual relationships with state affiliates. All the transactions were carried out at market conditions.

Exposure to:	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Bank of Slovenia				
Balance as at 31 December				
- Settlement account	10	12	10	12
- Deposits	41,687	0	41,687	0
- Securities as collateral	105,075	30,169	105,075	30,169
For the period				
- Income from interest	9	0	9	0
the Republic of Slovenia				
Balance as at 31 December				
- Bonds	58,888	36,047	66,014	42,781
- Other securities	37,652	0	39,066	0
- Loans	0	0	3,110	2,944
- Impairments	0	0	(54)	(66)
For the period				
- Income from interest	1,200	877	1,456	1,064
- Other income	0	430	2	441
- Impairments and provisions	0	0	(12)	56

	SID Bank		SID Bank Group	
Exposure to:	2011	2010	2011	2010
To state-owned companies				
Balance as at 31 December				
- Loans	2,392,884	2,549,817	2,387,560	2,544,780
- Impairments	(39,766)	(17,532)	(38,345)	(16,208)
- Securities	31,428	21,633	46,478	29,069
- Impairments	(487)	(435)	(487)	(435)
- Contingent liabilities and assumed liabilities	31,939	47,594	31,984	47,594
- Provision	(445)	(917)	(445)	(917)
- Other	0	0	566	627
- Estimated recourse receivables	0	0	6,908	4,461
- Impairments	0	0	0	(154)
- Income from estimated recourse receivables	0	0	(1,134)	(570)
For the period				
- Income from interest	80,268	56,015	79,476	55,515
- Other income	1,089	988	10,392	7,978
- Other income from recourse receivables	0	0	3,206	4,324
- Impairments from recourse receivables	0	0	(502)	(160)
- Net (income-expenses) expenses from reinsurance	0	0	(1,825)	(1,210)
- Impairments and provisions	(21,812)	(9,811)	(20,855)	(9,418)
- Other expenses	(10)	0	(7,599)	(16,192)

2.5.5. Events after the statement of financial position date

There were no business events after the balance sheet date that would influence the separate and consolidated financial statements of SID Bank and SID Bank Group.

3. Risk management and other disclosures

(in EUR thousand)

Risk management in SID Bank and SID Bank Group is carried out in accordance with the stated and agreed policies for managing each risk.

Insurance risk is not significant in terms of consolidated financial statements of SID Bank Group.

3.1. Credit risk

SID Bank and SID bank Group have compiled adequate guidelines concerning credit rating classification of clients, determination of transactions' limits and processes of investment approval. The guidelines include all the data, criteria and model of classification of customers and investments.

SID Bank calculates exposure to credit risk on derivative financial instruments using the original exposure method. The exposure is managed within the limits of exposure to credit risk, which are confirmed by the credit committee. SID Bank concludes derivative financial instruments with first-class debtors.

• Total credit exposure

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Available-for-sale financial assets	212,240	110,956	243,646	132,638
- Gross exposure	213,987	112,442	245,393	134,584
- Individual impairments	(1,747)	(1,486)	(1,747)	(1,946)
Loans	3,698,564	3,752,874	3,829,693	3,889,529
- Gross exposure	3,825,090	3,836,055	3,974,465	3,987,495
- Individual impairments	(77,173)	(39,947)	(99,580)	(58,308)
- Group impairments	(42,606)	(36,959)	(37,520)	(32,562)
- Delimited fees and commissions	(6,747)	(6,275)	(7,672)	(7,096)
- Derivative financial instruments (credit replacement value)	59,097	34,243	59,097	34,243
Other assets (fees and commissions for issued guarantees)	12	10	18	958
- Gross exposure	39	34	46	982
- Individual impairments	(26)	(24)	(27)	(24)
- Group impairments	(1)	0	(1)	0
Gross exposure of balance-sheet items	4,098,213	3,982,774	4,279,001	4,157,304
Exposure to credit risk from off-balance-sheet liabilities				
Undrawn loans	16,578	33,408	16,578	33,408
- Gross exposure	18,851	34,565	18,851	34,565
- Individual provisions	(1,693)	0	(1,693)	0
- Group provisions	(580)	(1,157)	(580)	(1,157)
Guarantees	28,537	30,432	30,491	31,757
- Gross exposure	30,672	31,852	32,627	33,177
- Individual provisions	(1,667)	(1,012)	(1,667)	(1,012)
- Group provisions	(468)	(408)	(469)	(408)
Gross exposure of off-balance-sheet items	49,523	66,417	51,478	67,742
Total gross exposure to credit risk	4,147,736	4,049,191	4,330,479	4,225,046
Total net exposure to credit risk	4,015,028	3,961,923	4,179,523	4,122,533

SID Bank				
	31.12.2011		31.12.2010	
	Gross exposure	Impairments	Gross exposure	Impairments
Undue/group impaired	3,630,945	(43,653)	3,761,296	(38,524)
Undue/individually impaired	213,057	(54,967)	111,738	(16,484)
Undue/unimpaired	270,738	0	144,696	0
Due impaired	32,996	(27,341)	31,461	(25,985)
Total	4,147,736	(125,961)	4,049,191	(80,993)

SID Bank Group				
	31.12.2011		31.12.2010	
	Gross exposure	Impairments	Gross exposure	Impairments
Undue/group impaired	3,711,083	(38,531)	3,822,327	(34,073)
Undue/individually impaired	218,752	(57,538)	121,727	(17,773)
Undue/unimpaired	323,716	0	198,777	0
Due/unimpaired	5,053	0	1,815	0
Due impaired	71,876	(47,213)	80,403	(43,573)
Total	4,330,478	(143,282)	4,225,048	(95,418)

Aging receivables are insured by real estate mortgage, liens on property, assignment of debts, guarantees, bonds and other insurances.

- **Loan rescheduling**

As at 31 December 2011, the carrying amount of rescheduled loans in SID Bank amounted to EUR 219,174 thousand (in 2010: EUR 22,384 thousand). A new agreement on the repayment conditions was reached for 8 Slovene and 5 foreign companies.

As at 31 December 2011, the carrying amount of rescheduled loans in SID Bank Group amounted to EUR 224,103 thousand (in 2010: EUR 26,552 thousand). Loan reschedules of significant value in SID Bank Group were concluded with 28 companies. New loan reschedules in SID Bank Group were concluded with 15 Slovene and 13 foreign companies.

SID Bank or SID Bank Group took into account the expected cash flows when establishing of the amount of impairments.

- **Individually impaired loans**

	SID Bank		SID Bank Group	
	2011	2010	2011	2010
Gross exposure	243,286	140,932	279,630	190,600
Individual impairments	(80,559)	(40,982)	(102,966)	(59,343)
Delimited fees and commissions	(632)	(350)	(1,557)	(1,171)
Net exposure	162,095	99,600	175,108	130,086

- **Value of collateral for granted and received loans**

Total value of loan collateral in SID Bank as at 31 December 2011 was EUR 788,492 thousand (in 2010: EUR 977,441 thousand). Given the type of insurance, the largest volume consists of pledges of commercial real estate, followed by other guarantees of companies without rating or rating of less than A-, cession of claims for insurance, guarantees of companies without credit rating, guarantees of companies categorized as A class, pledging of ownership share in the company, insurance policy of SID bank for the account of the Republic of Slovenia, fiduciary transfer of real estate ownership rights, pledge of receivables for insurance and other insurances.

Total fair value of loan collateral in SID Bank Group as at 31 December 2011 was EUR 853,497 thousand (in 2010: EUR 1,050,008 thousand). Given the type of insurance, the largest volume consists of pledges of commercial real estate, followed by other guarantees of companies without rating or rating of less than A-, cession of claims for insurance, guarantees of companies without credit rating, guarantees of companies

categorized as A class, pledging of ownership share in the company, insurance policy of SID bank for the account of the Republic of Slovenia, fiduciary transfer of real estate ownership rights, pledge of receivables for insurance and other insurances.

- **Overdue, unpaid receivables**

Debt collection procedures or procedures of collection of receivables and liabilities are laid down in the internal company rules of the bank. Debt collection is carried out case by case in accordance with procedures of the bank.

Each debt collection, irrespective of manner and executor of the recovery, starts with oral and written reminder of the debtor.

Start of debt collection is classified in the group of regular recovery. Regular recovery includes monitoring of claims on debtors, regular monthly written reminders of debtors to overdue unpaid receivables, contacts with debtors in writing and in person, execution of set offs, as well as performance of other necessary actions which may contribute to faster, more effective and successful repayment of overdue receivables.

Subsequently, procedures of extraordinary recovery begin. These include repayment of overdue receivables from insurance instruments, which are realizable with no preceding procedures, as well as concluding agreements with debtors on manners of repayment of debts, which differ from the ones agreed upon in the basic investment contract.

If the dialogue with the debtor is not successful, court collection begins under the direction of Legal and Claims Department. Court recovery begins with the sending of reminders before lawsuit, contacts with debtors, filing of claims and/or propositions for enforcement and carrying out of other activities in court collection, as well as registering claims of the company in the compulsory settlement procedure, bankruptcy, liquidation or other procedures.

Type of recovery or collection depends on duration of overdue, amount of overdue and unpaid receivables and the extent of exposure of the company towards the debtor.

Gross exposure of overdue, unpaid receivables as at 31 December 2011 in SID Bank amounted to EUR 31,985 thousand; they amounted to EUR 81,208 thousand in SID Bank Group. SID Bank had overdue, unpaid receivables of 16 Slovene companies; SID Bank Group discloses most of overdue, unpaid receivables of 59 companies. 25 of these are in Slovenia, 6 in Croatia, 10 in Serbia, and 18 in Bosnia and Herzegovina.

