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

(SID Bank, Inc., Ljubljana)

ANNUAL REPORT 2008

Company name:	SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana SID – Slovene Export and Development Bank, Inc., Ljubljana
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Statement by the President of the Board

Dear Ladies and Gentlemen

2008 marked a turning point for SID Bank, the financial sector and the economy. With the passing of the Slovene Export and Development Bank Act on 23 May 2008, SID Bank became the Slovenian promotional and development bank, thereby formally completing its transformation process of several years. Since the deepening of the financial and economic turmoil in 2008, SID Bank has established itself in this new role and reinforced its position in Slovenia's financial and economic system. The considerable market failures have also proved the crucial importance of public promotional and development banks and confirmed the decision to set up SID Bank, which in these times clearly showed the value added it can generate for its clients, owners, and employees. Moreover, the Bank became a pillar of efficient sustainable development for Slovenia's economy and the state.

Market failure and distrust sweeping through the international markets and Slovenia called for an expansion in the Bank's activities and spurred stronger demand for its services. As a result of increased lending, total assets rose 67 percent to EUR 2.1 billion. The rise in export credit and investment insurance against non-marketable risks was even higher, climbing 72 percent year on year to EUR 915 million. The above-average growth and the results exceeding the business plan’s figures are two-fold. On the one hand, good results reflected the needs of the economy and the conditions governing international financial markets, whereas on the other hand, they called for measures in risk management and, in particular, liquidity management.

In conditions when financial markets fail, filling the market gaps and overcoming the market shortcomings can become a new challenge for banks, in particular with regard to risk management. SID Bank has responded actively to the changes in risk management, concentrating primarily on the risks key to fulfilling its mandates and undertaking measures to minimise other, especially newly emerging, risks. Fast growth led to a change in risk portfolio structure, slightly affecting portfolio quality as well. In response to this change and to mitigate the consequences of the financial and economic crisis, SID Bank increased its impairments and provisions, which cut the Bank's net profit and decreased its return on equity. With capital adequacy over 11 percent throughout the year, the Bank was able to secure sufficient capital even if the crisis had pushed the losses to unexpected levels. Moreover, several scenarios were developed to prepare the Bank for a potential deepening of the crisis, its expansion or prolonged recession. Particular attention was paid to adjusting the Bank’s risk profile methodology as response to the new conditions as well as to adequate liquidity management and borrowing.

In the first half of 2008, SID Bank complemented its traditional products of providing enterprises with financing and insurance to improve their competitiveness in international markets, with a EUR 180 million package of new facilities aimed at financing research and development, environmental protection and energy efficiency as well as municipal and other infrastructure. The funds were extended either through commercial banks or directly to companies. The main target group were small- and medium-sized enterprises (SMEs) and potential exporters wishing to internationalise their operations. With some insurers and reinsurers withdrawing from insurance against marketable risks due to the recent developments in international markets, SID Bank increased its volume of export insurance against non-marketable risks. In 2008, fast growth was maintained in investment of Slovene companies abroad (the 2008 volume reached EUR 5.8 billion, again exceeding the annual volume for inward investment). Stronger demand for investment insurance was, therefore, another result of harsh economic conditions. To help the market cope with these, SID Bank introduced several new products, e.g., insurance of non-shareholders’ loans. The increase in insurance against non-marketable risks pushed the contingency reserves of the state up 6.7 percent to EUR 110 million.

When the credit crunch struck in the second half of 2008, SID Bank was fast to react to the market failure by diversifying its financing sources and adapting its products to the new conditions, both measures fostering further growth. As part of the government's anti-crisis package, in November 2008 SID Bank secured EUR 200 million worth in loans to help companies bridge the crisis. Only a month later, it issued EUR 250 million worth of bonds and by increasing the liquidity of commercial banks encouraged these to extend loans to companies, thus helping to alleviate the credit crunch. Financing through commercial banks facilitated efficient operation of Slovenia’s financial system in the crisis situation that had affected the country’s economy.

The financial and economic crisis has had a marked effect on the environment, but it has also affected the objectives of SID Bank's operation and its strategy. However, we can conclude that despite all the turmoil 2008 was a successful year, that SID Bank had taken the right steps to be ready when the crisis came; it increased its capital and secured new guarantees from the Republic of Slovenia to cover all the Bank's obligations, mandates and exceptions, as provided for in the new Act. More importantly, the Bank ran an efficient risk management system and upgraded its cost and corporate management.

Efficient cost management measures and controlling helped SID Bank put a lid on costs in 2008 despite its accelerated growth. To achieve this, Bank lowered its operating costs, thereby increasing cost efficiency. The share of total operating costs in total net income went down 30 percent. This was also due to an optimization of processes implemented as a result of a completed process optimization project along with some other changes, in particular in information technology.

Aware that the success of the Bank is based on the utmost dedication and efforts of our employees, their quality and motivation being its most valuable asset, we would like to extend our warmest thanks to all the employees of SID Bank and the SID Bank Group.

Another driver of the Bank's success was the capital increase by the Republic of Slovenia, bringing the Bank's share capital up from EUR 50 million to EUR 140 million. In line with the new Act and this guarantee, the Republic of Slovenia became the single shareholder of the Bank by paying out compensation to the minority shareholders. On this occasion, our special thanks goes to all SID Bank shareholders for their continuous financial and business support that has enabled the Bank to pursue ambitious development goals and establish itself in the current role.

In 2008 SID Bank, as the holding company of the SID Bank Group, undertook several initiatives and changes to strengthen its corporate function in the Group's subsidiaries. Despite harsh economic conditions, the subsidiaries of the Group achieved good business results although at a lower growth rate than SID Bank and with lower profits than in the previous years. The decline was caused by the crisis whose effects were felt most strongly in the field of insurance and claims at SID – Prva kreditna zavarovalnica and, to a lower extent, at PRO KOLEKT and PRVI FAKTOR. The crisis, however, did not affect the operations of the Centre for International Cooperation and Development; the Centre reached its set goals in official bilateral development aid, paving ground for Slovenian companies to acquire new deals in the framework of international development cooperation.

SID Bank, having successfully transformed into a specialised promotional and development bank with all the required mandates, guarantees, exceptions, and operating principles, now ranks alongside similar Europe's institutions with whom it maintained close cooperation also in the previous year. The Bank took an active part in the international activities of the EAPB, the Berne Union, the ISLTC, and other similar institutions. We expanded our activities and joined the NEFI (Network of European Financial Institutions for SMEs). In Slovenia, SID Bank signed a number of cooperation agreements with public institutions (e.g., Slovenian Technology Agency, Eco Fund, Regional Fund, Slovene Enterprise Fund), with an intent to offer clients a one-stop shop approach, providing them with better financial engineering services and a combination of refundable funds and grants.

The building up of crisis issues, shortage of sources and a series of development dilemmas have forced the Bank to adopt a broader view of the transactions and projects under its financing. Also in finance, a multidimensional perspective may occasionally be required to obtain a parallel and, above all, a long-term and sustainable view. This is our responsibility towards ourselves and towards our clients, and only thus SID Bank can truly promote the economy, international trade and growth, fostering development of all involved.

Consistent with our values and mission, this is the guiding principle of SID Bank. To prepare for the implementation of the new development paradigm, the Bank is introducing promotional banking products, assuming additional risks and devising new approaches for the assessment of companies, transactions and projects as well as the environment and energy efficiency in which they are implemented. All our activities are based on trade and technological transactions and should increase the value added of new products.

The future, unlike the past, will require us to restrain our own interests and strive to safeguard the common interests and the long-term ethical responsibilities we hold towards our economic and development future. In this respect SID Bank, working towards a harmony of short-term actions and long-term interests of our clients, owners and employees, will be one of the pillars of the new sustainable development model.

Sibil Svilan, MSc.

Statement by the Supervisory Board

In 2008 SID Bank's operations were overseen by the Supervisory Board in three compositions.

From 1 January to 18 September 2008 the Supervisory Board consisted of the following members: Stanislava Zadravec Caprirolo, M.I.A., Chairperson, Helena Kamnar, MSc, Deputy Chairperson (until 24 June 2008), Jožko Čuk, MSc, Deputy Chairperson (from 25 June 2008), Ivan Govše, Dr. Marko Jaklič, Dr. Robert Kokalj, Stanislav Berlec, MSc (until 20 May 2008), Dr. Maja Klun (from 28 July 2008), and Matej Čepeljnik (from 28 July 2008).

From 18 September to 21 November 2008 the Supervisory Board consisted of the following members: Dr. Andrej Bajuk, Chairperson, Andrej Vizjak, MSc, Deputy Chairperson, Stanislava Zadravec Caprirolo, M.I.A., Dr. Maja Klun, Dr. Žiga Turk, Dr. Ivan Žagar, Dr. Dimitrij Rupel, and Janez Podobnik.

From 21 November 2008 to 31 December 2008 the Supervisory Board consisted of the following members: Mitja Gaspari, MSc, Chairperson, Dr. France Križanič, Deputy Chairperson, Stanislava Zadravec Caprirolo, M.I.A., Dr. Maja Klun, Gregor Golobič, Dr. Matej Lahovnik, Zlata Ploštajner, MSc, and Dr. Ivan Svetlik.

Until 20 May 2008, the Supervisory Board Audit Committee comprised Helena Kamnar, MSc, Chairperson, Stanislav Berlec, Deputy Chairperson, and Romana Logar, MSc, as External Committee Member. Following the resignation of Stanislav Berlec and upon the expiry of the term of office of Helena Kamnar, the new Supervisory Board Audit Committee consisted of Dr. Marko Jaklič, Chairperson, Ivan Govše, and Romana Logar, MSc, as External Committee Member. The Audit Committee met at three meetings in 2008, at which it studied Supervisory Board meeting documents, drew up opinions and drafted Supervisory Board resolutions mainly with regard to the risk management system, internal audit and controls, and external audit.

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

In 2008, the Supervisory Board met at six regular and one correspondence meetings where it studied interim reports on the operations of SID Bank and the companies of the SID Bank Group, quarterly internal audit reports, and other general and specific issues related to the business operations of the Bank, and decided on all matters within its powers. Throughout 2008 the Supervisory Board closely monitored the implementation of SID Bank's Action Strategy 2007-2010, achievement of strategic objectives and delivery of key strategic projects, the Bank's IT development strategy, and risk management.

In 2008 the Supervisory Board discussed and decided on the following important issues:

- The Annual Report for 2007, the Auditor's Report, and the proposal concerning the distribution of accumulated profit,
- internal audit report for 2007 and other reports and recommendations by the Internal Audit,
- borrowings in international financial markets,
- changes to the Statute of SID Bank, and increase in capital in the context of harmonisation with the provisions of the ZSIRB,
- business policy and financial plan for 2009,
- issuance of SID Bank bonds and other measures aimed at reducing the effects of the financial crisis.

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 29 May 2009, the Supervisory Board examined in detail the Annual Report for 2008 together with the reports of the certified auditors prepared by the auditing company Deloitte revizija d.o.o., which gave its positive opinion on the financial statements of SID Banka, d.d., Ljubljana, for 2008 and on the consolidated financial statements of the SID Bank Group for 2008.

Upon examination of the mentioned reports, the Supervisory Board expressed an opinion that in 2008 SID Banka, d.d., Ljubljana and the SID Bank Group successfully followed its planned policy and exceeded the set business goals. Therefore, the Supervisory Board has no reservations to the submitted reports and hereby confirms the Annual Report of SID Banka, d.d., Ljubljana for the year 2008.