- **The structure of exposure of loans, guarantees and derivative financial instruments by maturity**

Year 2011	SID Bank					Total
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	
Available-for-sale financial assets	212,209	0	0	0	31	212,240
Loans	3,692,940	2,933	187	276	2,228	3,698,564
- Loans to banks	2,997,154	0	0	0	0	2,997,154
- Loans to clients other than banks	695,786	2,933	187	276	2,228	701,410
Derivative financial instruments held for hedging	59,097	0	0	0	0	59,097
Other assets (fees and commissions for issued guarantees)	12	0	0	0	0	12
Total	3,964,258	2,933	187	276	2,259	3,969,913
Exposure to credit risk from off-balance-sheet liabilities	45,115	0	0	0	0	45,115
- Undrawn loans	16,578	0	0	0	0	16,578
- Guarantee	28,537	0	0	0	0	28,537
Total exposure to credit risk	4,009,373	2,933	187	276	2,259	4,015,028

Year 2010	SID Bank					Total
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	
Available-for-sale financial assets	110,925	0	0	0	31	110,956
Loans	3,747,428	37	4,149	404	856	3,752,874
- Loans to banks	2,955,894	0	0	0	0	2,955,894
- Loans to clients other than banks	791,534	37	4,149	404	856	796,980
Derivative financial instruments	34,243	0	0	0	0	34,243
Other assets (fees and commissions for issued guarantees)	10	0	0	0	0	10
Total	3,892,606	37	4,149	404	887	3,898,083
Exposure to credit risk from off-balance-sheet liabilities	63,840	0	0	0	0	63,840
- Undrawn loans	33,408	0	0	0	0	33,408
- Guarantee	30,432	0	0	0	0	30,432
Total exposure to credit risk	3,956,446	37	4,149	404	887	3,961,923

Year 2011	SID Bank Group					Total
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	
Available-for-sale financial assets	243,615	0	0	0	31	243,646
Loans	3,806,504	8,162	3,544	3,804	7,680	3,829,693
- Loans to banks	3,018,972	0	0	0	0	3,018,972
- Loans to clients other than banks	787,532	8,162	3,544	3,804	7,680	810,721
Derivative financial instruments held for hedging	59,097	0	0	0	0	59,097
Other assets (fees and commissions for issued guarantees)	19	0	0	0	0	19
Total	4,109,235	8,162	3,544	3,804	7,711	4,132,455
Exposure to credit risk from off-balance-sheet liabilities	47,070	0	0	0	0	47,070
- Undrawn loans	16,578	0	0	0	0	16,578
- Guarantee	30,492	0	0	0	0	30,492
Total exposure to credit risk	4,156,305	8,162	3,544	3,804	7,711	4,179,525

Year 2010	SID Bank Group					Total
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	
Available-for-sale financial assets	132,607	0	0	0	31	132,638
Loans	3,850,915	13,697	8,587	5,579	10,754	3,889,530
- Loans to banks	2,976,329	0	0	0	0	2,976,329
- Loans to clients other than banks	874,586	13,697	8,587	5,579	10,754	913,202
Derivative financial instruments	34,243	0	0	0	0	34,243
Other assets (fees and commissions for issued guarantees)	958	0	0	0	0	958
Total	4,018,723	13,697	8,587	5,579	10,785	4,057,369
Exposure to credit risk from off-balance-sheet liabilities	65,165	0	0	0	0	65,165
- Undrawn loans	34,733	0	0	0	0	34,733
- Guarantee	30,432	0	0	0	0	30,432
Total exposure to credit risk	4,083,888	13,697	8,587	5,579	10,785	4,122,534

- **Structure of the loan portfolio according to the internal credit rating (in percent)**

	SID Bank			
	31.12.2011		31.12.2010	
	Gross exposure	Impairments and provisions	Gross exposure	Impairments and provisions
A	7.4	3.4	78.6	9.4
B	86.8	35.0	18.9	48.6
C	4.8	38.2	1.7	11.4
D	0.4	5.1	0.3	5.9
E	0.6	18.3	0.5	24.7
Total	100.0	100.0	100.0	100.0

In comparison to the year 2010, there is quite a significant change in the structure of the portfolio of SID Bank, especially in grades A and B. The change was due to downgrades of banks.

As at 31 December 2011 the average percentage of coverage of credit risk exposures with impairments and provisions for clients other than banks was 13.4 percent. Coverage of exposures to clients with D or E credit rating by impairments and provisions to these clients as at 31 December 2011 was 71.2 percent.

As at 31 December 2010 the average percentage of coverage of credit risk exposures with impairments for clients other than banks was 8.3 percent. Coverage of exposures to clients with D or E credit rating by impairments and provisions to these clients as at 31 December 2010 was 75.4 percent.

- **Structure of available-for-sale financial assets according to credit rating of the issuer (credit rating by S&P)**

Credit rating group	SID Bank		SID Bank Group	
	2011	in percent	2011	in percent
AAA	33,005	15.6	34,910	14.3
AA+	0	0.0	484	0.2
AA	3,068	1.4	3,068	1.3
AA-	1,783	0.8	11,817	4.8
A+	113,098	53.3	117,623	48.3
A	5,571	2.6	7,200	2.9
A-	7,987	3.8	9,009	3.7
BBB+	1,344	0.6	2,144	0.9
BBB	307	0.1	549	0.2
BB+	8,771	4.1	8,771	3.6
BB	3,910	1.8	13,260	5.4
BB-	9,655	4.5	9,655	4.0
No rating	23,740	11.2	25,156	10.3
	212,240	100.0	243,646	100.0

- **Concentration of credit portfolio risks by activity**

	SID Bank			
	2011		2010	
	value	in percent	value	in percent
Banks	3,082,660	78.7	3,003,682	76.6
Non-financial organizations	686,565	17.5	750,708	19.1
Other financial institutions	150,141	3.8	167,795	4.3
Total	3,919,366	100.0	3,922,185	100.0

	SID Bank Group			
	2011		2010	
	value	in percent	value	in percent
Banks	3,104,341	76.3	3,023,555	74.2
Non-financial organizations	857,695	21.1	925,108	22.7
Other financial institutions	108,522	2.7	125,727	3.1
Total	4,070,558	100.0	4,074,389	100.0

SID Bank and SID Bank Group assess concentration of risks by activity

3.2. Liquidity risk

Managing liquidity risk means maintaining sufficient liquidity sources to settling current liabilities. SID Bank and SID Bank Group manage liquidity risk by planning inflows and outflows and by ensuring an appropriate balance of highly liquid financial investments.

• SID Bank - Financial assets and financial liabilities items according to residual maturity as at 31 December 2011

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Cash and balances with the central bank	41,696	0	0	0	0	41,696
Financial assets held for trading	3	0	0	0	0	3
Available-for-sale financial assets	5,708	23,223	19,569	140,123	23,617	212,240
Loans	105,603	143,408	121,009	1,894,950	1,433,594	3,698,564
Derivative financial instruments held for hedging	50,433	0	8,414	0	0	58,847
Other assets	231	44	41	0	0	316
TOTAL FINANCIAL ASSETS	203,674	166,675	149,033	2,035,073	1,457,211	4,011,666
Financial liabilities with the central bank	50,014	0	0	0	0	50,014
Financial liabilities held for trading	35	0	0	0	0	35
Financial liabilities measured at amortized cost	35,012	50,261	351,856	1,862,656	1,341,328	3,641,113
Other liabilities	791	0	361	25	0	1,177
TOTAL FINANCIAL LIABILITIES	85,852	50,261	352,217	1,862,681	1,341,328	3,692,339
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	117,822	116,414	(203,184)	172,392	115,883	319,327

• SID Bank - Financial assets and financial liabilities items according to residual maturity as at 31 December 2010

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Cash and balances with the central bank	12	0	0	0	0	12
Available-for-sale financial assets	2,257	0	14,093	83,064	11,542	110,956
Loans	38,597	21,115	525,852	1,597,597	1,569,713	3,752,874
Derivative financial instruments held for hedging	0	0	9,730	3,625	1,208	14,563
Other assets	295	55	54	0	0	404
TOTAL FINANCIAL ASSETS	41,161	21,170	549,729	1,684,286	1,582,463	3,878,809
Financial liabilities with the central bank	0	1,001	0	0	0	1,001
Financial liabilities held for trading	0	0	0	29	0	29
Financial liabilities measured at amortized cost	5	40,195	591,736	1,382,362	1,545,564	3,559,862
Other liabilities	131	721	1,712	36	0	2,600
TOTAL FINANCIAL LIABILITIES	136	41,917	593,448	1,382,427	1,545,564	3,563,492
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	41,025	(20,747)	(43,719)	301,859	36,899	315,317

• **SID Bank Group - Financial assets and financial liabilities items according to residual maturity as at 31 December 2011**

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Cash and balances with the central bank	41,697	0	0	0	0	41,697
Financial assets held for trading	3	0	0	0	0	3
Available-for-sale financial assets	15,762	24,764	24,555	150,667	27,898	243,646
Loans	170,316	207,706	122,885	1,895,193	1,433,594	3,829,693
Derivative financial instruments held for hedging	50,433	0	8,414	0	0	58,847
Other assets	7,368	4,840	8,918	11,136	436	32,698
TOTAL FINANCIAL ASSETS	285,579	237,310	164,772	2,056,996	1,461,928	4,206,583
Financial liabilities with the central bank	50,014	0	0	0	0	50,014
Financial liabilities held for trading	35	0	0	0	0	35
Financial liabilities measured at amortized cost	43,251	101,896	411,690	1,867,419	1,341,328	3,765,584
Other liabilities	4,929	1,548	1,685	5,360	403	13,924
TOTAL FINANCIAL LIABILITIES	98,229	103,443	413,375	1,872,779	1,341,731	3,829,557
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	187,350	133,867	(248,603)	184,217	120,197	377,027

• **SID Bank Group - Financial assets and financial liabilities items according to residual maturity as at 31 December 2010**

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Cash and balances of transaction accounts with the state and the central bank	13	0	0	0	0	13
Available-for-sale financial assets	2,480	683	16,364	95,763	17,348	132,638
Loans	109,471	85,417	561,525	1,563,403	1,569,713	3,889,529
Derivative financial instruments held for hedging	0	0	9,730	3,625	1,208	14,563
Other assets	18,288	7,178	6,319	9,428	0	41,213
TOTAL FINANCIAL ASSETS	130,252	93,278	593,938	1,672,219	1,588,269	4,077,956
Financial liabilities with the central bank	0	1,001	0	0	0	1,001
Financial liabilities held for trading	0	0	0	29	0	29
Financial liabilities measured at amortized cost	1,166	78,724	687,083	1,367,205	1,545,564	3,679,742
Other liabilities	1,371	5,318	1,778	36	0	8,503
TOTAL FINANCIAL LIABILITIES	2,537	85,043	688,861	1,367,270	1,545,564	3,689,275
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	127,715	8,235	(94,923)	304,949	42,705	388,681

Internal procedures for liquidity management of SID Bank and SID Bank Group portfolios proceed in accordance with the Policy of Liquidity Risk Management, which defines manners of management of assets and funds on a daily level, as well as on a long-term level.