Andreja Kert
Chairperson

1. Highlights from the Business Operations of 2008

Business results of SID Bank in 2008 or as at 31 December 2008

Business results from operations on own account

- **Total assets**: EUR 2.1 billion (up by 67.2%)
- **Net profit**: EUR 2.8 million (down by 23.5%)
- **Loans given**: EUR 2.0 billion (up by 67.7%)
- **Value of guarantees issued**: EUR 72 million (up by 37.5%)

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

- **Export credit and investment insurance against non-marketable risks** on behalf and for the account of the state: EUR 914 million (an increase of 72.4%), broken down into: short term export credit insurance EUR 386 million, medium term export credit insurance EUR 22 million, and investment abroad EUR 507 million.
- Premiums: EUR 4.1 million (up by 2.1%); claims: EUR 13 thousand (down by 96.2%)
- Contingency reserve: EUR 110 million (up by 6.7%)

Key figures

in EUR million	2004	2005	2006	2007	2008
Number of shareholders	88	87	87	85	**1**
Nominal capital	38.9	38.9	38.9	89.6	**140.0**
Equity	79.4	103.3	104.4	107.6	**160.8**
Net profit	2.6	7.9	2.6	3.6	**2.8**
Return on equity after tax (ROE)	3.29%	7.99%	2.45%	3.72%	**2.28%**
Number of employees (31 Dec.)	83	62	68	69	**76**

Consolidated financial statements of the SID Bank Group

- **Total assets**: 2.3 billion EUR (an increase of 60.2%)
- **Equity**: EUR 180 million (up by 41.0%)
- **Net profit**: EUR 2.9 million (down by 57.6%)
- **Return on equity after tax**: 1.86% (5.45% in 2007)

** Note: Unless otherwise specified, SIT (Slovene Tolars) equivalents in EUR used for showing SID business results for the period 2004-2006 correspond to the middle (final monthly) exchange rates of the Bank of Slovenia on the last day of each calendar year. Thus the following exchange rates were used for expressing the data in EUR (31.12.2004: 1 EUR = 239.7430, 31.13.2005: 1EUR = 239.5756, 31.13.2006: 1EUR = 239.6400). For other operational figures the values expressed in EUR were calculated from the average monthly exchange rates of the Bank of Slovenia in a given calendar year (2004: 238.8615, 2005: 239.6371, 2006: 239.6013).*

Business results of companies of the SID Bank Group in 2008 or as at 31 December 2008

SID – Prva kreditna zavarovalnica d.d., Ljubljana

- Wholly-owned by SID Bank
- Equity: EUR 17 million (down by 9.6%), including credit risk equalisation reserve in the amount of EUR 9 million (down by 5.0%)
- Business volume (domestic and export credit insurance against marketable risks): EUR 5.1 billion (up by 9.3%)
- Total assets: EUR 52 million (up by 10.4%)
- Net profit: EUR 718 thousand (down by 60.2%)

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

- Wholly-owned by SID Bank
- Equity: EUR 144.9 thousand (down by 44.0%)
- Value of debts collected: EUR 3.9 million (down by 6.9%)
- Total assets: EUR 313.9 thousand (down by 15.3%)
- Loss: EUR 113.8 thousand (2007: EUR 144.2 thousand)

PRO KOLEKT Group

- Made up of PRO KOLEKT, Ljubljana, and its subsidiaries in Zagreb, Belgrade, Sarajevo, Skopje, Bukarest, and Sofia
- SID Bank's equity: EUR 76.4 thousand (down by 36.8%); Minority owners' equity: EUR 15.0 thousand
- Value of debts collected: EUR 6.2 million (up by 19.3%)
- Total assets: EUR 3.9 million (up by 1.0%)
- Loss: EUR 56.6 thousand (2007: EUR 265.2 thousand)

PRVI FAKTOR, faktoring družba, d.o.o.

- Fifty percent owned by SID Bank
- Equity: EUR 10 million (up by 47.0%)
- Value of receivables purchased: EUR 301 million (up by 20.4%)
- Total assets: EUR 157 million (up by 26.6%)
- Net profit: EUR 4.7 million (2007: EUR 1.7 million)

PRVI FAKTOR Group

- Made up of PRVI FAKTOR, Ljubljana, and its subsidiaries in Zagreb, Belgrade, Sarajevo, and Skopje
- Equity: EUR 15 million (up by 7.1%)
- Value of receivables purchased: EUR 1.0 billion (up by 28.8%)
- Total assets: EUR 369 million (up by 13.5%)
- Net profit: EUR 3.0 million (2007: EUR 6.2 million)

Centre for International Cooperation and Development

- SID Bank co-founded the Centre for International Cooperation and Development
- Operating income: EUR 443 thousand (up by 38.6%)
- Net revenue surplus in the business year: EUR 5.0 thousand (up by 11.1%)

2. Corporate Profile of SID Bank

Legal status and history

- SID Bank was established on 22 October 1992 as Slovenska izvozna družba, družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana (hereinafter referred to as SID), a specialised private-law financial institution for insurance and financing of exports of the Republic of Slovenia. The operation of SID Bank was governed by the Export Insurance and Finance Corporation of Slovenia Act, adopted in 1992.
- The Corporation was entered into the Register of Companies at the District Court of Ljubljana with Decision No. SRG 8096/92 of 27 October 1992, under record entry number 1/19966/00.
- The Act on Insurance and Finance of International Business Transactions (ZZFMGP), which entered into force in February 2004, codifies the fundamental principles governing the insurance and financing of international business transactions as Slovenia's trade policy instruments, and defines the role of the Republic of Slovenia in such transactions that provide the country's economic entities with the needed level of security and a possibility to operate competitively in foreign markets under the internationally agreed rules and regulations. Pursuant to the ZZFMGP, SID was obligated to harmonise its insurance-related operations which it had conducted on its own behalf and for its own account with the regulations governing the operation of insurance companies by 31 December 2004, and to harmonise its non-insurance related operations (i.e., operations not regulated by the ZZFMGP) with the regulations governing the operation of banks by 31 December 2006. Acting in accordance with the law, SID:
  - signed an agreement with the Ministry of Finance on the regulation of mutual relations concerning implementation of Chapter II of the ZZFMGP on 1 December 2004;
  - established an insurance company to which it transferred the insurance portfolio performed on its own behalf up until the end of 2004. SID – Prva kreditna zavarovalnica d.d., Ljubljana, wholly-owned by SID, was entered into the Register of Companies on 31 December 2004;
  - in 2006 completed the project of transforming into a bank in compliance with the deadlines specified in the Decision on Harmonising Business Operations of Slovenska izvozna družba, d.d., Ljubljana with the Regulations Governing the Operation of Banks, issued by the Bank of Slovenia pursuant to the ZZFMGP, by obtaining a banking licence to provide banking and other financial services from the Bank of Slovenia on 18 October 2006. Upon entry into the Register of Companies on 29 December 2006, the company was renamed SID – Slovenska izvozna in razvojna banka, or SID Bank, Inc., Ljubljana, for short[1], and
  - began formally operating as a specialised bank on 1 January 2007.
- On 23 May 2008 the National Assembly of the Republic of Slovenia passed the Slovene Export and Development Bank Act (hereinafter ZSIRB). The Act entered into force on 21 June 2008 and, pursuant to the provisions of Article 21 of the ZSIRB, became applicable on the date when the Republic of Slovenia became the single shareholder of SID Bank, namely on 18 September 2008. The ZSIRB bestows upon SID Bank two mandates: firstly, SID Bank shall be the specialized Slovene export and development bank authorized to promote and pursue the activity under the ZSIRB and, secondly, the Bank shall have the authority to perform all transactions under the ZZFMGP.
- On its own behalf and for its own account SID Bank acts in accordance with the ZSIRB by performing mainly financial services in segments where market gaps occur or have been observed. In conducting its operations, SID Bank uses all financial instruments provided for by the existing legislation. As a national export credit agency (ECA), the Bank performs insurance against non-marketable risks and conducts the Interest Rate Equalisation Programme (IREP) on behalf and for the account of the Republic of Slovenia.

Capital

- Pursuant to Article 4 of the ZSIRB, which stipulates that for the purposes of performing the tasks and achieving the goals under the ZSIRB, the Republic of Slovenia shall be the single shareholder of SID Bank and the minimum amount of SID Bank's share capital shall be equal to EUR 140,000 thousand:
  - at the General Meeting of Shareholders held on 28 July 2008 SID Bank shareholders adopted a decision to enforce a squeeze out of the minority shareholders. The transfer of shares was entered into the register on 18 September 2008, transferring all the shares previously owned by the minority shareholders onto the Republic of Slovenia and making the state the single shareholder of SID Bank.
  - SID Bank General Meeting held on 19 September 2008 endorsed a decision to increase the share capital of SID Bank by issuing 524,454 new ordinary no-par value shares in a total value of EUR 50,400 thousand, which are wholly owned by the Republic of Slovenia. The capital increase to EUR 140,000 thousand was entered into the Register of Companies on 15 October 2008.
- Nominal capital totalled EUR 140,000 thousand as at 31 December 2008, and EUR 89,600 thousand as at 31 December 2007

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

- The nominal capital is divided into 1,456,808 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.
- Equity was EUR 160,799 thousand as at 31 December 2008. The audited book value per share as at 31 December 2008 was EUR 111.76 and EUR 117.69 as at 31 December 2007.

Shareholders

- The sole shareholder of SID Bank is the Republic of Slovenia.
- 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.

- ***Shareholders (as at 31 December 2008)***

Shareholders	Number of shares	Ownership (in %)
Republic of Slovenia	1,438,363	98.73%
SID banka, d.d., Ljubljana	18,445	1.27%
Total	1,456,808	100.00%

Role, purpose and tasks of SID Bank

On the basis of, and in accordance with the following:

- the Slovene Export Insurance and Finance Corporation Act, on the basis of which SID was established in 1992 as a financial institution for insurance and financing of exports and for performance of other transactions aimed at encouragement and promotion of economic relations with foreign countries;
- 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 a specialised Slovene export and development bank authorised to engage in activities specified in the ZSIRB and as an authorised institution under the ZZFMGP;
- other laws and individual documents governing the promotional and development forms and instruments of the Slovenian, European and international economic activities in covering market gaps and other (permitted) forms of interventions and assistance, in particular international development cooperation, through exercising individual rights and obligations and the role of the Republic of Slovenia and its institutions in actively pursuing the objectives set forth in the development strategy of the Republic of Slovenia;

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

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

and other forms and economic activities contributing to the growth, development and prosperity, whereby the management and supervision bodies of SID Bank will, within the framework of the Bank's strategic policies, strive 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 of overall assessment and management of specific development risks;
- quality management systems, and
- corporate and social responsibility.

Activities

Financial services which SID Bank, in accordance with the law and with the approval of the competent authority, provided for own account in 2008, include:

- Granting credits, financing of business transactions
- Issuing guarantees and other warranties
- Trading for its own account or for the account of clients in foreign means of payment, including foreign exchange transactions, foreign currency and interest financial instruments, transferable securities
- Trading for its own account in monetary market instruments
- Credit rating services: collection, analysis and provision of information on creditworthiness of legal entities

Pursuant to the provisions of ZSIRB and after the date of its implementation SID Bank utilised the above services and financial instruments to support economic, structural, social and other policies in the areas specified in Article11, point 1, of the Act, as follows:

- International business transactions and international economic cooperation
- Economic incentives, with particular emphasis on SMEs, entrepreneurship, and venture capital
- Research and development
- Education and employment
- Preserving the environment and energy efficiency
- Regional development
- Commercial and public infrastructure

Under a legal authorisation provided for in the ZSIRB, SID Bank enjoys a status of an authorised institution under the ZZFMGP. For the account of the Republic of Slovenia, SID Bank performs:

- Short term export credit insurance and reinsurance against non-commercial and other non-marketable risks
- Investment insurance against non-commercial risks
- Medium term export credit insurance against commercial and/or non-commercial risks
- Interest Rate Equalisation Programme (IREP)

In performing its activities, SID Bank uses all financial instruments available to provide various forms of financing or related activities, also with an intent to promote international development cooperation. In the framework of international development cooperation that includes development and/or official assistance schemes of the Republic of Slovenia, SID Bank may also act in the role of an agent.

With consideration to its status and legal nature, the Bank may perform other tasks and activities under special agreement concluded with the Republic of Slovenia or with other public-law entities.

SID Bank operations for the account of the Republic of Slovenia

SID Bank performs insurance of international business transactions against non-marketable risks and conducts the Interest Rate Equalisation 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 utilised to settle liabilities to the insureds (claims payments), cover the cost of prevention and mitigation of future or reported losses, and to cover losses incurred. If the losses cannot be indemnified from the contingency reserves, the funds for claims payments are supplied by the Republic of Slovenia. Contingency reserves are set aside primarily from paid premiums, fees and commissions, recourses from paid claims and other revenues from insurance and reinsurance against non-marketable risks.

SID Bank manages contingency reserves under the agreement signed with the Ministry of Finance on 1 December 2004.

In insurance operations a special role is played by the government-appointed International Trade Promotion Commission, besides a number of other bodies.

The operations which SID Bank as the national export credit agency (ECA) performs on behalf and for the account of the Republic of Slovenia are clearly separated in terms of management and accounting from the operations which SID Bank performs for its own account.

3. SID Bank Group

SID Bank is a constituent part of the SID Bank Group, which also includes:
- SID – Prva kreditna zavarovalnica d.d., Ljubljana
- PRO KOLEKT, družba za izterjavo, d.o.o., with its subsidiaries
- PRVI FAKTOR, faktoring družba, d.o.o., with its subsidiaries

SID Bank is also a co-founder of the institute Centre for International Cooperation and Development.

SID – Prva kreditna zavarovalnica d.d., Ljubljana

The harmonisation of Slovenian legislation with the *acquis communautaire* and the adoption of new legislation, in particular the ZZFMGP, have led to changes in the organisational structure of SID and seen the expansion of the SID Group. As the sole owner of the company, SID established a specialised credit insurance company SID – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter PKZ), in 2004, thus harmonising its legal status and insurance-related business on own account with the regulations governing the operation of insurance companies.

PKZ was entered into the Register of Companies on 31 December 2004 and started operating on 1 January 2005. On that date, the insurance portfolio of short-term insurance, which SID had conducted for its own account up to the end of 2004, was transferred from SID onto the assuming insurance company, PKZ.

The registered principal business activity of PKZ is the conclusion and execution of property insurance in the insurance class of credit insurance. PKZ provides insurance for short-term credit to private-law entities (normally, suppliers' credit for up to 180 days or, exceptionally, up to one year). The company provides insurance against commercial and non-commercial risks for companies selling abroad and/or in Slovenia on deferred payment, normally on open account. Insurance contracts are normally made on a whole turnover revolving basis covering the risks of non-payment in foreign and/or domestic markets.

In 2007 PKZ started and in 2008 continued to conclude indirect insurance contracts used to provide coverage, based on facultative quota reinsurance, for insurance operations of loan collateral, collateralised with export credit agencies. The principal characteristics of insurance transaction reinsured in such a manner were the same as 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, Ms. Alenka Ferjančič of SID Bank, and Mr. Ivan Štraus, Employee Representative of PKZ.

The nominal value of the equity interest owned by SID Bank was EUR 4.2 million as at 31 December 2008.

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

PRO KOLEKT, družba za izterjavo d.o.o., with registered offices at Ulica Josipine Turnograjske 6, Ljubljana (hereinafter PRO KOLEKT, Ljubljana), was established in 2004 by SID as its sole owner. The nominal capital of the company as at 31 December 2008 was EUR 418.8 thousand. The nominal value of the equity interest of SID Bank in PRO KOLEKT, Ljubljana, is also EUR 418.8 thousand.

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

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

Aware of the importance of South East European markets for the Slovenian economy and the comparative benefits associated with their presence in the regional market, PRO KOLEKT, Ljubljana, began setting up a network of subsidiaries in 2006 and has established six subsidiaries to date:
- PRO KOLEKT d.o.o., Zagreb, Croatia, specializing in business consulting, was founded on 1 February 2006 by PRO KOLEKT, Ljubljana, as its sole owner. In 2008 the founder carried out a capital increase of EUR 10.0 thousand. After the capital injection, the nominal capital of the company is EUR 23.8 thousand. The General Manager of the company is Mr. Ivica Balenović; the General Meeting of PRO KOLEKT d.o.o., Zagreb, is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest

owned by PRO KOLEKT, Ljubljana, as at 31 December 2008, equalled the balance of the nominal capital on the same day.

- PRO KOLEKT d.o.o., Skopje, Macedonia, specializing in management consultancy activites, was founded on 6 July 2006 and is 80 percent owned by PRO KOLEKT, Ljubljana, and 20 percent owned by Mr. Vlado Naumovski. The nominal capital of the company is EUR 10.0 thousand. The General Manager of the company is Mr. Goran Markovski; the General Meeting of PRO KOLEKT, d.o.o, Skopje is represented by the General Manager of PRO KOLEKT, Ljubljana and Mr. Vlado Naumovski. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2008 equalled EUR 8.0 thousand.
- PRO KOLEKT, društvo za izterjavo dolga, d.o.o., Beograd, Serbia, specializing in other financial activities, was founded on 18 December 2006, and is wholly-owned by PRO KOLEKT, Ljubljana. The nominal capital of the company is EUR 25.0 thousand. The General Manager of the company is Mr. Nikola Debač; the General Meeting of PRO KOLEKT, društvo za izterjavo dolga, d.o.o., Beograd is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2008, equalled the balance of the nominal capital on the same day.
- PRO KOLEKT CREDIT MANAGEMENT SERVICES BUCURESTI S.R.L., Bukarest, Romania, specializing in management consultancy activities, was founded on 6 April 2007, with a nominal capital of EUR 25.0 thousand. In 2008, the nominal capital was increased by EUR 14.2 thousand paid up by the company director, Mr. Teodor Gigea, and Roexpert S.R.L. After the capital injection, the nominal capital of the company is EUR 39.2 thousand. PRO KOLEKT, Ljubljana, owns 51.02 percent of the company, Mr. Teodor Gigea 25.51 percent, and Roexpert S.R.L. Bucaresti 23.47 percent. The General Manager of the company is Mr. Teodor Gigea; the General Meeting of the company is represented by the General Manager of PRO KOLEKT, Ljubljana, the Director of Roexpert S.R.L.Bucuresti, and Mr. Teodor Gigea. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2008 equalled EUR 20.0 thousand.
- PRO KOLEKT SOFIA EOOD, Sofia, Bulgaria, specializing in management consultancy activities, was founded on 9 May 2007, and has a nominal capital of EUR 25.0 thousand. In 2008 Ms. Mariana Ikonomova carried out a capital increase in the amount of EUR 15.0 thousand. The nominal capital of the company after the capital injection is EUR 40.0 thousand. PRO KOLEKT, Ljubljana owns 62.50 percent of the company, the remaining share of 37.50 percent is owned by Ms. Mariana Ikonomova, who is also the director of the company. The General Meeting of PRO KOLEKT SOFIA EOOD 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 2008 equalled EUR 25.0 thousand.
- PRO KOLEKT d.o.o. Sarajevo, Bosnia and Herzegovina, specializing in management consultancy activities, was founded on 13 July 2007 and is wholly-owned by PRO KOLEKT, Ljubljana. The nominal capital of the company is EUR 25.0 thousand. The General Manager of the company is Mr. Vedad Tuzović; the General Meeting of PRO KOLEKT d.o.o., Sarajevo, is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana, as at 31 December 2008 equalled the balance of the nominal capital on the same day. In 2009 a capital increase of EUR 10.0 thousand is planned.

PRVI FAKTOR, faktoring družba, d.o.o.

PRVI FAKTOR, faktoring družba d.o.o., (hereinafter PRVI FAKTOR) is the leading factoring company in Slovenia and has its office registered at Slovenska cesta 17, Ljubljana. The principal business activity of the company is the performance of factoring services for clients with registered offices in the Republic of Slovenia and abroad with regard to claims arising from the sale of goods and services. The company 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 claims; claims management; encashment and collection of claims; 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, the other shareholder being Nova Ljubljanska banka d.d., Ljubljana. The nominal value of the equity interest owned by SID Bank was EUR 584.2 thousand on the day of entry into the company. After the 2007 capital increase, the nominal value of the equity interest owned by SID Bank is EUR 1.6 million.

The company's bodies are the General Meeting and General Manager, Mr. Ernest Ribič.

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

- PRVI FAKTOR, faktoring društvo, d.o.o., Zagreb, Croatia, specializing in factoring. The company was founded on 17 March 2003; its nominal capital is EUR 2.6 million. The General Manager of the company is Mr. Tomaž Kačar; the General Meeting is made up of the representatives from PRVI FAKTOR, Ljubljana.
- PRVI FAKTOR, faktoring d.o.o., Beograd, Serbia, specializing in factoring, was founded on 24 February 2005. The nominal capital of the company is EUR 1.3 million. The General Manager of the company is Mr. Dmitar Polovina; the General Meeting is made up of the representatives from PRVI FAKTOR, Ljubljana.
- PRVI FAKTOR d.o.o., financijski inženiring, Sarajevo, Bosnia and Herzegovina, specializing in other types of financial intermediation, was founded on 27 February 2006. The nominal capital of the company is EUR 451.0

thousand. The General Manager of the company is Mr. Nedim Rizvanović; the General Meeting consists of representatives from PRVI FAKTOR, Ljubljana.

- On 22 September 2006, PRVI FAKTOR d.o.o., Skopje was entered into the Register of Companies; its nominal capital is EUR 5.0 thousand. The company has not begun operating yet.

The nominal value of the equity interests owned by PRVI FAKTOR, Ljubljana in the companies of the PRVI FAKTOR Group as at 31 December 2008 equalled the balance of the nominal capital on the same day.

Centre for International Cooperation and Development

On 28 December 2006, SID Bank signed the second Amendment to the Agreement Concerning the Restructuring of the institute Centre for International Cooperation and Development (hereinafter CMSR), thus making SID Bank a co-founder of CMSR with whom it had worked closely prior to the signing. The other co-founder is the Republic of Slovenia. The institute will continue to pursue its existing activities, namely macroeconomic and political analyses of various countries, country risk assessments and similar macroeconomic and other analyses and public relations work, while focusing *inter alia* on staff training in the area of international development cooperation. In 2007 CMSR began performing technical and operational tasks linked to international development cooperation on the basis of an authorisation issued by the Government of the Republic of Slovenia. Throughout 2007 and 2008, all the available funds were transferred to the countries beneficiaries of Official Development Assistance (ODA).

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

4. International Economic Environment and Slovenian Economy

World economy in 2008

After a slowdown in 2007, the EU economic growth declined in 2008. The GDP growth in the EU was 0.9 percent, down from the 2.9 percent at the end of 2007. In the euro area, GDP growth fell by 1.8 percentage points compared to 2007, recording a low 0.8 percent.

According to Eurostat, real quarterly GDP growth turned negative in both the EU and the euro area in the second quarter of 2008 and did not recover since. In the last quarter of 2008, real GDP growth dropped by 1.5 percent.