These procedures ensure regular daily fulfilment of all the monetary liabilities of the bank and SID Bank Group, as well as quality management of operational and structural liquidity. For the purpose of monitoring and measuring of liquidity risk, the bank calculates liquidity ratio daily. Due to precautionary principle, there is an internally determined liquidity ratio, which must be fulfilled by SID Bank, and which is higher than the one stipulated, thus ensuring additional safety measure against liquidity risk. Treasury in cooperation with other organizational units plans weekly and monthly liquidity flows, as well as simulates in advance the first class liquidity ratio. In case of need for improvement of operational or structural liquidity, Treasury proposes to Liquidity Committee adoption of certain measures for control of these risks (extension of maturity of passive transactions, shortening of maturity of active transactions, hiring of deposits and monetary market lines, reduction of guarantee and credit potential).

Since December 2011 SID Bank is again subject to mandatory reserve.

The basis for these calculations are received deposits and issued debt securities with agreed maturity up to two years and the reserve ratio of 2 percent.

For the period from 14 December 2011 to 17 January 2012 the calculated mandatory reserve was EUR 1,994 thousand. SID meets the mandatory reserve, if the settlement account of the average end-calendar-day in the specified period is not less than the amount calculated for that period. In accordance with the Rules on reserve requirements, the required average may be balanced daily each day in the maintenance period, or by ensuring adequate level of disposable funds on the last day of the maintenance period.

SID Bank has provided the required reserve requirements in the first half of January 2012.

3.3. Interest rate risk

In assets, available-for-sale assets, given loans and cash in settlement and business accounts are exposed to interest rate risk. In liabilities, borrowed loans and issued securities are exposed to interest rate risk.

- SID Bank - Financial assets and financial liabilities items according to exposure to interest rate risk as at 31 December 2011**

	Total	Interest free	Total Interest accrued	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Cash and balances with the central bank	41,696	0	41,696	41,696	0	0	0	0
Financial assets held for trading	3	3	0	0	0	0	0	0
Available-for-sale financial assets	212,240	165	212,075	7,525	48,093	14,594	130,012	11,851
Loans	3,698,564	20,409	3,678,155	253,656	612,455	2,733,482	21,974	56,588
Derivative financial instruments held for hedging	58,847	58,847	0	0	0	0	0	0
Other assets	316	316	0	0	0	0	0	0
TOTAL FINANCIAL ASSETS	4,011,666	79,740	3,931,926	302,877	660,548	2,748,076	151,986	68,439
Financial liabilities with the central bank	50,014	14	50,000	50,000	0	0	0	0
Financial liabilities held for trading	35	35	0	0	0	0	0	0
Financial liabilities measured at amortized cost	3,641,113	34,163	3,606,949	286,643	435,952	1,606,311	1,163,916	114,127
Other liabilities	1,177	1,177	0	0	0	0	0	0
TOTAL FINANCIAL LIABILITIES	3,692,339	35,403	3,656,935	336,629	435,952	1,606,311	1,163,916	114,127
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	319,327	44,337	274,991	(33,752)	224,596	1,141,765	(1,011,930)	(45,688)

- SID Bank - Financial assets and financial liabilities items according to exposure to interest rate risk as at 31 December 2010**

	Total	Interest free	Total Interest accrued	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Cash and balances with the central bank	12	0	12	12	0	0	0	0
Available-for-sale financial assets	110,956	138	110,818	5,045	9,822	15,561	70,750	9,640
Loans	3,752,874	17,049	3,735,825	462,249	678,940	2,522,339	24,082	48,215
Derivative financial instruments held for hedging	14,563	14,563	0	0	0	0	0	0
Other assets	404	404	0	0	0	0	0	0
TOTAL FINANCIAL ASSETS	3,878,809	32,154	3,846,655	467,306	688,762	2,537,900	94,832	57,855
Financial liabilities with the central bank	1,001	1	1,000	0	1,000	0	0	0
Financial liabilities held for trading	29	29	0	0	0	0	0	0
Financial liabilities measured at amortized cost	3,559,862	24,875	3,534,987	509,810	215,924	1,901,765	798,655	108,833
Other liabilities	2,600	2,600	0	0	0	0	0	0
TOTAL FINANCIAL LIABILITIES	3,563,492	27,505	3,535,987	509,810	216,924	1,901,765	798,655	108,833
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	315,317	4,649	310,668	(42,504)	471,838	636,135	(703,823)	(50,978)

- SID Bank Group - Financial assets and financial liabilities items according to exposure to interest rate risk as at 31 December 2011**

	Total	Interest free	Total Interest accrued	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Cash and balances of transaction accounts with the state and the central bank	41,697	1	41,696	41,696	0	0	0	0
Financial assets held for trading	3	3	0	0	0	0	0	0
Available-for-sale financial assets	243,646	9,717	233,929	7,525	49,133	26,359	136,684	14,228
Loans	3,829,693	30,405	3,799,288	354,483	643,008	2,723,236	21,974	56,588
Derivative financial instruments held for hedging	58,847	58,847	0	0	0	0	0	0
Other assets	32,698	32,698	0	0	0	0	0	0
TOTAL FINANCIAL ASSETS	4,206,583	131,670	4,074,913	403,704	692,141	2,749,595	158,658	70,816
Financial liabilities with the central bank	50,014	14	50,000	50,000	0	0	0	0
Financial liabilities held for trading	35	35	0	0	0	0	0	0
Financial liabilities measured at amortized cost	3,765,584	34,897	3,730,686	311,717	480,711	1,660,215	1,163,916	114,127
Other liabilities	13,925	13,925	0	0	0	0	0	0
TOTAL FINANCIAL LIABILITIES	3,829,558	48,871	3,780,686	361,717	480,711	1,660,215	1,163,916	114,127
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	377,026	82,799	294,228	41,987	211,430	1,089,380	(1,005,258)	(43,311)

- SID Bank Group - Financial assets and financial liabilities items according to exposure to interest rate risk as at 31 December 2010**

	Total	Interest free	Total Interest accrued	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Cash and balances of transaction accounts with the state and the central bank	13	0	13	13	0	0	0	0
Available-for-sale financial assets	132,638	402	132,236	5,045	10,505	17,832	80,801	18,053
Loans	3,889,529	33,059	3,856,470	561,453	713,459	2,509,261	24,082	48,215
Derivative financial instruments held for hedging	14,563	14,563	0	0	0	0	0	0
Other assets	41,213	41,132	81	27	54	0	0	0
TOTAL FINANCIAL ASSETS	4,077,956	89,156	3,988,800	566,538	724,018	2,527,093	104,883	66,268
Financial liabilities with the central bank	1,001	1	1,000	0	1,000	0	0	0
Financial liabilities held for trading	29	29	0	0	0	0	0	0
Financial liabilities measured at amortized cost	3,679,742	25,496	3,564,246	592,225	244,351	1,910,182	798,655	108,833
Other liabilities	8,503	8,503	0	0	0	0	0	0
TOTAL FINANCIAL LIABILITIES	3,689,275	34,028	3,655,247	592,225	245,351	1,910,182	798,655	108,833
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	388,681	55,128	333,553	(25,687)	478,665	616,912	(693,772)	(42,565)

Sensitivity analysis

SID Bank and SID Bank Group yearly compile a sensitivity analysis of all assets and liabilities to sources of funds, which pay interest, to the change of interest rate. Separately an analysis of available-for-sale financial assets is compiled.

- Interest rate sensitive assets and liabilities to fund sources**

Sensitivity analysis of all assets and liabilities items sensitive to interest rate is based on the assumption that the market interest rate would change by 100 basis points (1 percent p.a.). The impact on net interest income in the first year of change has also been calculated.

If the market interest rates increased by 100 basis points, net interest income of SID Bank would increase by EUR 2,475 thousand in 2012 (by EUR 3,219 thousand in 2011). The change would be reflected as higher revenues in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed. The higher impact is mostly due to the increase in the assets and liabilities items sensitive to interest rate. If the market interest rates change for less or more, the calculated results are proportional.

If the market interest rates increased by 100 basis points, net interest income of SID Bank Group would increase by EUR 2,803 thousand in 2011 (by EUR 3,481 thousand in 2011). The change would be reflected as higher revenues in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed. If the market interest rates change for less or more, the calculated results are proportional.

3.4. Foreign exchange risk

Transactions in foreign currencies entered into by SID Bank and SID Bank Group do not constitute major transactions and thus present no currency risk.

In order to neutralize as much as possible the effects of exchange rate differences on loans in EUR, SID Bank Group terms advances of transferors of receivables to EUR. In the insurer sector SID Bank Group harmonizes as much as possible the currency structure of assets covering technical provisions with currency structure of exposure.