Particularly worrying is the decreasing GDP in large European economies – Germany, Italy, and the Netherlands – where growth has been negative for three successive quarters. Besides the above, negative quarterly growth was also recorded in Great Britain, Portugal, Spain, Latvia, and Hungary. In the last quarter of 2008, GDP was also down in Austria, Czech Republic, France, Belgium, Lithuania, and Slovenia.

Russia's GDP growth in 2008 was 5.6 percent, the lowest after 2002. According to preliminary figures, economic growth in the US was 1.1 percent, in Japan it was negative at -0.6 percent.

The economies less severely affected by the turmoil in financial markets include Romania, with and annual GDP growth rate of 7.1 percent, and Bulgaria, with 6.0 percent. Outlook is also favourable for Macedonia, its GDP growth rate recording rise of 5.5 percent in the third quarter of 2008 compared to the same period in 2007 (2008 estimate: 5.1 percent). The increase was driven mainly by growth in the mining, processing, and electricity, gas and water (10.6 percent) and trade (8.9 percent). Compared with 2007, personal consumption expenditure went up by 8.6 percent in 2008.

According to the data from the National Bank of Serbia, GDP growth in the third quarter of 2008 was 4.9 percent compared to 2007 figures. Serbia's economy was significantly affected by the shrinking of industrial production, exports and imports. In Croatia, economic activity weakened considerably in the second half of 2008 and despite recording a 1.6 percent in the third quarter compared to the same period in 2007, the figure was down 0.5 percent from the previous quarter. The trends are expected to continue in the last quarter of 2008 and transfer to 2009.

According to the latest economic forecasts, the European Commission is expecting GDP in the EU to decrease by almost 2 percentage points in 2009. GDP growth is expected to turn moderately positive to about 0.5 percent in 2010. In 2009 slowdown in economy is expected to lead to increased unemployment figures. The European Commission warns that the headline deficit will rise; in 2009 several Member States are projected to breach the 3 percent of GDP reference value set by the EU. A further deterioration in budgetary outlook is expected for 2010.

Slovenian economy in 2008

In Slovenia, economic growth rate was 3.5 percent in 2008. Quarter-on-quarter real GDP growth rate dropped by 0.8 percent in the last quarter of 2008, and by 4.1 percent compared to the third quarter of 2008, for the first time after the second quarter of 1993. GDP at current prices amounted to EUR 37.1 billion, or EUR 18,196 thousand per capita.

Deficit in the current account of the balance of payments rose to EUR 2,180 million, or 5.8 percent of the estimated GDP, posting an increase of EUR 725 million year-on-year. In the first half of the year, the increase in deficit was driven mainly by rising prices of fuel and commodities and a relatively strong domestic demand. With the economic growth slowing down in the second half of the year, current account deficit dropped slightly in the last two months of 2008, due to a considerable decline in the import and export of goods.

After plunging in November and December, the 2008 growth rate of trade in goods was the lowest since 2003. In December 2008 Slovenia's exports of goods were 15.0 percent lower than in December 2007, also due to a significant decrease in demand from EU states. Imports recorded a 12.6 percent drop year-on-year in December 2008.

In 2008 current account balance was only affected positively by the surplus in the services subtotal amounting to EUR 1,703 million. The subtotals of goods, incomes and transfers, however, reported a deficit, amounting to EUR 2,662 million in the balance of trade, EUR 1,008 million in the balance of incomes, and EUR 212 million in current transfers balance.

The deficit to the EU countries (EU27) was EUR 4,230 million in the twelve months of 2008, a year-on-year rise of EUR 960.8 million. The surplus in trade with EFTA countries lowered by EUR 8.7 million. Trade with the former Soviet Union countries showed a rise in surplus of EUR 198.5 million, totaling EUR 698.3 million, and the surplus in trade with the countries of former Yugoslavia increased EUR 303.9 million to reach EUR 1,797.2 million. The deficit in trade with the rest of the world rose by EUR 640.2 million to EUR 1.483.4 million. The period January-

December 2008 showed a year-on-year rise in Slovenia's trade deficit to Austria (by EUR 91.9 million), Italy (by 419.2 million) and Germany (by 47.7 million). The trade surplus with Croatia went up (by EUR 141.0 million) but the trade surplus with France contracted (by EUR 11.4 million).

In 2008 the surplus in services trade reached EUR 1,781.6 million, exceeding the 2007 figure by EUR 588.4 million.

Among services travel as the most important item on the export side accounted for 40.1 percent of total exports of services for the twelve-month period in 2008. It travel was followed by transport (27.7 percent) and other business services (16.9 percent). On the imports side, in importance business services (24.4 percent) were followed by travel (25.5 percent) and transport (24.9 percent). The structure of exports and imports in 2008 was similar to the previous years, with the share of other business services increasing and the share of travel dropping over the studied period.

Net capital inflows, excluding international cash reserves, totalled EUR 2,284.3 million, compared with EUR 1,625.0 million in the same period in 2007. In 2008 the highest net capital inflow was from loans, making up EUR 1,308.7 million, followed by portfolio investment at EUR 606.4 million, direct investment at EUR 255.9 million, and cash and deposits with EUR 151.7 million in net inflows. The only net outflow item in 2008 (excluding reserves) was commercial loans (EUR 44.8 million).

The registered unemployment rate was on the decrease until the third quarter of the year 2008 when it reached the lowest value since 1993 (6.4 percent). The conditions in the labour market deteriorated in the last quarter of 2008 and in January 2009 the number of unemployed already exceeded the January 2008 figure. In December 2008, the number of employed persons in Slovenia was 946.5 thousand, a 1.5 percent rise over December 2007. The registered unemployment rate in December 2008 reached 7.0 percent. The decrease in the number of employed persons in December 2008 exceeded the normal seasonal trend for the period. The drop was most severe in processing and construction industries.

The year-on-year growth of gross wages decelerated in the last quarter of the year as a result of a slowdown in the private sector. The private sector saw wage growth nearly halved compared to the previous quarter, whereas as a result of eliminating wage disparities, the growth of gross wage in the public sector continued to rise. The total gross wage rose 8.3 percent in 2008, the figure significantly above the 2007 figure (5.9 percent) despite the moderation at the end of the year.

The effects of the financial crisis in Slovenia's banking sector were indirect, largely due to low exposure to securities that triggered the crisis. The expansion of the crisis in September 2008 saw a tensioning in the conditions in the inter-bank markets as the most important source of financing for the credit facilities of Slovenian banks. The tightening of conditions was particularly acute with regard to loans, with the interest rates (reference interest rates and margins) rising and the maturity of loans shortening as a result of growing uncertainty. The lending activity of Slovenian banks first moderated, almost coming to a halt at the end of the year 2008.

After a gradual slowdown in the first ten months of 2008, the credit activity of domestic banks all but stopped in November due to turbulence on international inter-bank markets, hitting the lowest points after March 2005. In December the lending activity of Slovenian banks strengthened slightly, but remained low compared to the first ten months of the year (monthly loan flow amounted to EUR 63.5 million). Although the lending activity was relatively low in December 2007, the year-on-year growth rate was down 0.8 percentage points at the end of 2008, at 18.1 percent year-on-year, and was 14.2 percentage points lower than at the end of 2007.

Return on equity for banks dropped to 9.0 percent in 2008. The negative trend was also seen in the financial intermediation margin, nearing 3.2 percent in 2008, non-interest margin amounting to just under 1 percent, and interest margin reaching 2.2 percent.

According to unaudited data, bank profits plunged by nearly a third compared to 2007. Unaudited data state that eleven banks achieved lower business results than in 2007. Despite the worsening conditions, however, no bank reported a loss from operations.

With the ECB's key interest rate decreasing, EURIBOR declined as well. According to the last available data, interest rates for loans to companies are being cut as well. Interest rates for short-term loans rose from 5.83 percent in December 2007 to 6.17 percent in December 2008. In long-term loans to companies, interest rates fell from 5.79 to 5.76 percent for loans with a maturity of 1 year to 5 years, declining even more significantly for loans of over 5 years, from 5.63 to 5.21 percent. In December 2008 interest rates for company overnight deposits were up 0.09 percentage points from December 2007. More marked was the increase in interest rates for company deposits with maturity of two years or more, rising from 4.57 to 4.74 percent. Interest rates for deposits with agreed maturity up to two years dropped slightly, from 4.50 percent in December 2007 to 4.46 percent in December 2008.

The year-on-year dynamics in financing to the non-banking sector fell below 18 percent in December 2008. Net increase in loans to non-banking sector totalled EUR 28 million. The trend was only positive for loans to non-financial companies and households, with deleveraging in other parts of the non-banking sector.

The 2008 increase in household loans was attributable to housing loans. In contrast, consumer loans and other types of household loans declined in value. The year-on-year growth in housing loans was 27.3 percent in December 2008, 9 percentage points below the figure for December 2007. Consumer loans showed growth of 5 percent, 15 percentage points less as at the end of 2007.

2008 saw a marked increase in bank borrowing from the Eurosystem. At the end of the year 2008, bank liabilities to Eurosystem reached EUR 1.2 billion, accounting for 2.5 percent of the GDP.

After climbing nearly 80 percent in 2007, the Ljubljana Stock Exchange (LJSE) benchmark index lost over two thirds of its value in 2008, dropping to the level from more than 5 years ago. In the last quarter of 2008 alone, its value sank by more than 40 percent, which is comparable to the annual losses experienced by well-developed international capital markets. The negative trend was mainly driven by the rapid transmission of the financial crisis into the real economy, its effects intensified by strong growth of previous years.

The key factors for lower inflation are the same factors driving its increase. In 2007 and in the first half of 2008 Slovenia reported on a marked rise in inflation, driven mainly by the growing prices of commodities (oil) and food in the world markets, which under the strong conjuncture trends affected the consumer prices in Slovenia more severely than in other economies of the euro area. In the last months of the year, when the world experienced a sharp drop in oil prices (from approximately USD 150 per barrel to USD 50 per barrel in December 2008), a decline in food prices and a slowdown in economic growth, topped with expectations for the coming months, inflation decelerated relatively quickly. The average annual inflation rate in 2008 was 5.7 percent, ending the end at 2.1 percent.

Influences on SID Bank Operations in 2008

- **Financing of international business transactions**

The financial crisis that started in 2007 and intensified considerably in the last quarter of 2008, affected the dynamics and the structure of financing of international business transactions. Towards the end of the first six-month period, the effects of the crisis became apparent in the reluctance of commercial banks to provide long-term credit support for international business transactions of companies whose activity at the time was particularly high in the markets of former Yugoslavia and in non-OECD markets. At the end of summer, SID Bank catered to the increased demand for long-term financing relating to such transactions largely through commercial banks or by co-financing larger export and investment transactions.

As the turmoil in financial markets intensified in the second half, and the last quarter, of 2008, it became apparent that, with the international loan market not functioning, commercial banks would be unable to provide sufficient funds to bolster the economic activity relating to international business transactions, entrepreneurship, investment in environment and renewable energy resources, regional development, research, and innovations. In addressing this issue, SID Bank, from mid-November to the end of 2008, secured nearly EUR 500 million worth of earmarked funds to support regular business conduct and investment into the above areas through commercial banks. In so doing, the Bank put in place an appropriate control system to monitor whether the funds are put to use in line with the schedule and criteria agreed, and intensified its monitoring of financial institutions and other companies.

The changed economic climate and the conditions governing financial markets led to a reduction in the maturity of extended funds, whose effects were most profound in the last quarter of 2008 and with regard to bank placements with an average maturity of 3 years.

The financial crisis spreading into the real sector resulted in more intensive monitoring of risks and corporate risk assessments as well as consideration and valuation of these in financing costs, which contributed, along with the limited sources of financing, to a rise in interest margins pushing above the reference interest rates.

- **Treasury transactions**

Most of Treasury transactions were conducted in euro, transactions in American dollars took up about three percent of all transactions whereas no transactions were made in other currencies. With regard to securities, the Treasury invested in both fixed-income and variable-income instruments. The changes in the currency markets had no marked effect on SID Bank as its open foreign currency position was almost closed. Most of the SID Bank's balance sheet was denominated in euro as the country’s domestic currency.

There was no significant exposure to changed European interest rates as a result of the Bank's balance sheet composition. Variable-rate investments and variable-rate liabilities linked to Euribor take up a significant portion of assets and liabilities, respectively.

Dramatic fall in securities prices and persistent cuts of key interest rates undertaken by central banks worldwide were largely driven in 2008 by the financial crisis which has spread from investment and commercial banks, funds, insurance companies and other securities investors across the globe and intensified into a global financial crisis. After the investment bank Lehman Brothers filed for bankruptcy in September 2008, the crisis deepened. Financial markets witnessed an utter lack of confidence among the financial operators, which led to a freezing of the money market and the market of syndicated loans. The banking sector worldwide was affected by severe liquidity problems and large commercial banks started to approach their owners and states for various forms of assistance (guarantees, capital increase, nationalization). Towards the end of the year, three largest Icelandic banks were nationalized by the country's government, despite this they went to bankruptcy. With these tightening conditions in international financial markets, developed western states one after the other began announcing at the end of the year 2008 that their economies had officially entered a recession.

- **insurance against non-marketable risks**

In 2008 SID Bank increased its business performed on behalf and for the account of the Republic of Slovenia in investment insurance and in medium-term export credit insurance, extending its support largely to exports and investments to the markets of Russia, the countries of former Yugoslavia, and Iran.

Russia remains the leading market for medium-term export credit insurance although in the last year it was hit by the effects of the global crisis like all other countries. Still, the Russian government was very fast at implementing anti-crisis measures designed to increase the liquidity and maintain the confidence in the banking system. The measures, judged by the IMF as appropriate and timely, helped Russia contain the crisis till the end of the year. Despite the turmoil in domestic and foreign financial markets, relatively high level of domestic demand and economic growth was maintained until the end of the year, with the latter starting to show signs of a slowdown. Transactions insured chiefly cover construction projects and exports of high technology and other equipment.

SID Bank Emergency Committee closely monitored the situation in the target markets of Slovenian exporters and investors, including Iran, and considered Iran's country risk reflecting the country’s uranium enrichment and the resulting response from the international community. The Committee met twice on this issue and carefully examined all ongoing measures against Iran. The Committee established that in 2008 the international community and, in particular, the EU did not toughen its sanctions against Iran but that the EU Council called upon the states to exercise vigilance over the activities conducted between financial institutions and Iran to exercise vigilance at entering into new commitments, including export credits. In the light of the above, the basic SID Bank policy remained unchanged, except in the part where it refers to individual banks.

Investors showed to increased interest for medium-term export credit insurance to the markets of former Yugoslavia despite the growing volume of trade in goods, which was largely related to exports of goods on short-term payment, these primarily covered by SID Bank's subsidiary, PKZ (marketable risk insurance). In contrast to low interest for medium-term export credit insurance, demand for investment insurance grew significantly. The rise in demand was largely driven by unstable political environment, characterised by the uncertainties surrounding the independence of Kosovo and the position Serbia assumed towards this issue, border disputes between Slovenia and Croatia, years of disputes between Macedonians and Albanians, intensified further by the tension arising in relations among Albanian political parties and two most important Macedonian political parties, as well as the inability of Bosnian politicians to achieve a consensus without international intervention. As a result, risk exposure for investment insurance in the area of Balkans is increasing, with the majority investments insured being placed in Serbia and Bosnia and Herzegovina.

Influences on the operations of other companies within the SID Bank Group in 2008

- **PKZ**

Owing to the characteristics of credit insurance, national economic conditions in Slovenia and in the markets where PKZ clients perform their business activities have a considerable influence on the operations of PKZ. The most important economic indicators include economic growth, inflation rate and the export and import of products and services. These indicators can significantly affect the volume of transactions which can be insured and also, potentially, the business operations of PKZ. Economic conditions are also a significant contributor to the PKZ's loss ratio. In general terms, worsening of economic conditions in 2008 led to a decrease in orders, rise in insolvency proceedings and protracted default, which was reflected in zero growth of premium and deterioration of loss ratio.

PKZ underwrites risks in a number of 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 volume or exposure. According to the above-mentioned criteria, the main PKZ markets include Slovenia (which is most important), Germany, Italy, Croatia, Russia, Austria, France, and Poland.

In Slovenia, the growing possibility of bankruptcy and insolvency cases in 2008, compared to 2007, strengthened the demand for insurance. Nevertheless, in the last quarter of 2008 the effects of a slowdown in economic growth that had hit Europe also became felt in the Slovenian economy and, consequently, in PKZ's performance. The effect of the dramatic decline in export orders was two-fold: on the one hand, it led to a reduction in business insured falling behind the plan, whereas on the other hand, it increased the probability of claims due to lower liquidity of companies.

- **PRO KOLEKT Group**

The first half of the year was characterised by strong economic growth, active internationalization, and a search for new markets and new investments. As a result, the PRO KOLEKT Group achieved its planned growth of acquired cases. The liquidity situation was comfortable in this period, and the value of debts collected was relatively good.

Towards the end of the year 2008, however, the first effects of the financial crisis became apparent and were reflected in the worsening liquidity of companies. Default on payments for goods and services increased and so did the number of debt collection cases. Liquidity problems are most severe in the national economies of South East Europe. In these markets, important importers of Slovenian goods and services operate and most partners of Slovenian companies are based. Towards the end of 2008 the PRO KOLEKT Group reported on the highest growth in the number of new collections claims, and the trend is maintained in 2009. However, thin overall liquidity makes debt collection much more demanding and in order to be successful, collection agents need to invest much more knowledge, be more resourceful and creative in their activities.

- **PRVI FAKTOR Group**

Despite the threatening economic crisis, the conditions in Slovenia's economic environment were sufficiently favourable in the last quarter of the year 2008 to secure the annual growth of PRVI FAKTOR. Successful performance of the PRVI FAKTOR Group depends heavily on the situations in markets where the subsidiaries of PRVI FAKTOR, Ljubljana are based.

Although the establishment of new factoring agencies intensified the competition, the conditions in Croatia and Serbia remained favourable for factoring services, whereas in Bosnia and Herzegovina PRVI FAKTOR remains the only company providing factoring services.

5. Development Strategy of SID Bank

The role and position of SID Bank are defined in the Action Strategy of SID Bank, Inc., Ljubljana for the period 2009–2013.

Mission

The mission of SID Bank is to develop, provide and promote innovative, long-term financial services designed to complement financial markets for the sustainable development of Slovenia.

Vision

Through dedication to its mission, the acquisition of new knowledge and skills and the development of optimal solutions tailored to the needs of Slovenian companies and banks, SID Bank will become a main Slovenian promotional institution by the year 2013 whose comprehensive range of services complementary to the financial market and its integrating role in the field of Slovene development financing will continue to be an important factor in Slovenia's economic growth. Through development promotion instruments, SID Bank intends to double its total assets by the year 2013, while at the same time maintaining its financial stability.

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

Transparent, efficient and socially responsible SID Bank operations, sensitive to the needs of its employees and customers, in particular SMEs, performed on a high technological level and to high quality standards, and implementation of the objectives of Slovenia's development strategy will be the framework on which SID Bank will base its efforts – to be seen as an effective and valued partner for development.

Strategy

The key strategic direction of SID Bank is to continue its process of transformation from an institution specializing in promotion of international business transactions (a typical ECA) into institution where majority of promotional, public-finance functions are concentrated, covering the entire spectrum of sustainable development of the Republic of Slovenia. In identifying the markets gaps and generating maximum value added of such an institution (activity expansion study), the following key future fields of activity had been recognized:

- International business transactions and international economic cooperation
- Economic incentives with particular emphasis on small and medium-sized enterprises, entrepreneurship, and venture capital
- Research and development
- Education
- Employment
- Preserving the environment and energy efficiency
- Regional development
- Residential issues
- Commercial and public infrastructures
- International development cooperation.

The above were considered in the definition of the long-term objectives of SID Bank's business policy for the period up to and including 2013, fully accounting for the financial and market aspects, internal perspective, education and development.

Working to these objectives, SID Bank prepared an Annual Operational Plan for the Bank as a whole and by organisation units, as well as by other companies of the SID Bank Group (in the form of financial plans). The Annual Operational Plan is a comprehensive collection of all concrete tasks and projects which need to be carried out for the company to achieve the goals specified in its Strategy.

In the following strategic period, the introduction of development financing instruments will play a crucial role in the performance of the Bank's core activities. Thus, the Bank's activities in 2009 will be intensive and focused on putting the requirements stemming from the ZSIRB into practice as soon and as effectively as possible.

Through the existing financial instruments and fields of activity, SID Bank will strive to enhance portfolio diversification, in particular in the non-banking sector, although for obvious reasons the trend towards reducing the share of banks will turn around temporarily due to the financial crisis and necessary temporarily re-shaped operations of SID Bank. In international business transactions, SID Bank will cooperate with the competent national institutions to promote transition to certain new markets. As a development bank, it will use its existing instruments to participate, when so required, in financing large projects of national importance.

In 2009 SID Bank will start to develop new products and instruments in several priority areas of development banking and sustainable development under the ZSIRB, while actively catering to these segments through its existing range of financial instruments. The Bank plans to be more active in the deployment of structural and cohesion funds of the EU as well.

Further, SID Bank will place importance on enhancing its contacts and cooperation with international institutions, especially in development banking, both through business cooperation and transfer of knowledge and experience. These institutions mainly include development banks and other institutions of the European Union, similar national development banks and various international professional associations.

The participation of SID Bank in the government's anti-crisis measure packages will depend on the content of selected measures. Irrespective of these, the Bank will use all the available resources to achieve a counter-cyclical effect on the economy through provision of its regular operations and expansion of development banking activities.

In export credit and investment insurance performed on behalf and for the account of the state SID Bank plans to increase the number of users of insurance products, the volume of business insured and insurance premiums, and further expand its coverage of Slovenia's exports in SEE markets. In this context, SID Bank will pay particular attention to further reduce conditionality and respectively improve the quality of insurance cover, keep up with world trends in retaining the recognition of such insurance instruments as first-class and in officially supported export credits in general, and strive to put relevant issues in its internal rules and policies. In addition to implementing certain financial system stabilisation measures under the authorisation of the state, SID Bank will pursue an active insurance policy in its current key markets (CIS, SEE) in the light of achieving counter-cyclical effects under the conditions of economic crisis.

In 2009 the Bank will maintain its current transparency of business operations and disclosure in insurance business, including the activities performed by the International Trade Promotion Commission, who will retain its crucial role in this segment. Moreover, the Bank will strive to further strengthen its partner relations (through bilateral cooperation and as member of peer associations) with foreign ECAs, remain an active member of the Berne Union, and respond to the initiatives for coordinated support to joint projects in third markets.

To cope with the expansion of activities driven by an increase in business volume as well as adoption of new activities under the ZSIRB, SID Bank will need to increase its head count, identify and recruit key professionals with field-specific experience, recruit suitable and high-potential staff and develop »own« employees. Further improvements effected through a series of concrete tasks are also planned for organisation structure, corporate culture and communications.