- SID Bank and SID Bank Group - Financial assets and financial liabilities items by foreign currencies as at 31 December 2011**

	SID Bank			SID Bank Group			
	EUR	USD	Total	EUR	USD	Other currencies	Total
Cash and balances with the central bank	41,696	0	41,696	41,696	0	1	41,697
Financial assets held for trading	3	0	3	3	0	0	3
Available-for-sale financial assets	208,895	3,345	212,240	240,301	3,345	0	243,646
Loans	3,686,358	12,206	3,698,564	3,810,177	12,207	7,309	3,829,693
Derivative financial instruments held for hedging	58,847	0	58,847	58,847	0	0	58,847
Other assets	316	0	316	32,630	0	68	32,698
TOTAL FINANCIAL ASSETS	3,996,115	15,551	4,011,666	4,183,654	15,552	7,378	4,206,584
Financial liabilities with the central bank	50,014	0	50,014	50,014	0	0	50,014
Derivative financial instruments held for trading	35	0	35	35	0	0	35
Financial liabilities measured at amortized cost	3,625,651	15,462	3,641,113	3,747,449	15,462	2,672	3,765,583
Other liabilities	1,177	0	1,117	13,561	2	363	13,926
TOTAL FINANCIAL LIABILITIES	3,676,877	15,462	3,692,339	3,811,059	15,464	3,035	3,829,558
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	319,238	89	319,327	372,595	88	4,343	377,026

- SID Bank and SID Bank Group - Financial assets and financial liabilities items by foreign currencies as at 31 December 2010**

	SID Bank			SID Bank Group			
	EUR	USD	Total	EUR	USD	Other currencies	Total
Cash and balances with the central bank	12	0	12	13	0	0	13
Available-for-sale financial assets	110,956	0	110,956	132,638	0	0	132,638
Loans	3,737,677	15,197	3,752,874	3,866,517	15,213	7,799	3,889,529
Derivative financial instruments held for hedging	14,563	0	14,563	14,563	0	0	14,563
Other assets	404	0	404	39,836	0	1,377	41,213
TOTAL FINANCIAL ASSETS	3,863,612	15,197	3,878,809	4,053,567	15,213	9,176	4,077,956
Financial liabilities with the central bank	1,001	0	1,001	1,001	0	0	1,001
Derivative financial instruments held for trading	29	0	29	29	0	0	29
Financial liabilities measured at amortized cost	3,544,799	15,063	3,559,862	3,660,807	15,063	3,872	3,679,742
Other liabilities	2,600	0	2,600	8,166	3	334	8,503
TOTAL FINANCIAL LIABILITIES	3,548,429	15,063	3,563,492	3,670,003	15,066	4,206	3,689,275
INCONSISTENCY IN FINANCIAL ASSETS/LIABILITIES	315,183	134	315,317	383,564	147	4,970	388,681

3.5. Capital management

SID Bank and SID Bank Group must always have adequate capital as a cushion for various risks they are exposed to in their business. This is a continuous process of setting and maintaining the required level and quality of capital, taking into consideration the assumed risks as defined in the policy of capital management.

The calculation of capital adequacy of SID Bank Group is based on consolidated financial statements. In accordance with the Decision on the supervision of banks and savings banks on a consolidated basis, insurance companies are not included in consolidated financial statements; in addition joint ventures are consolidated by proportionate method. Based on that decision, the consolidation includes SID Bank and by the method of proportionate consolidation PRVI FAKTOR Group.

Regulatory capital and capital adequacy

Capital and capital adequacy are controlled in accordance with the guidelines of the Basel Committee and the European Union directives and have been taken over by the Bank of Slovenia in its regulations. Solvency margin and the properties of individual components of capital, ratios and limits, the conditions for acquisition of license for consideration of financial instruments, the manner and period of their coordination and deductions in the calculation of capital are specified in detail by the Decision on capital adequacy of banks and savings banks (hereinafter the Decision).

Capital of the bank is divided into three categories according to its characteristics and required conditions: core capital (Tier 1), additional capital I (Tier 2) and additional capital II. Capital is calculated as the sum of all three categories, taking into account the necessary deductions to be deducted from each category of capital, the relationship between various categories of capital and the purpose of individual categories. Amounts of investments in other credit and financial institutions (the threshold for inclusion is 10 percent of the share capital) and the participation of banks in insurance companies is deducted from core capital and additional capital I. This way the amount of regulatory capital is obtained, which is further used for determining the capital adequacy, whose calculation is based on the integration of capital requirements for credit and operational risk.

SID Bank and SID Bank Group calculate the capital requirement for credit risks using the standardized approach, while capital requirements for operational risk is calculated using the simple approach.

• Components of regulatory capital and capital adequacy ratio of SID Bank and SID Bank Group

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Core capital (TIER 1)	333,958	327,530	338,489	332,096
Share capital	300,000	300,000	300,000	300,000
(-) Treasury shares	(1,324)	(1,324)	(1,324)	(1,324)
Capital reserves	1,139	1,139	1,139	1,139
Profit reserves and retained earnings	34,365	27,911	40,194	33,106
Revaluation reserve - prudential filters	0	0	(772)	0
Core capital deduction item	(222)	(252)	(748)	(825)
(-) Intangible assets	(222)	(252)	(748)	(825)
Additional capital I (Tier 2)	0	56	0	56
Revaluation surpluses from available-for-sale financial assets - shares, stock	0	56	0	56
Deduction items from core capital and Tier I additional capital	(11,500)	(11,500)	(8,412)	(8,412)
(-) Investments in other credit and financial institutions that individually exceed 10 percent of capital of other credit and financial institution	(3,087)	(3,087)	0	0
(-) Participation in insurance companies, reinsurance companies, pension companies and insurance holding companies	(8,413)	(8,413)	(8,412)	(8,412)
Total regulatory capital for the purpose of capital adequacy	322,458	316,030	330,076	323,740
Capital requirements	179,744	186,911	191,666	198,070
Capital adequacy ratio (in percent)	14.35	13.53	13.78	13.08

- **Capital requirements by type of risk and their structure**

Balance as at 31 December	SID Bank				SID Bank Group			
	2011	Structure in percent	2010	Structure in percent	2011	Structure in percent	2010	Structure in percent
Capital requirements								
- For credit risk	175,152	97.4	183,891	98.4	185,791	96.9	193,816	97.9
- For operational risk	4,592	2.6	3,020	1.6	5,876	3.1	4,253	2.1
Total capital requirements	179,744	100.0	186,911	100.0	191,666	100.0	198,070	100.0

- **Capital requirements for credit risk (standardized approach)**

	SID Bank		SID Bank Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Exposure classes				
- Regional governments and local authorities	1	1	362	280
- Public sector entities	1,069	1,061	1,255	1,094
- Institutions	120,988	121,968	121,946	122,151
- Corporate	51,937	59,727	60,120	67,596
- Past due items	659	708	1,479	1,897
- Regulatory high-risk items	98	38	227	344
- Covered bonds	41	0	41	0
- Positions in investment funds	11	11	11	11
- Other exposures	348	377	351	444
Capital requirements	175,152	183,891	185,791	193,816

In both presented years SID Bank met the capital adequacy above the regulatory minimum (8 percent). Regulatory capital was increased in 2011 for the determined net profit for the year; capital requirements for credit risk decreased to 4.8 percent or the absolute amount of EUR 8,739 thousand. In absolute terms, the category of exposure to corporations decreased the most. Capital requirements for operational risks for 2011 have increased as a result of higher net interest and interest-free income in the last three years before 2011, for which the capital requirement was calculated.

Assessment of required internal capital

SID Bank has compiled a risk profile of the bank, which is a documented and categorized collection of quantitative and qualitative assessments of risks the bank assumes in its operations, and of the control environment through which these risks are managed.

Risk profile is the basis for a comprehensive risk management process, assessment of adequate internal capital, planning of internal audit procedures and the implementation of direct supervision by the Bank of Slovenia.

In accordance with the Decision on risk management and implementation of the internal capital adequacy for banks and savings banks, risk profile assessment is carried out for the entire SID Bank Group.

In assessing the adequate internal capital, SID Bank and takes into consideration risks covered by first pillar (credit risk, market risk, operational risk), risks of the second pillar (concentration risk, transfer risk, interest rate risk, liquidity risk, profitability risk, settlement risk, reputation risk, strategic risk, equity risk) and other items, as well as external factors (regulatory changes, the impact of economic cycles, the stress tests).

In the assessment of adequate internal capital, the capital requirements for credit risks account for 82.6 percent, those for operational risks account for 2.6 percent, while those for strategic risk, concentration risk and external factors account for 14.8 percent.

3.6. Financial assets carried at fair value and financial liabilities to fund sources

SID Bank and SID Bank Group determine fair value in the following order: market value, calculated value of the model that takes into account market rates, and purchase value.

In EUR thousand	SID Bank				SID Bank Group			
	31.12.2011		31.12.2010		31.12.2011		31.12.2010	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Cash and balances with the central bank	41,696	41,696	12	12	41,697	41,697	13	13
Financial assets held for trading	3	3	0	0	3	3	0	0
Available-for-sale financial assets	212,240	212,240	110,956	110,956	243,646	243,646	132,638	132,638
Loans	3,698,564	3,705,311	3,752,874	3,759,149	3,829,692	3,829,692	3,889,529	3,897,446
- <i>Loans to banks</i>	2,997,154	3,001,924	2,955,894	2,960,090	3,018,972	3,018,972	2,976,328	2,980,524
- <i>Loans to clients other than banks</i>	701,410	703,387	796,980	799,059	810,720	810,720	913,201	916,922
Financial assets held for hedging	58,847	58,847	14,563	14,563	58,847	58,847	14,563	14,563
Other assets	316	316	404	404	32,697	32,697	41,213	41,213
TOTAL FINANCIAL ASSETS	4,011,666	4,018,413	3,878,809	3,885,084	4,206,582	4,206,582	4,077,956	4,085,873
Financial liabilities with the central bank	50,014	50,014	1,001	1,001	50,014	50,014	1,001	1,001
Financial liabilities held for trading	35	35	29	29	35	35	29	29
Financial liabilities measured at amortized cost	3,641,113	3,642,685	3,559,862	3,561,779	3,765,584	3,765,584	3,679,742	3,682,069
- <i>Bank deposits</i>	119,498	119,589	0	0	119,498	119,498	0	0
- <i>Deposits of clients other than banks</i>	5	5	5	5	5	5	5	5
- <i>Loans of banks</i>	1,966,530	1,967,788	2,023,693	2,025,361	2,091,001	2,091,001	2,143,572	2,145,240
- <i>Loans to clients other than banks</i>	150,174	150,397	99,998	100,247	150,174	150,174	99,999	100,658
- <i>Debt securities</i>	1,404,906	1,404,906	1,436,166	1,436,166	1,404,906	1,404,906	1,436,166	1,436,166
Other liabilities	1,177	1,177	2,478	2,478	13,925	13,925	8,503	8,503
TOTAL FINANCIAL LIABILITIES	3,692,339	3,693,911	3,563,370	3,565,287	3,829,558	3,829,558	3,689,275	3,691,602

The financial instruments in SID Bank's statement of financial position disclosed at fair value include financial assets and liabilities held for trading, financial assets held for hedging and available-for-sale financial assets.