In line with the information technology development strategy adopted in 2008, development of IT support will be intensified. The Bank will also continue upgrading its risk management system pertaining to credit, interest rate, liquidity and operational risks and proceed with the optimization of processes and corporate culture, strengthen the implementation of strategic business cycle and foster participative organisation. SID Bank will undertake a step-by-step implementation of umbrella corporate governance and the principles of sustainable development and corporate social responsibility as some of the key values of SID Bank's corporate culture.

Values

SID Bank’s main corporate values, a set of basic principles guiding the Bank’s operations, which employees should embrace and demonstrate in their daily work, in their relations with colleagues and in their contacts with customers and other interest groups, include:

- The ability to identify and satisfy the needs of customers and the environment
- Responsibility
- Openness and creativity
- Loyalty and commitment
- Professionalism and teamwork
- Trustworthiness and transparency
- Cooperation and sustainable development.

6. Review of SID Bank Group Operations in 2008

6.1. Financial review of the operations of SID Bank and SID Bank Group

In 2008 SID Bank again increased the volume of business in all the main business activities of SID Bank and the SID Bank Group. The company's business operations and results especially for in the second half of the year were affected by the recent financial and economic turmoil. SID Bank's inclusion in the anti-crisis measures led to an increase in the Bank's volume of financing in the last quarter of the year, pushing total assets to over EUR 2 billion at the end of the year, considerably above the plan. Owing to the changed business conditions, higher growth and the effects of the crisis the results presented in the Income Statement of SID Bank also differ from the planned figures.

In the continuation we present the Balance Sheet Summary and the Income Statement Summary for 2008 for SID Bank and the SID Bank Group. The consolidated statements of the SID Bank Group include PKZ according to the full consolidation method and the PRVI FAKTOR Group according to the proportional consolidation method. Owing to its insignificant impact on the financial position and business results of the SID Bank Group, the PRO KOLEKT Group is not included in the consolidation.

Balance sheet summary as at 31 December 2008

	SID Bank			SID Bank Group		
	in EUR thousand	% as of total	Index 08/07	in EUR thousand	% as of total	Index 08/07
Deposits	37,592	1.8	63.6	37,592	1.6	67.7
Loans	1,633,867	78.3	152.8	1,792,105	77.9	147.9
Debt securities	250,213	12.0	2,824.4	250,213	10.9	3,168.1
Provisions	2,289	0.1	259.2	35,265	1.5	130.8
- obligations from insurance contracts	-	-	-	32,815	1.4	137.9
Other liabilities	2,999	0.1	93.4	6,551	0.3	87.1
Equity	160,757	7.7	149.5	179,928	7.8	141.0
Total liabilities	**2,087,717**	**100.0**	**167.2**	**2,301,654**	**100.0**	**160.2**
Contingency reserves	113,186		105.5	113,186		105.5
IREP	6,709		124.4	6,709		124.4

As at 31 December 2008, total assets of SID Bank stood at EUR 2.1 billion, showing a year-on-year increase of 67.2 percent. Contingency reserves for insurance performed on behalf and for the account of the state and the corresponding liabilities rose by 5.5 percent in 2008 to EUR 113.2 million.

In view of the dominating influence of SID Bank in the SID Bank Group and the specific nature of the Group, and considering the inter-company relations within the Group, the total assets of the SID Bank Group were only 10.2 higher than those of SID Bank, standing at EUR 2.3 billion end of year 2008. The composition structure of assets and liabilities in the consolidated financial statements of the SID Bank Group is similar to that of the balance sheet of SID Bank.

As the borrowing concluded with the guarantee of the Republic of Slovenia continued, bank loans rose 52.8 percent to reach EUR 1.6 billion at the end of the year. The EUR 250 million worth of bonds issued at the end of 2008 takes up 12.0 percent of the liabilities. The Bank's considerable increase in equity of nearly 50 percent resulted from a capital increase carried out in September 2008, and the generated net profit for 2008.

	SID Bank			SID Bank Group		
	in EUR thousand	% as of total	Index 08/07	in EUR thousand	% as of total	Index 08/07
Available-for-sale financial assets	61,332	2.9	150.6	79,449	3.5	126.0
Loans to banks	1,512,381	72.4	165.2	1,537,955	66.8	166.6
Loans to clients other than banks	500,183	24.0	180.7	653,075	28.4	154.4
Tangible fixed assets and intangible long-term assets	5,317	0.3	93.4	6,536	0.3	96.0
Long-term investments in equity of SID Bank Group companies	7,712	0.4	100.0	419	0.0	100.0
Other assets	792	0.0	37.9	24,221	1.1	116.7
- reinsurers' assets and receivables from insurance business	-	-	-	20,177	0.9	114.8
Total assets	**2,087,717**	**100.0**	**167.2**	**2,301,654**	**100.0**	**160.2**
Investments of contingency reserves	113,186		105.5	113,186		105.5
Investments from IREP	6,709		124.4	6,709		124.4

In 2008 the increase in the total assets of SID Bank was, like in the previous years, a result of intensive financing of international business transactions, enhanced in the last quarter by SID Bank's inclusion in anti-crisis measures.

The growth was highest in loans to clients other than banks, climbing nearly 81 percent, and loans to banks, rising 65 percent. Loans to banks represent 72.4 percent of total assets, but their proportion in the composition of assets is lower than in previous years; totalling 73.3 percent as at 31 December 2007.

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

Income statement summary

	SID Bank		SID Bank Group	
	in EUR thousand	Index 08/07	in EUR thousand	Index 08/07
Net interest	14,308	163.8	19,809	152.1
Net non-interest income	5,428	141.6	8,853	134.1
Net income from insurance	-	-	6,317	93.0
Operating costs	(5,778)	99.6	(11,703)	108.5
Impairments and provisions	(10,955)	409.1	(19,272)	261.1
- change in insurance contract liabilities	-	-	(3,761)	134.2
Pre-tax profit	**3,003**	**73.4**	**4,005**	**48.5**
Corporate income tax	(236)	49.7	(1,149)	75.9
Net profit	**2,767**	**76.5**	**2,856**	**42.4**

In the income statement of SID Bank net interest totalled EUR 14.3 million, rising 63.8 percent year-on-year, mainly as a result of strong growth in loans and an increase in interest margins.

Net non-interest income of SID Bank was EUR 5.4 million, the 41.6 percent increase from the 2007 levels largely attributable to higher dividends and higher realized net fees and commissions. Income from net fees and commissions related to financing, guarantees and treasury transactions was up 59.6 percent year-on-year, contributing EUR 0.74 million to the total net non-interest income. Income from dividends paid by SID Bank's subsidiaries PKZ and PRVI FAKTOR, Ljubljana, was EUR 2.3 million in 2008, compared to EUR 1.0 million in 2007. Income from the reimbursement SID Bank receives from the state subject to the Agreement on the regulation of mutual relationships concerning implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions amounted to EUR 2.1 million, as in 2007.
The largest share in the structure of net income generated by the SID Bank Group is taken up by net interest, totalling EUR 19.8 million in 2008, up 52.1 percent from the previous year. At 56.6 percent, however, the share of net interest as of net income for SID Bank Group was considerably lower than that of SID Bank. Another important item in the net income of the SID Bank Group is net income from insurance, taking up 18.0 percent of the net income.

In 2008 SID Bank continued its successful management of operating costs, keeping them at the 2007 level. The operating costs of SID Bank totalled EUR 5.8 million in 2008, down 0.4 percent from 2007. Particularly important was the reduction of the costs of services by 18.2 percent, achieved largely by exercising prudent management of these cost items. Labour costs went up 6.9 percent as a result of increased recruitment carried out in 2008 to cope with the expansion of SID Bank's activities. The number of SID Bank employees rose from 69 up to 76 (an increase of 10.1 percent). In the structure of operating costs, labour costs accounted for 63.8 percent, costs of services 23.6 percent, depreciation and amortization 10.7 percent, and cost of materials 2.0 percent. The percentage of operating costs as of assets lowered from 0.62 percent in 2007 to 0.38 in 2008. Efficient cost management was also reflected in the ratio between the operating costs and net income, falling from 46.2 percent to 29.3 percent.
The operating costs of the SID Bank Group totalled EUR 11.7 million in 2008 and were 8.5 percent higher compared to 2007. Higher headcount pushed labour costs up 21.5 percent, with the costs of material and services recording a drop of 22.6 percent. Operating costs as of assets lowered from 0.91 percent in 2007 to 0.63 percent in 2008, and the ratio of operating costs and net income dropped from 40.8 percent to 33.5 percent.

SID Bank's net expenses from impairments and provisions totalled EUR 11.0 million (EUR 2.7 million in 2007). The rise in expenses from impairments is largely attributable to the growth in loans given and changes in the structure of loans given, and impairments of certain securities were required as a result of the financial crisis. At EUR 19.3 million at the end of 2008, expenses from impairments and provisions were also high in the SID Bank Group. Expenses from impairments and provisions also include change in insurance contract liabilities in the amount of EUR 3.8 million. Both for the SID Bank and the SID Bank Group, high expenses from impairments and provisions resulted from considerable business growth on the one hand and the consequences of the financial and economic crisis on the other.

In 2008 pre-tax profit of SID Bank amounted to EUR 2.8 million, whereas the SID Bank Group generated net profit in the amount of EUR 2.9 million.

Key figures of SID Bank and SID Bank Group

in EUR thousand	2006		2007		2008	
	SID Bank	Group	SID Bank	Group	SID Bank	Group
Balance sheet summary						
Total assets	806,477	937,331	1,248,717	1,437,034	2,087,717	2,301,654
Loans of banks	694,352	780,597	1,069,125	1,211,554	1,633,867	1,792,105
Deposits from non-bank sectors	42	43	32,880	32,878	22,376	22,376
Equity	104,398	119,702	107,554	127,590	160,757	179,928
Loans to banks	594,174	603,855	915,674	922,927	1,512,381	1,537,955
Loans to clients other than banks	164,343	256,559	276,822	423,099	500,183	653,075
- impairments of financial assets measured at amortised cost, and provisions	14,151	18,337	16,530	21,324	26,414	33,220
Off-balance-sheet operations (B1 to B4)	256,074	263,544	176,304	187,324	162,921	169,257
Income statement summary						
Net interest	7,499	10,434	8,737	13,021	14,308	19,809
Net non-interest income	2,521	4,416	3,834	6,600	5,428	8,853
Net income from insurance	-	4,899	-	6,793	-	6,317
Labour, general and administrative costs	(4,767)	(9,185)	(5,240)	(10,036)	(5,161)	(10,843)
Depreciation and amortisation	(432)	(537)	(562)	(746)	(617)	(860)
Impairments and provisions	(1,359)	(1,637)	(2,678)	(7,382)	(10,955)	(19,272)
- change in insurance contract liabilities	-	(1,745)	-	(2,803)	-	(3,761)
Pre-tax profit	3,462	8,390	4,091	8,250	3,003	4,005
Corporate income tax	(905)	(1,480)	(475)	(1,514)	(236)	(1,149)
Net profit	2,557	6,910	3,616	6,736	2,767	2,856
Shares						
- number of shareholders	87		85		1	
- number of shares	932,354		932,354		1,456,808	
- nominal value per share (in EUR)	41.73		96.10		96.10	
- book value of a share (in EUR)	114.23		117.69		111.76	
Selected indicators						
Equity:						
– capital adequacy*	20.7%	19,8%	12.8%	8.6%	11.1%	9.9%
Quality assets of on-balance-sheet and contingent liabilities:						
- Impairments of financial assets measured at amortised cost, and provisions for contingent liabilities/classified on-balance-sheet items and classified off-balance-sheet items	1.85%	-	1.36%	-	1.19%	-
Profitability:						
– interest margin**	1.03%	1,28%	0.93%	1.10%	0.93%	1.06%
– financial intermediation margin	1.37%	1,82%	1.34%	1.65%	1.29%	1.53%
– return on assets before tax	0.47%	1,03%	0.44%	0.70%	0.20%	0.21%
– return on equity before tax	3.32%	7,17%	4.21%	6.67%	2,48%	2.60%
– return on equity after tax	2.45%	5,90%	3.72%	5.45%	2.28%	1.86%
Operating costs:						
– operating costs / average assets	0.71%	1,19%	0.62%	0.91%	0.38%	0.63%
– operating expenses / net income	51.88%	49,23%	46.15%	40.82%	29.28%	33.46%
Liquidity:						
– liquid assets / short-term deposits to non-bank sectors	0.03%	0,10%	1.42%	1.43%	2.49%	1.57%
– liquid assets / average assets	0.00%	0,03%	0.02%	0.01%	0.03%	0.02%
Number of employees ***	68	195	69	241	76	287

* The computations of capital adequacy for 2006 and 2007 considered, for SID Bank; investments from own SID Bank assets, investments from sources backed by the guarantees of the Republic of Slovenia and additionally, for the SID Bank Group, 50 percent of investments made by the PRVI FAKTOR Group.