The fair values of loans and financial liabilities measured at amortized cost differ from their book values disclosed in the statement of financial position.

All listed financial instruments are initially recognized at fair value. Upon initial recognition, the fair value of a financial instrument is typically the cost of transaction. In any subsequent measurement of financial instruments, the market price of the financial instrument is used (purchase or offer price).

The fair value of loans given to banks and clients other than banks, and raised loans is the principal as at 31 December 2011 and the accrued interest for the period.

- **Fair value hierarchies**

	SID Bank					
	2011			2010		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Financial assets						
Derivative financial instruments	58,850	0	58,850	14,563	0	14,563
Available-for-sale financial assets	212,240	212,240	0	110,956	110,956	0
- <i>Debt securities</i>	212,106	212,106	0	110,818	110,818	0
- <i>Equity securities</i>	134	134	0	138	138	0
Financial liabilities						
Derivative financial instruments	35	0	35	29	0	29

	SID Bank Group					
	2011			2010		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Financial assets						
Derivative financial instruments	58,850	0	58,850	14,563	0	14,563
Available-for-sale financial assets	243,646	243,646	0	132,638	132,638	0
- <i>Debt securities</i>	233,960	233,960	0	132,276	132,276	0
- <i>Equity securities</i>	9,686	9,686	0	362	362	0
Financial liabilities						
Derivative financial instruments	35	0	35	29	0	29

IFRS 7 requires additional disclosure of fair values using the fair value hierarchy that reflects the importance of input data used in the measurements.

The fair value hierarchy in SID Bank and SID Bank Group has the following levels:

- Level 1: market prices in active markets for identical assets or liabilities; it consists of securities listed on stock exchange;
- Level 2: the calculated value according to the model that takes into account market rates and consists of contracts in financial derivatives; the source of transaction parameters, such as the yield curve, is Bloomberg;
- Level 3: the calculated value that is not based on market data, but estimated values, which are prepared using standard valuation techniques such as discounted future cash flows model, market approach and the method of liquidation value.

SID Bank and SID Bank Group do not use models or valuation estimates.

4. Segment reporting

(In EUR thousand)

Distribution and segmented disclosures are done based on business characteristics of separate activities of SID Bank Group. When disclosing information by business segments, supervisory approach and contents of reports used by the management of the bank for the management of SID Bank Group are taken into consideration. Business operation in segments of operation is monitored on the basis of accounting policies as presented in item 2.2. Reports are compiled in compliance with the IFRS.

The major part of business operation of SID Bank Group is in the domestic market, therefore SID Bank Group does not disclose further breakdown by geographical areas.

Activities of SID Bank Group can be divided into three separate business segments:

- Banking,
- Credit insurance and
- Factoring.

Each business segment is organized into a legal entity in the form of independent business company. In SID Bank Group the banking activity is conducted in the parent company - SID Bank, credit insurance activity is conducted in PKZ and factoring is conducted in PRVI FAKTOR Group. Separate business segments include products and services, which differ from other business segments in their risk and profitability. Transactions between business segments are carried out under normal business conditions.

• Analysis by business segment for 2011

	Banking,	Credit insurance,	Factoring	Total
Interest income and similar income	154,927	898	14,343	170,168
Interest expenses and similar expenses	(103,000)	(36)	(6,897)	(109,933)
Net interest	51,927	862	7,446	60,235
Fees and commissions received	1,903	0	4,146	6,049
Fees and commissions paid	(894)	(16)	(852)	(1,762)
Net fees and commissions	1,009	(16)	3,294	4,287
Realized profits/losses from financial assets and liabilities not measured at fair value through profit or loss	(1,598)	0	0	(1,598)
Net profits/losses from financial assets and liabilities held for trading	(3)	0	(17)	(20)
Profits/losses from financial assets (and liabilities) recognized at fair value through profit or loss	31	0	0	31
Changes in fair value when calculating risk insurance	(980)	0	0	(980)
Net foreign exchange gains/losses	6	(1)	1,208	1,213
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	(4)	0	(18)	(22)
Other net operating profits/losses	2,586	7,169	(195)	9,560
Administrative costs	(7,017)	(3,154)	(3,087)	(13,258)
Depreciation, amortization	(588)	(198)	(144)	(930)
Provision	(1,862)	2,328	0	466
Impairments	(40,622)	51	(4,242)	(44,813)
Profit on ordinary activities	2,885	7,041	4,245	14,171
Corporate income tax on ordinary activities	(1,089)	(1,312)	(822)	(3,223)
Deferred taxes	55	(88)	148	115
Net profit for the year	1,851	5,641	3,571	11,063
TOTAL ASSETS	3,981,940	67,911	169,242	4,219,093
- Assets of business segments	3,981,521	67,911	169,242	4,218,674
- Long-term investments in equity of subsidiaries, associates and joint ventures	419	0	0	419
LIABILITIES (excluding capital) BY SEGMENT	3,697,207	45,044	124,403	3,866,654
Increase in tangible fixed assets and intangible assets	321	3,221	139	3,681

Unconsolidated net profit of banking business segment without affecting consolidation entries is EUR 6,454 thousand. After excluding income, expenses and costs between business segments, received dividends and income from impairments totalling EUR 4,603 thousand, the consolidated net profit banking business segment amounts to EUR 1,851 thousand.

Unconsolidated net profit of credit insurance business segment amounts to EUR 5,607 thousand. After excluding income, expenses and costs between business segments totalling EUR 34 thousand, net profit of credit insurance business segment on a consolidated basis amounts to EUR 5,641.

Factoring business segment records unconsolidated net earnings in the amount of EUR 930 thousand. After excluding income, expenses and costs between business segments totalling EUR 2,641 thousand, profit in factoring business segment on a consolidated basis amounts to EUR 3,571 thousand.

• Analysis by business segment for 2010

	Banking,	Credit insurance,	Factoring	Total
Interest income and similar income	104,287	778	12,371	117,436
Interest expenses and similar expenses	(66,134)	0	(6,427)	(72,561)
Net interest	38,153	778	5,944	44,875
Fees and commissions received	2,207	0	4,107	6,314
Fees and commissions paid	(796)	(15)	(875)	(1,686)
Net fees and commissions	1,411	(15)	3,232	4,628
Realized profits/losses from financial assets and liabilities not measured at fair value through profit or loss	439	5	0	444
Net profits/losses from financial assets and liabilities held for trading	(47)	0	0	(47)
Changes in fair value when calculating risk insurance	(449)	0	0	(449)
Net foreign exchange gains/losses	6	4	948	958
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	(6)	0	14	8
Other net operating profits/losses	2,670	3,469	(56)	6,083
Administrative costs	(6,101)	(2,499)	(2,982)	(11,582)
Depreciation, amortization	(616)	(65)	(167)	(848)
Provision	1,616	7,736	(13)	9,339
Impairments	(31,244)	(616)	(7,128)	(38,988)
Profits/losses on ordinary activities	5,832	8,797	(208)	14,421
Corporate income tax on ordinary activities	(1,557)	(1,841)	(765)	(4,163)
Deferred taxes	105	(32)	818	891
Net profits/losses for the year	4,380	6,924	(155)	11,149
TOTAL ASSETS	3,847,156	72,551	166,373	4,086,080
- Assets of business segments	3,846,737	72,551	166,373	4,085,661
- Long-term investments in equity of subsidiaries, associates and joint ventures	419	0	0	419
LIABILITIES (excluding capital) BY SEGMENT	3,567,724	52,273	121,228	3,741,225
Increase in tangible fixed assets and intangible assets	226	44	111	381

III. DISCLOSURES IN ACCORDANCE WITH THE DECREE ON DISCLOSURES BY BANKS AND SAVINGS BANKS

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Disclosures in this chapter are compiled in accordance with the Decree on Disclosures by Banks and Savings Banks (hereinafter: Decree on Disclosures).

1. Policy and goals of risk management

(Article 10 of the Decree on Disclosures)

1.1. Strategy and processes of risk management

Risk management with the relation to risks, while taking into account business goals of the company, represent one of the main challenges of any bank or other financial institution. SID Bank banking group is not a homogeneous group. Business activity of the parent company is financing or crediting of legal persons, while factoring is the business activity of PRVI FAKTOR Group, of which NLB d.d. is the joint owner. In the field of factoring, processes of risk management of two owners are therefore intertwined. In risk management of SID Bank banking group these particularities need to be taken into account.

Risk management strategy and policies of SID Bank are approved by its Management Board, while the policies of PRVI FAKTOR are approved by its supervisory body - General Meeting of Shareholders, which consists of the representatives of both companies. This method ensures harmonization of risk management rules on the level of SID Bank banking group. In order to achieve strategic goals of SID Bank banking group, special attention is paid to credit risk on the group level.

Strategy and policies of risk management are presented in Item 8.4. of the business section of the annual report.

1.2. Structure and organization of relevant risk management functions

Structure and organization of risk management are described in item Risk Management in SID Bank Group of item 8.4. in the business section of the annual report.

1.3. Extent and characteristics of risk reporting and risk measuring systems

Organization and demarcation of competences of risk management are devised in a way which prevents development of conflict of interests, as well as ensure transparent and documented process of decision making along with an adequate upward and downward information flow.

SID Bank banking group has an established system of regular reporting. On consolidated basis it prepares reports on exposure, insurances, bad investments and ongoing recovery procedures. These reports are discussed by the Credit Committee, and also acquainted with by the management board of the bank.

Risk measuring systems are integral parts of risk management policies; for the needs of supervision on consolidated basis they also comply with regulatory requirements of the Bank of Slovenia.

1.4. Hedging against risks policies, policies for reduction of risks, strategies and processes for monitoring of effectiveness of types of hedging against risks and their reduction

For the purpose of hedging against risks in SID Bank, the following documents are the most important:

- Risk Management Strategy,
- Capital Risk and Capital Management Policy,
- Credit Risk Management Policy,
- Liquidity Risk Management Policy,
- Foreign Exchange Risk Management Policy,
- Interest Rate Risk Management Policy,
- Operational Risk Management Policy, Rules on Limits of Exposure to Credit Risk,
- Rules on Monitoring, Recovery and Write-off of Investment Transactions and
- Rules on Assessment of Credit Risk Losses.

For the more significant types of risk, PRVI FAKTOR Group also has policies, which supplement risk management on the level of SID Bank banking group:

- Non-credit Risk Management Policy (Interest rate, Foreign Exchange, Liquidity Risk)
- Operational Risk Management Policy (OR),
- Policy of investment insurance in company PRVI FAKTOR Ljubljana and PRVI FAKTOR Group and
- Policy of restricting big exposure in PRVI FAKTOR Group.

Policy and objectives of risk management for each type of risk are presented in more detail in Item 8.4 of the business section, and in Item 3 of the financial section of the annual report.

2. Information on persons included in disclosures

(Article 11 of the Decree on Disclosures)

In accordance with capital legislation of the EU, SID Bank has the status of parent undertaking, therefore it is obliged to publish disclosures in accordance with the Decree on Disclosures based on consolidated financial position.

Pursuant to Decree on Supervision on the Basis of Consolidation (Bank Consolidation), the consolidated financial statements include SID Bank and PRVI FAKTOR Group by the method of proportional consolidation (50% percent share). PRO KOLEKT Group and the CIDC institute were excluded, since their total assets account for less than 1 percent of the total assets of SID Bank and their income accounts for less than 1 percent of the income of SID Bank. Investment in PRO KOLEKT Group is also not a deduction when calculating capital of SID Bank banking group. In accordance with the IFRS, beside SID Bank the consolidated financial statements include insurance company PKZ by the method of full consolidation and PRVI FAKTOR Group by the method of proportional consolidation. The difference between banking and accounting consolidation is therefore in the latter also including insurance company SID-PKZ.

There are no obstacles to transfer of capital or settlement of liabilities between parent and subsidiary companies of SID Bank banking group.

All the companies of SID Bank Group, which are excluded from consolidation in accordance with the Decree on Supervision of Banks and Savings Banks on Consolidated Basis, fulfil the required capital minimum. Total amount of capital deficit is 0.

3. Capital

(Article 12 of the Decree on Disclosures)

In EUR thousand	31.12.2011	31.12.2010
Total capital (for the purpose of capital adequacy)	330,076	323,740
Core capital	338,489	332,096
Paid-up share capital	300,000	300,000
Capital reserves	1,139	1,139
Reserves and retained earnings	40,194	33,106
Other core capital deduction items	(2,844)	(2,148)
- Treasury shares	(1,324)	(1,324)
- Revaluation reserves - prudential filters	(772)	0
- Intangible assets	(748)	(824)
- Difference between the reported impairments and provisions according to IFRS and the regulation on loss assessment	0	0
Additional capital I	0	56
Deduction items from core capital and Tier I additional capital	(8,413)	(8,413)
- Interest in insurance companies	(8,413)	(8,413)
Additional capital II	0	0
Capital requirements	(191,666)	(198,070)
Share premium	138,410	125,670
Capital adequacy ratio (in percent)	13.78	13.08

Capital of SID Bank banking group includes core capital and additional capital I. SID Bank banking group has no additional capital II.

Core capital consists of paid-up share capital and capital reserves, as well as reserves and retained earnings. When calculating core capital, deductions consist of treasury shares, revaluation reserves - prudential filters and intangible assets. Additional capital I includes 80 percent of the surplus from revaluation of available-for-sale stocks and shares. Deduction items of core capital and additional capital I include investment in insurance company SID – Prva kreditna zavarovalnica d.d.

4. Minimal capital requirements and the process of assessment of required internal capital

(Article 13 of the Decree on Disclosures)

Capital requirements for credit and foreign exchange risks are calculated under standardized approach, while capital requirements for operational risks are calculated under simple approach.

In EUR thousand	31.12.2011	31.12.2010
Total capital requirements	191,666	198,070
- For credit, settlement and counterparty risks	185,791	193,816
<i>Central governments and central banks</i>	131	160
<i>Regional governments and local authorities</i>	231	120
<i>Public sector entities</i>	1,255	1,094
<i>Institutions</i>	121,946	122,151
<i>Corporate</i>	60,120	67,596
<i>Past due items</i>	1,479	1,897
<i>Items belonging to regulatory high-risk categories</i>	227	344
<i>Covered bonds</i>	41	0
<i>Positions in investment funds</i>	11	11
<i>Other exposure classes</i>	351	444
- For foreign exchange risk	0	0
- For market risks	0	0
- For operational risk	5,876	4,253

Summary of approach to assessment of adequate internal capital is presented in Item 8.4. of the business section of the annual report.

5. Credit risk and risk of reduction of value of repurchased claims on money

(Article 15 of the Decree on Disclosures)

Credit risk is presented in Item 8.4. of the business section and in Item 3.1. of the financial section of the annual report.

5.1. Definition of past due items and impaired items for accounting purposes

(15a and 15b of the Decree on Disclosures)

Definition of past due items and impaired items for accounting purposes is presented in Item 2.2.5. of the financial section of the annual report. The policy of adjustment forming is presented in Item 2.2.5. of the financial section of the annual report.

5.2. Aggregate amount of exposure, reduced by impairments or provisions, without notice of effects of credit insurance and average amount of exposure in the reporting period broken down by all exposure classes

(Article 15 c of the Decree on Disclosures)

(In EUR thousand)

EXPOSURE CLASS	Balance 31.12.2011	Average 2011	Balance 31.12.2010	Average 2010
Central governments and central banks	170,399	87,631	48,687	41,030
Regional governments and local authorities	3,344	2,792	1,955	2,614
Public sector entities	33,597	32,728	30,941	25,970
Multilateral development banks	8,286	6,418	5,024	5,022
International organizations	3,214	803	0	798
Institutions	3,197,318	3,290,281	2,100,253	2,880,256
Corporate	801,215	833,254	890,619	860,079
Past due items	15,721	18,157	20,817	21,769
Items belonging to regulatory high-risk categories	2,254	4,343	4,197	7,319
Covered bonds	2,571	643	0	0
Positions in investment funds	134	133	138	138
Other exposures	4,386	4,779	5,545	5,288
Total	4,242,441	4,281,961	4,108,176	3,850,283

5.3. Distribution of exposure by important geographical areas, segmented by important exposure classes

(15d of the Decree on Disclosures)

- **Year 2011 (In EUR thousand)**

EXPOSURE CLASS	Slovenia	SE Europe (excluding EU members)	Others EU members	Other countries	Total
Central governments and central banks	141,633	1,642	27,124	0	170,399
Regional governments and local authorities	1,264	2,061	18	0	3,344
Public sector entities	31,516	2,081	0	0	33,597
Multilateral development banks	0	0	8,286	0	8,286
International organizations	0	0	3,214	0	3,214
Institutions	2,986,515	31,514	168,262	11,028	3,197,318
Corporate	569,803	200,634	21,294	9,484	801,215
Past due items	9,128	6,504	90	0	15,721
Items belonging to regulatory high-risk categories	1,371	853	0	30	2,254
Covered bonds	0	0	2,571	0	2,571
Positions in investment funds	134	0	0	0	134
Other exposures	4,356	30	0	0	4,386
Total	3,745,719	245,320	230,859	20,543	4,242,441

- **Year 2010 (In EUR thousand)**

EXPOSURE CLASS	Slovenia	SE Europe (excluding EU members)	Others EU members	Other countries	Total
Central governments and central banks	38,590	2,003	8,094	0	48,687
Regional governments and local authorities	1,076	853	26	0	1,955
Public sector entities	30,677	263	0	0	30,941
Multilateral development banks	0	0	5,024	0	5,024
Institutions	3,023,375	33,419	29,663	13,796	3,100,253
Corporate	653,857	201,371	21,424	13,967	890,619
Past due items	9,966	10,848	3	0	20,817
Items belonging to regulatory high-risk categories	1,216	2,926	23	32	4,197
Positions in investment funds	138	0	0	0	138
Other exposures	5,528	17	0	0	5,545
Total	3,764,425	251,701	64,256	27,795	4,108,176

5.4. Distribution of exposure according to industry or type of clients segmented by exposure classes

(15e of the Decree on Disclosures)

• Year 2011 (In EUR thousand)

EXPOSURE CLASS	Financial and insurance activities	Manufacturing	Trade; Maintenance and repairs of motor vehicles	Public administration activity; Compulsory social security activity	Transport and storage	Other	Total
Central governments and central banks	41,696	0	0	128,556	0	147	170,399
Regional governments and local authorities	18	0	0	3,325	0	0	3,344
Public sector entities	4,526	0	0	26,728	0	2,343	33,597
Multilateral development banks	8,286	0	0	0	0	0	8,286
International organizations	0	0	0	0	0	3,214	3,214
Institutions	3,197,318	0	0	0	0	0	3,197,318
Corporate	109,031	309,866	188,628	20	55,836	137,834	801,215
Past due items	3,390	3,404	3,332	307	630	4,659	15,721
Items belonging to regulatory high-risk categories	30	1,283	94	0	14	833	2,254
Covered bonds	2,571	0	0	0	0	0	2,571
Positions in investment funds	134	0	0	0	0	0	134
Other exposures	236	0	4	0	0	4,146	4,386
Total	3,367,238	314,552	192,058	158,936	56,480	153,177	4,242,441

• Year 2010 (In EUR thousand)

EXPOSURE CLASS	Financial and insurance activities	Manufacturing	Trade; Maintenance and repairs of motor vehicles	Public administration activity; Compulsory social security activity	Transport and storage	Other	Total
Central governments and central banks	8,106	0	0	40,581	0	1	48,687
Regional governments and local authorities	26	0	0	1,737	0	192	1,955
Public sector entities	2,879	0	21	27,571	0	470	30,941
Multilateral development banks	5,024	0	0	0	0	0	5,024
Institutions	3,099,242	0	0	0	0	1,011	3,100,253
Corporate	133,770	334,144	185,519	112	71,500	165,573	890,619
Past due items	3,548	2,102	5,304	128	5	9,729	20,817
Items belonging to regulatory high-risk categories	30	1,855	1,233	83	660	335	4,197
Positions in investment funds	138	0	0	0	0	0	138
Other exposures	321	0	0	1	0	5,224	5,545
Total	3,253,083	338,101	192,078	70,214	72,165	182,536	4,108,176