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

*** The figure also includes all employees of the PRVI FAKTOR Group and CMSR.

Events after the balance-sheet date

After the balance sheet date, there were no events which could be said to have had a significant effect on the financial statements of the SID Bank although the following events relevant for the Bank took place after the balance-sheet date:

- On 2 March 2009, the international credit rating agency Moody's assigned to SID Bank an issuer rating of Aa2, with a positive outlook.
- At its meeting of 5 March 2009, the National Assembly of the Republic of Slovenia adopted the new Slovene Export and Development Bank Act (ZSIRB), which inter alia lifts the share capital of the Bank to EUR 300 million by the end of 2009, introduces changes in the composition of the Supervisory Board, etc. The Act entered into force on 17 March 2009 on the day following its promulgation in the Official Journal of the Republic of Slovenia 20/09 of 16 March 2009.

6.2. Review of SID Bank Operations in 2008

6.2.1. Loans and Guarantees

In 2008 SID Bank's financing activities focused on extending loans in support of international business transactions, mainly provided under indirect exporter financing schemes, through banks and other financial institutions, in particular by refinancing loans and cofinancing international business transactions.

Through financing, SID Bank covered all phases of international business trade:
- International business transactions, by providing financing to Slovenian exporters and to foreign buyers of Slovenian goods and services, or to their banks
- Realization of outward investment by Slovenian companies (e.g., plant construction, purchase of a company, capital increase)
- Development of internationalization in various areas of business activity.

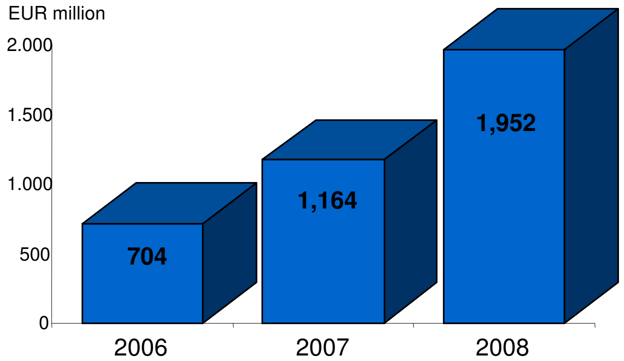
Through its financing facilities, SID Bank has significantly contributed to the increase in the capacity of commercial banks and commercial companies/exporters for pre- and post-shipment financing of international business transactions.

In 2008 SID Bank's financing operations were strongly influenced by the adoption of the ZSIRB, under which SID Bank's areas of financing were expanded in line with Article 11, point 1, of the Act and in the second half of the year the Bank, acting through commercial banks, provided financing to small and medium-sized enterprises, for research and development, innovation, investments in environment, energy efficiency, etc. In addition to the above, the ZSIRB allows SID Bank to extend its financing to other areas, including education, employment, regional development, ensuring adequate residential capacities for the benefit of specific population categories, commercial and public infrastructure, municipal and regional development, and international development cooperation, etc.

The financing facilities offered by SID Bank included loans, purchase of receivables, project financing, participation in syndicated loans, purchase of assets, and funded and unfunded risk sharing, in the provision of which SID Bank actively cooperated with the majority of Slovenian banks.

Business results in the field of financing

• Outstanding loans as at 31 December, by year, in EUR million



The Bank's outstanding loan portfolio at the end of 2008 was EUR 1,952.2 million and was up 67.7 percent from the end of 2007 when it stood at EUR 1,164.4 million. The share of loan portfolio in total assets reached 93.5 percent.

The growth of SID Bank's loan portfolio in 2008 mainly reflects the new role of the Bank. In the period September-December 2008 alone, the Bank, involved in the package of measures to stem the crisis, ensured EUR 440 million to be extended to businesses through commercial banks, with the total annual amount of funds flowing to the economy through commercial banks reaching EUR 684 million.

In 2008, the growth rate of SID Bank financing outpaced the annual growth rate of Slovenia's exports, which stood at 5.8 percent according to first estimates from the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia. Moreover, it was higher than the annual growth of all loans extended to the Slovenian corporate sector (17.8 percent), with the share of SID Bank financing in all loans extended to the Slovenian corporate sector in 2008 (direct and indirect) reaching 5.9 percent.

Portfolio structure

- **By maturity**

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 92.1 percent of SID Bank loan portfolio at the end of 2008, posting a year-on-year rise of 2.8 percentage points.

In the first half of the year, the sizeable growth of 72.9 percent in long-term loan portfolio was largely due to high investment activity in the Slovenian economy and the related high growth of project (re)(co)financing and strategic investments of Slovenian companies abroad. In the second half of the year, however, the increase in long-term loan portfolio was significantly affected by intensification of the financial crisis. In order to alleviate the credit crunch, SID Bank released earmarked long-term funds at the end of 2008 trough commercial banks. Short-term loans, taking up just under 8 percent of the loan portfolio, posted a 24.3 percent increase from 2008 figures, mainly as a result of the harsh economic conditions prevailing in the second half of 2008.

- **By currency**

SID Bank's domestic currency loan portfolio reached EUR 1,937.2 million at the end of 2008, amounting to 99.2 percent of the Bank's total loan portfolio.

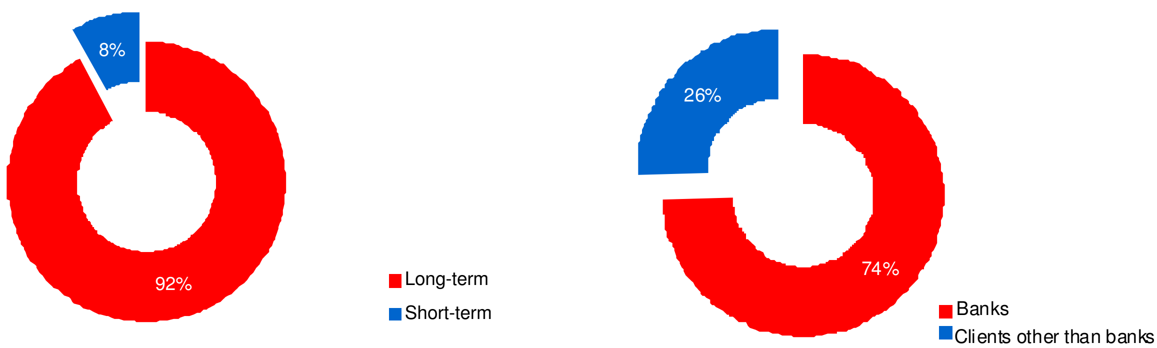
Foreign currency loans dropped further in 2008, with the volume of loans extended in foreign currency, mainly US dollars, decreasing 31.8 percent in 2008, ending the year at EUR 15.0 million.

- **By borrower**

In 2008 commercial banks remained the most important SID Bank's partner, their share in the Bank's loan portfolio reaching 74.4 percent. The demand for co financing and direct financing of projects by Slovenian exporters abroad and their international business transactions as well as demand for financial support to internationalization of the Slovenian economy rose steadily throughout 2008, showing an 80.7 percent year-on-year increase for loans extended to clients other than banks.

Despite a significant growth in loans to clients other than banks, this segment only took up 25.6 percent of the total loan portfolio in 2008. The share of loans to non-residents in SID Bank's loan portfolio remains a low 7.2 percent, as most placements were performed indirectly, through commercial banks. Compared to 2007, the share of loans to non-residents went down 4.5 percentage points.

• SID Bank's financing: Outstanding amounts by maturity and borrower as at 31 December 2008



- **By risk**

The sizeable increase in the volume of direct financing extended to Slovenian exporters, their buyers and investors abroad in 2008 did not affect the high quality of the Bank's loan portfolio as the assets classified in classes lower than A and B only take up 2.0 percent of SID Bank's loan portfolio. For more information on portfolio risk and portfolio classification in accordance with IFRS see Point 6.4.

Income from SID Bank's financing

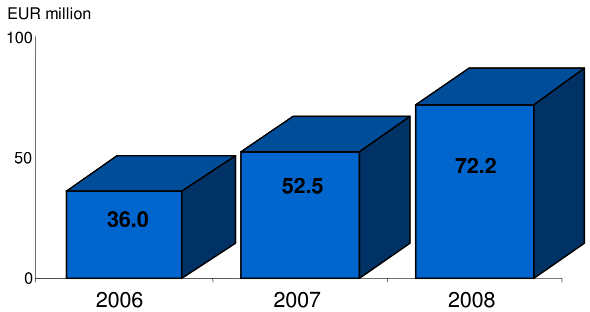
In 2008 SID Bank generated EUR 75.3 million in interest income from financing. Income from fees and commissions totalled EUR 689.0 thousand. As a result of the growing trend observed in Euribor interest rates in the European market up to the last quarter of 2008 and a sound increase in financing volumes, the end-of-year figures were well above the planned objectives.

Guarantees

Guarantees are a welcome supplement to the range of services SID Bank provides in the field of financing and insurance. In issuing guarantees, SID Bank is focused on providing support for the international business transactions and activities that are consistent with the purposes set forth in Article 11, point 1, of the ZSIRB.

SID Bank uses the following forms of guarantee:
- Service and payment guarantees
- Unfunded risk sharing

• Guarantees and unfunded risk sharing as at 31 December 2008



The balance of issued guarantees and unfunded risk sharing arrangements as at 31 December 2008 amounted to EUR 72.2 million. The 37.5 percent increase over the year before is a result of increased volume of service and payment guarantees. Unfunded risk sharing maintained its 2007 level.

The quality of SID Bank's guarantee portfolio was high in 2008 with only 0.6 percent of its guarantee portfolio rated lower than A or B. For more information on portfolio risk and portfolio classification in accordance with IFRS see Point 6.4.

New developments in 2008 concerning Loans and Guarantees

The year 2008 brought about the following new developments in the field of loans and guarantees:
- Enactment of the ZSIRB and the related expansion of financing purposes under Article 11, point 1, of the Act (e.g., financing for small and medium-sized enterprises, research and development, innovation, investments in environment, energy efficiency, and regional development)
- Strengthened cooperation with certain public institutions and conclusion of cooperation agreements with the Public Agency for Technology of the Republic of Slovenia (TIA) and the Eco Fund, Slovenian Environmental Public Fund
- Joining the NEFI – Network of European Financial Institutions for Small and Medium Sized Enterprises, which brings together the EU development banks in an effort to enhance the conditions and facilitate the access of SME clients to loans, at the EU level and, in particular, in the member countries. NEFI maintains a permanent dialogue with EU institutions and other associations involved with SMEs, provides expertise and advice for the EU and its financial institutions in the planning and implementation of SME-focused financing schemes, facilitates the access of SME clients to both European and national financing schemes and fosters experience sharing among members and assistance in SME-related activities. SID Bank joined the organisation in order to enhance the activities it provides to SMEs as a promotional development bank, utilizing its knowledge, experience, and, not least importantly, contacts with other active NEFI members.
- Involvement in measures aimed at eliminating the effects of crisis, especially with placements of funds through commercial banks; in the last quarter of 2008, SID Bank secured EUR 440 million worth of funds extended to the economic entities through commercial banks.