5.5. Breakdown of all exposure categories by remaining maturity up to one year and over one year

(15f of the Decree on Disclosures)

In EUR thousand	2011		2010	
EXPOSURE CLASS	Short-term (Up to 1 year)	Long-term (Over 1 year)	Short-term (Up to 1 year)	Long-term (Over 1 year)
Central governments and central banks	72,751	97,653	9,858	38,834
Regional governments and local authorities	3,331	18	1,935	26
Public sector entities	2,361	32,443	537	31,346
Multilateral development banks	0	8,286	0	5,024
International organizations	0	3,214	0	0
Institutions	309,011	2,900,878	601,771	2,502,782
Corporate	204,977	681,529	168,548	766,851
Past due items	21,013	8,094	25,346	8,386
Items belonging to regulatory high-risk categories	30,155	81	34,838	282
Covered bonds	0	2,571	0	0
Positions in investment funds	134	0	138	0
Other exposures	36	4,351	382	5,163
Total	643,768	3,739,117	843,351	3,358,694

5.6. The amount of outstanding exposures and within this framework the amount of impaired exposures and value adjustments due to impairments and provisions for relevant industries

(15g of the Decree on Disclosures)

• Year 2011 (In EUR thousand)

BUSINESS ACTIVITY	Past due exposures	Past due and impaired exposures	Value adjustments due to impairments and provisions
Financial and insurance activities	508	508	22,249
Manufacturing	69,259	69,255	34,975
Trade; Maintenance and repairs of motor vehicles	10,064	10,053	18,299
Public administration activity; Compulsory social security activity	387	387	1,291
Transport and storage	1,425	1,424	18,256
Other	51,218	51,204	45,375
Total	132,861	132,832	140,444

• Year 2010 (In EUR thousand)

BUSINESS ACTIVITY	Past due exposures	Past due and impaired exposures	Value adjustments due to impairments and provisions
Financial and insurance activities	4,436	4,436	10,698
Manufacturing	16,574	16,573	28,421
Trade; Maintenance and repairs of motor vehicles	9,976	9,972	17,864
Public administration activity; Compulsory social security activity	272	272	1,081
Transport and storage	1,304	1,302	6,198
Other	25,889	25,818	29,606
Total	58,450	58,374	93,868

5.7. The amount of outstanding exposures and within this framework the amount of impaired exposures and value adjustments due to impairments and provisions for relevant geographic regions

(15h of the Decree on Disclosures)

• Year 2011 (In EUR thousand)

REGION	Past due exposures	Past due and impaired exposures	Value adjustments due to impairments and provisions
Slovenia	112,505	112,497	114,382
SE Europe (excluding EU members)	19,612	19,592	24,699
Other EU members	236	235	1,075
Other countries	508	508	288
Total	132,861	132,832	140,444

• Year 2010 (In EUR thousand)

REGION	Past due exposures	Past due and impaired exposures	Value adjustments due to impairments and provisions
Slovenia	33,480	33,471	68,526
SE Europe (excluding EU members)	24,869	24,801	24,312
Other EU members	96	96	709
Other countries	5	5	322
Total	58,450	58,374	93,868

5.8. Presentation of changes in value adjustments and presentation of adjustments in provisions by types of assets

(15i of the Decree on Disclosures)

• Changes in adjustments (impairment)

	2011			2010		
	Adjustments of loans to banks	Adjustments of loans to clients other than banks	Total adjustments	Adjustments of loans to banks	Adjustments of loans to clients other than banks	Total adjustments
In EUR thousand						
Balance as at 1 January	3,619	84,110	87,729	3,180	46,501	49,681
Adjustments formed	11,620	58,669	70,289	2,596	50,536	53,132
Elimination of adjustments	(2,764)	(23,125)	(25,889)	(2,158)	(12,927)	(15,085)
Balance as at 31 December	12,475	119,655	132,130	3,618	84,110	87,728

• Changes in provisions

	2011	2010
	Provisions for off-balance-sheet liabilities	Provisions for off-balance-sheet liabilities
In EUR thousand		
Balance as at 1 January	2,577	4,250
Provisions formed	4,299	9,468
Elimination of provisions	(2,468)	(11,141)
Balance as at 31 December	4,408	2,577

- **Changes in adjustments (impairments) and provisions**

In EUR thousand	2011			2010		
	Impairments	Provision	Total	Impairments	Provision	Total
Balance as at 1 January	87,729	2,577	90,306	49,681	4,250	53,931
Increase	70,289	4,299	74,588	53,132	9,468	62,600
Decrease	(25,889)	(2,468)	(28,357)	(15,085)	(11,141)	(26,226)
Balance as at 31 December	132,130	4,408	136,538	87,728	2,577	90,305

6. Additional disclosures of the bank, which uses the standardized approach

- **Exposure value and exposure values with effects of credit insurances broken down by credit quality steps**
(Article 16 of the Decree on Disclosures)

In EUR thousand	2011		2010	
	Net exposure value	Exposure value with effects of credit insurances	Net exposure value	Exposure value with effects of credit insurances
Credit quality rate 0	3,968,632	4,014,820	3,820,638	3,872,858
Credit quality rate 2	21	21	1,135	1,135
Credit quality rate 3	7,791	842	0	0
Credit quality rate 4	197	197	13,813	4,964
Credit quality rate 5	120,683	118,537	121,690	121,354
Credit quality rate 6	79,482	67,509	76,281	63,908
Credit quality rate 7	40,568	15,448	43,922	16,153
Total	4,217,374	4,217,374	4,077,479	4,080,372

In disclosures broken down by credit quality rates the following exposure categories are taken into consideration: central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organizations, institutions and companies.

7. Operational risk

(Article 20 of the Decree on Disclosures)

The approach used for calculation of capital requirement for operational risk is presented in detail in the business section of annual report, in item 8.4., segment Operational risk.

8. Investments in equity shares not included in the trading book

(Article 21 of the Decree on Disclosures)

In EUR thousand	31.12.2011	31.12.2010
Book value	9,484	138
Revaluation surplus	(772)	70

Equity securities in the amount of EUR 9,350 thousand were obtained from the realization of receivables. All these securities are listed. They are defined as available-for-sale financial assets. In the accounting records they are recorded at fair value which is equal to the value of listing of the securities on stock exchange. The rest of the equity securities in the amount of EUR 134 thousand was also classified as available-for-sale financial assets

and are recorded at fair value in the accounting records. This part of the securities is not listed on stock exchange and is earmarked for managing the current liquidity.

Impairments in the amount of EUR 15 thousand were formed in the year 2011 for investments in equity shares.

SID Bank banking group realized no gains and losses from sales of investments of equity shares.

In 2011, SID Bank banking group subtracted negative effects due to revaluation, which amounted to EUR 772 thousand after taxation, from core capital.

9. Interest rate risk from items not included in the trading book

(Article 22 of the Decree on Disclosures)

Interest rate risk from items not included in the trading book arises from time discrepancy of items sensitive to interest rate and from different types of interest rates. SID Bank banking group decreases interest rate risk through coordination of investments and liabilities by their maturity, due date, types of interest rate and through use of derivative financial instruments.

SID Bank banking group measures interest rate risk with the method of interest gaps. Items are included in interest gaps according to due date or the date of first resumed determination of interest rates. Interest rate risk monitoring is conducted monthly.

SID Bank banking group measures exposures to sudden changes of interest rates by calculating the effect of change of level of interest rates on interest income and on capital value.

9.1. Effect on income or other measure of value used when managing interest rate risk in case of sudden increase or decrease of interest rate

Sensitivity analysis of all assets and liabilities items sensitive to interest rate is based on the assumption that the market interest rate would change by 100 basis points (1 percent p.a.). The impact on net interest income in the first year of change has also been calculated.

If the market interest rates increased by 100 basis points, net interest income of SID Bank banking group would increase by EUR 2,752 thousand in 2012 (by EUR 3,420 thousand in 2011). The change would be reflected as higher revenues in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed.

If the market interest rates change for less or more, the calculated results are proportional.

9.2. Available-for-sale financial assets

SID Bank banking group carried out a sensitivity analysis of the securities portfolio to the change of interest rate. The analysis shows how the fair values of securities or future cash flows of financial instruments would fluctuate due to the changes in market interest rates on the reporting date. The analysis does not include deposits given, which are typically of a very short-term nature and placed at a pre-arranged fixed interest rate, as well as mutual funds, which do not respond to the changes in interest rates to the same extent as debt financial instruments – bonds with fixed or variable interest rate. Only SID Bank has securities in its portfolio.

The analysis separately calculates the responsiveness of bonds with variable and those with fixed interest rates in view of the changes in the market interest rate. The analysis is based on the assumption of a change in the market interest rate by 100 basis points (1 percent p.a.).

10. Liquidity risk

(23a of the Decree on Disclosures)

The methodology of for liquidity risk management is defined in the Policy of Liquidity Risk Management, where the manners of management of the assets and liabilities of assets in domestic and foreign currencies on a daily basis and also in the long run are defined. Daily/operational liquidity and structural/long-term liquidity are both determined, measured and managed on a regular basis. SID Bank monitors and measures the exposure to liquidity risk on the basis of calculating the liquidity ratios in the manner determined by the applicable banking legislation, through careful planning of liquidity and implementation of internal liquidity measures prescribed for the management of liquidity risk. A calculation of liquidity gaps is performed on a monthly basis. SID Bank has no off-balance-sheet liabilities exceeding the contractually specified.

Identification, measurement, control and monitoring of liquidity is regulated by numerous regulations, including the Rules on Comprehensive Treatment of the Treasury Transactions, which defines different position limits, and the Rules on authorization and signing, which defines personal limits of the traders in treasury. Reduction of liquidity risk is also implemented through the established limits to domestic and foreign commercial banks, with which the excess liquidity facilities are placed. Limits are set based on international credit ratings and expert evaluation Risk Management. Limits are prescribed in a similar manner for to investments in securities, mainly bonds. SID Bank has internally set higher minimum liquidity ratios of the first and second grade than is prescribed by the central bank. In case these two ratios reach internally set limits, the Liquidity Risk Management provides measures, which are implemented to improve the ratios of both classes.

The bank mainly provides liquidity reserve by a portfolio of debt securities, which exceeds the value of EUR 100 million and represents a sufficient secondary liquidity. Most of the bonds are ECB Eligible, which enables our access to liquidity on the interbank market and with the central bank.

Diversification of liquidity sources is provided through the use of various financing instruments; raising of assets in the money market, drawing of concluded bilateral loan agreements and issues of debentures and bonds on the domestic and international capital markets.

Stress scenarios and contingency plan are defined in the Policy of Liquidity Risk Management. SID Bank does not accept bank deposits and is therefore not exposed to liquidity risk in the conventional sense. In case of anticipated problems with actual and/or structural liquidity, the bank appoints a crisis committee, which seeks appropriate measures to resolve the crisis in a given situation. The baseline scenario and liquidity stress scenario are usually considered weekly at the Liquidity Committee meetings.

11. Remuneration system

(23b of the Decree on Disclosures, all presented figures in the text are gross)

In the process of deciding on the remuneration policy for the bank, a proposal by specialist services was considered by the Management Board, Committee for Remuneration and Personnel Matters and the Supervisory Board, which consequently adopted the policy. Committee for Remuneration and Personnel Matters has four members (three members of the supervisory board and an external expert) and has mainly the following responsibilities in the system of remuneration: formulating positions on various aspects of the remuneration policy, reviewing the adequacy of the general principles of remuneration policies, verification of compliance of remuneration policies with the business policy of the bank in the long-term and evaluation of the adequacy of established methodologies, based on which the remuneration system encourages proper risk management.

Remuneration policy of the bank defines as employees with specific nature of work: the management board, consultant assistant to management board, management functions of internal controls system and management of other independent control functions, direct transferees of risks with a significant impact on the bank's risk profile (members of the liquidity committee, credit committee, and management board). The

nature of their work, as well as their competences and responsibilities when entering into transactions or assuming risks are considered as measure of significance of their impact on the risk profile.

Employees, who are authorized to enter into transactions of more than EUR 2,000.00, are considered to be direct transferees of risk. Measure of the importance of their impact on the bank's risk profile is defined quantitatively by reference to the respective criterion for significant items of the statement of financial position, which is used for the production of the annual report of the bank. This currently amounts to 1% of the bank's assets.

In accordance with the Remuneration policy, fixed remuneration for all categories of employees is at least 75% of the total employee revenue. Variable part of remuneration to employees with the specific nature of work (other than Members of Management Board and Consultant Advisor to Management Board) is paid in the same manner as to other employees in the bank - on the basis of performance to be assessed according to criteria of quality and quantity of work, economy at work and attitude towards colleagues and customers; it is determined monthly in the amount of 10% of the bank's amount for salaries, or yearly in the amount of 20% of the annual salary. Each organizational unit is entitled to a proportionate amount; head of the organizational unit decides of the distribution between workers based on evaluation of employee performance, while the management board decides of the payment for heads of organizational units on the basis of their performance. The management board may approve for each month additional funds for payment on the basis of performance to an individual worker, but the total amount of payments may not exceed 20% of the basic salary of the worker.

Based on the successful operation of the bank, an individual employee may be entitled to reimbursement of up to one average gross monthly salary of the employee paid for months in the current year, provided that the employee has been employed in the company continuously for at least six months. The management board decides by special resolution regarding payment based on performance, payment amount and payment date; usually in December of the current year. A reward for performance in 2010 was paid in 2011.

For performance criteria (as a basis for determining the variable remuneration) of the members of the Management Board and indirectly Consultant Assistant to Management Board, provisions of the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities (ZPPOGD) are used.

Billing cycle with changes in 2012 will coincide with the calendar year, while in 2011 for some employees with specific nature of work a monthly performance review was used. Period of suspension of variable remuneration occurs after the accounting period and in accordance with remuneration policy lasts for three years for President and Member of Management Board and Consultant Assistant to Management Board. For the rest of personnel the possibility of suspension in accordance with the regulations governing the salaries of bank employees is used.

In accordance with Slovene Export and Development Bank Act, the bank cannot and shall not pay the variable components of remuneration in the form prescribed financial instruments.

In 2011, a total of EUR 985 thousand was paid to employees with specific nature of work; of which EUR 350 thousand to Management Board (EUR 184 thousand to President Sibil Svilan and EUR 166 thousand to Member Jožef Bradeško), EUR of 181 thousand to business departments and EUR 454 thousand to other departments. Fixed components of salaries paid out to 11 employees with the specific nature of work totalled EUR 843 thousand, while the variable component was EUR 142 thousand; of which EUR 43 thousand to Management Board (EUR 23 thousand to President Sibil Svilan and EUR 20 thousand to Member Jožef Bradeško). Deferred part of variable revenues of Management Board totalled EUR 25 thousand (EUR 13 thousand to Sibil Svilan and EUR 12 thousand to Jožef Bradeško); there were no payments under this title in the year 2011.

Other revenues of Management Board in 2011 were as follows: holiday bonus for annual leave (Sibil Svilan EUR 2 thousand and Jožef Bradeško EUR 2 thousand), insurance premiums (Sibil Svilan EUR 5 thousand and Jožef Bradeško EUR 4 thousand) and travel reimbursement (Jožef Bradeško EUR 1 thousand).

12. Important business contact

(23c of the Decree on Disclosures)

Name of the person	Function	Business relation of SID bank with member or family member	Name of family member	Contract partner	Legal basis	The subject of contract	Contract value (in EUR)	Payment conditions
Aleš Berk Skok	Member of SB	Family member	Meta Berk Skok	Triglav Zdravstvena zavarovalnica	Contract dated 6 March 2006	Supplemental health insurance	5,184	15 days
Samo Hribar Milič	Member of SB	Member of SB		Chamber of Commerce and Industry of Slovenia	Decision of the Board of Chamber of Commerce and Industry of Slovenia dated 6 December 2011 and of Ljubljana Chamber of Commerce and Industry dated 21 November 2011	Membership fee for Chamber of Commerce and Industry of Slovenia and Ljubljana Chamber of Commerce and Industry	1,860	30 days
Samo Hribar Milič	Member of SB	Member of SB		Chamber of Commerce and Industry of Slovenia	Purchase order dated 15 January 2011	Organization of conference "SID Bank and development possibilities"	1,200	15-30 days
Samo Hribar Milič	Member of SB	Member of SB		Chamber of Commerce and Industry of Slovenia	Purchase order dated 21 December 2011	Hire of a hall	264	15 days
Samo Hribar Milič	Member of SB	Member of SB		Chamber of Commerce and Industry of Slovenia	Purchase order dated 1 April 2011	Literature	230	8 days
Samo Hribar Milič	Member of SB	Member of SB		Chamber of Commerce and Industry of Slovenia	Purchase order dated 9 May 2011	Seminar	80	
Total				Chamber of Commerce and Industry of Slovenia			3,554	

13. Credit insurance

(Article 25 of the Decree on Disclosures)

Types of insurances, used as a rule by SID bank, are defined in Rules on Insurance of Investment Operations. The Rules define general categories and principles of insurance, criteria for separate types of insurances, as well as operational procedures of establishing, documenting, monitoring/valuation and realization of insurance. The Rules also include rules on valuation of separate types of insurance and procedures of handling the property which is used as insurance.

SID Bank banking group considers as appropriate providers of unfunded credit insurance units of central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organizations and legal entities with high credit rating (at least level 2 credit quality in accordance with the ECAI methodology). SID Bank banking group does not use credit derivative financial instruments to reduce credit risk.

In SID Bank banking group valuation of pledged property is carried out at market value. If the property is listed, current rate is used for valuation. Unlisted property is valued on the basis of comparable transactions. Real

estate is valued by independent and qualified asset appraiser, taking into consideration the international standards of value assessment. Real estate valuation is prepared by market and mortgage value. Transaction price, which is not older than one year and is achieved in transactions among unrelated persons, may also be used.

During the whole time of repayment period of investment SID Bank banking group monitors credit rating of the receivable and insurance coverage of the investment. In the event of reduction in value of insurance, SID Bank Group takes out an additional insurance if necessary.

The amount of indirect credit and market exposures in the item accepted credit insurance is small, and with regard to the actual exposure to a single person or group of related persons (as calculated in accordance with the Decision) does not reach or exceed 10% of the balance of assets of SID Bank. SID Bank banking group prepares a quarterly report on indirect credit exposures.

The most important issuers of personal guarantees are banks, insurance companies, companies with good credit rating (joint and several guarantees) and natural persons - creditworthy joint and several guarantors.

Majority portion is represented by the following types of insurance: pledge of commercial real estate, followed by other guarantees of companies without rating or rating of less than A-, cession of claims for insurance, guarantees of companies without credit rating, guarantees of companies categorized as A class, pledging of ownership share in the company, insurance policy of SID bank for the account of the Republic of Slovenia, fiduciary transfer of real estate ownership rights, pledging of receivables for insurance, bills and other insurances.

• **Total exposure value by classes, insured by personal guarantees or credit derivative financial instruments**

In EUR thousand	2011		2010	
EXPOSURE CLASS	Amount	Structure in percent	Amount	Structure in percent
Central governments and central banks	0	0.0	0	0.0
Regional governments and local authorities	0	0.0	0	0.0
Public sector entities	4,520	5.2	0	0.0
Multilateral development banks	0	0.0	0	0.0
International organizations	0	0.0	0	0.0
Institutions	42,397	48.7	38,309	47.9
Corporate	40,143	46.1	38,979	48.7
Past due items	0	0.0	2,749	3.4
Items belonging to regulatory high-risk categories	0	0.0	0	0.0
Covered bonds	0	0.0	0	0.0
Positions in investment funds	0	0.0	0	0.0
Other exposures	0	0.0	0	0.0
Total	87,060	100.0	80,036	100.0

Included are only insurances suitable for decreasing of capital requirements for credit risk in accordance with the Decree on credit insurances.