6.2.2. Treasury

A function of SID Bank Treasury is to manage the liquidity of SID Bank's accounts and close deals with instruments of the monetary, foreign currency and capital markets and derivative financial instruments with the purpose of asset management.

In closing deals in the financial market, the Treasury operates as a business field; on the other hand, the role of the Treasury is of particular importance with regard to balance sheet management and mitigation of liquidity, interest rate and currency risks and provision of certain special products.

The Treasury manages, in part or in total, three portfolios:

- SID Bank's own funds
- Contingency reserves
- IREP reserves

The procedure for entering into stated transactions is governed by the Bank's internal acts, which specify the decision-making process, authorisations and the potential risks SID Bank may encounter in treasury transactions. SID Bank's investments are held in the banking book, with securities investments classified as assets available for sale. Transactions in derivatives are held in the trading book, given that the volume of these transactions does not exceed EUR 15 million or five percent of all transactions conducted by SID Bank. The investments held by the SID Bank Treasury are aimed at balancing liquidity, currency and interest rate risks.

SID Bank's own funds

Treasury investments from SID Bank's own funds amounted to EUR 121.7 million as at 31 December 2008, representing 5.8 percent of the Bank's total own assets. The Treasury conducted transactions with partners rated BBB- or higher and with certain unrated Slovenian banks whose credit rating under the methodology of SID Bank was not lower than B.

Treasury mainly held investments in deposits to commercial banks for the purpose of liquidity control in other short-term debt instruments issued by high-rated issuers. In liquidity control, the Treasury followed the strategy of reduced risk concentration, which means that excess liquidity was placed with banks to which SID has a low exposure.

The currency structure of investments corresponded with the currency structure of SID Bank's funds and was closely coordinated with the adopted limits. The policy of closed foreign exchange positions was followed in this area. In this segment of SID Bank's operations, derivative financial instruments are only used to a limited extent, solely to close open foreign exchange positions. The Treasury also coordinated the maturity structure of assets and liabilities. As at 31 December 2008, 95 percent of all Treasury investments were taken up by fixed rate investments.

Normally, SID Bank does not hold investments that are not settled by an independent institution. Priority is given to investments which can be used in concluding REPO transactions as well as investments which, on the basis of the existing decisions of the Bank of Slovenia, can be considered as category one investments in the calculation of liquidity ratios or can be considered as ECB eligible. On account of lower transaction costs, primary market investments are preferred over secondary market investments. SID Bank operates in the financial markets of EEA and OECD member states.

SID Bank is not an authorised participant in the securities market. Transactions in securities were concluded as an investment option supplementing the Bank's core activities and as a way to mitigate the liquidity risk and not for the purpose of trading.

Treasury investments from SID Bank's own funds 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 investments in this segment are to investments rated investment-grade or higher. Just under 63 percent of all investments are rated A- or higher (S&P), and 30 percent are held in investments to unrated issuers (mainly Slovenian banks).

Other treasury services

SID Bank's Treasury operates as the SID Bank Group Treasury and as such undertakes technical activities concerning the management of the liability fund and own resources for a Bank's subsidiary, PKZ. To a large extent, the structure of investments is specified in the Insurance Act. In 2008 SID Bank 's Treasury performed control of liquidity and currency risks for PKZ. SID Bank's Treasury carries out these services on the basis of the Agreement on Excluded Treasury Transactions and in accordance with the decisions taken by the Management Board of PKZ by placing orders with authorised market players on behalf of PKZ.

6.2.3. Borrowing

SID Bank, as an authorised institution under the ZZFMGP and ZSIRB, strives to obtain favourable sources of long-term financing in Slovenia and in international financial markets. In 2008 the Bank utilised these sources to support internationalization of the Slovenian economy, that is pre- and post-shipment financing of international business transactions, but in the last quarter of 2008 its scope of activities widened to cover the activities specified in ZSIRB.

In raising funds SID Bank focuses on selecting flexible borrowing instruments that can be fully tailored to meet various customers' needs. SID 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 with a maturity of up to 20 years, comparable in rates to funds secured by the Republic of Slovenia.

In order to provide businesses and their commercial banks with favourable long-term sources of financing for the operations under the ZSIRB, SID Bank raised funds through diverse financial instruments in Slovenia and international financial markets.

In 2008 the Bank signed a long-term framework agreement for the successive issuing of *Schuldscheins* in the amount of EUR 530 million and a borrowing option with a maximum maturity of 20 years.

In 2008, prior to enactment of the ZSIRB, SID Bank also obtained lower amounts of funds without state guarantees, borrowing mainly from banks and certain other institutions. The borrowing was made through money market instruments with a maturity of up to one year and, usually, at a fixed interest rate.

In response to the emerging financial crisis the Bank further expanded its borrowing options in the second half of 2008 and after the enactment of the ZSIRB, which awarded SID Bank an implicit guarantee of the state, issued the first series of long-term bonds in the total amount of EUR 250 million and with a maturity of 3 years. The buyers of these bonds were mainly Slovenian commercial banks. SID Bank used the collected funds to finance long-term earmarked loans extended through commercial banks for the purposes specified in the ZSIRB.

To be able to obtain funds through international capital markets to support the Slovenian economy, SID Bank initiated the process of obtaining an international rating at the end of 2008. In March 2009, the process was completed as the international credit rating agency Moody's Investor Service assigned the Bank an issuer rating Aa2, with a positive outlook.

6.2.4. Credit Rating and Other Credit Information

Enterprises and financial institutions operate in a highly competitive, dynamic, rapidly changing and uncertain environment, which requires from them to be well-informed and to respond quickly and adequately to the ever-changing situation on the market in order to carry out effective risk management.

Aware of these requirements, SID Bank continued to develop its own Credit Rating System in 2008. In its work, the department uses modern and scientifically sound risk assessment methodology under the requirements of Basel II, which is further extended to consider SID Bank's past experience in the area and is supported by the Bank's own information system. SID Bank has put in place a number of internal databases which are updated daily to include reliable credit information and analyses of Slovenian and foreign institutions, as well as other data, which is also exchanged, for example among the members of the Berne Union.

In assessing risks of foreign markets SID Bank works closely with other relevant institutions, in particular with the Centre for International Cooperation and Development, which provides basic country risk reports for selected markets. For use internally, within SID Bank, the Credit Rating Department prepares credit rating reports and credit information on domestic and foreign companies and banks. With a view to ensuring efficient credit risk management in financing, issuing guarantees and in certain types of insurance as well as to accommodate external users of credit information, the department prepares corporate credit rating reports along with recommended credit and exposure limits. The interest for such information is also growing among other Slovenian and foreign institutions, seeking in particular data on selected markets, companies and banks in Slovenia and in those South East European countries that represent Slovenia's traditional markets.

Companies of the SID Bank Group, and external clients, can order the following information from the SID Credit Rating Department:

- Credit rating information on Slovenian companies (companies and sole proprietors)
- Credit information on Slovenian banks
- Credit information on banks and companies in the South East Europe, etc.

Within the scope of the SEE Project with SID Bank's subsidiary PRO KOLEKT as the lead partner, a number of activities were carried out in 2008 aimed at training, regular counselling and gradual transfer of methodology and technology that enables performance of credit information orders from individual countries. Currently, the department is able to obtain sufficient information from Croatia, Serbia, Bosnia and Herzegovina, Macedonia, Romania, Bulgaria, and Hungary to prepare a full credit rating report.

Standardized credit rating information on Slovenian companies (SID-BON) prepared by the SID Bank Credit Rating Department on the basis of publicly available data, is now readily available to registered users also via the Internet (SID-NET). Registered users accessing the SID Bank's web page with a special password are thus provided with a fast and safe access to quality and up-to-date information on Slovenian companies, which enables the clients of the SID Bank Group faster decision-making, appropriate monitoring and, as a result, better performance.

6.2.5. Transactions under Special Authorisation – Insurance against Non-Marketable Risks

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

The transactions which SID Bank as the national export credit agency (ECA) performs on behalf and for the account of the Republic of Slovenia are in terms of management and accounting clearly separated from the transactions performed on SID Bank's own account.

Review of operations in 2008

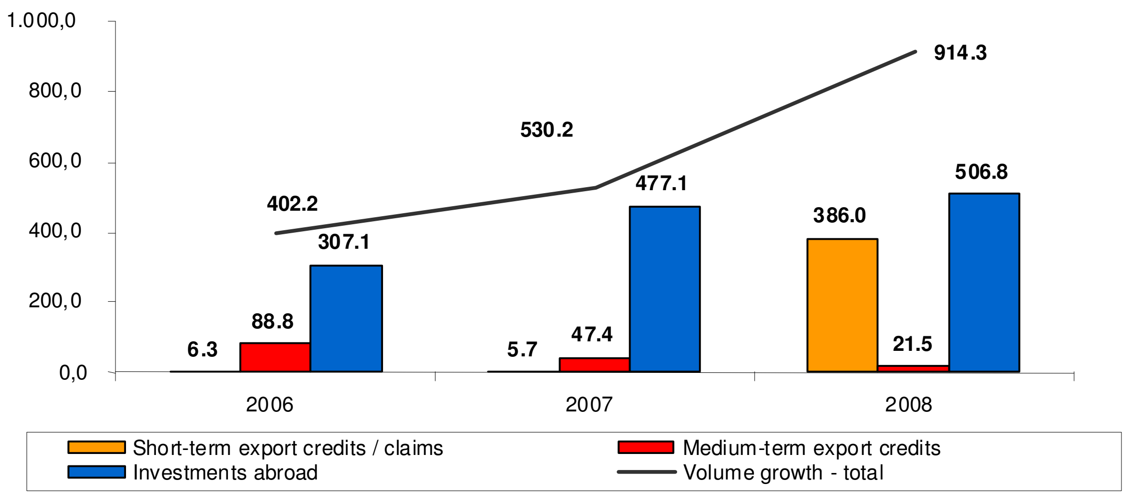
• Insurance against non–marketable risks on behalf and for the account of the state 2006–2008

in EUR million	2006	2007	2008
Business insured	402.2	530.2	914.3
Exposure (31 Dec.) – net*	566.6	631.9	932.8
Premiums	6.66	4.00	4.08
Claims**	1.00	0.35	0.01
Number of claims**	17	5	0
Recoveries	0.08	0.07	0.07

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

** Claims paid amounting to EUR 13,276 in 2008 stem from collection costs for claims paid in the years 2004, 2005, and 2006, and are not disclosed as payments of new claims in 2008.

Business insured by class of insurance (2006–2008), in EUR million



- **Business insured**

The volume of business insured against non-marketable risks reached EUR 914.3 million in 2008, posting a 72.4 percent rise on the previous year. The realized volume represents 11.4% of the largest possible amount of the new yearly obligations as defined in the Act Governing Insurance and Financing of International Commercial Transactions. At 55.4 percent, the largest share in the structure of generated business insured was taken up by insurance of outward investment, totalling EUR 506.8 million, and reinsurance of short-term export credits (renewable insurance against non-marketable risks) generating EUR 385.4 million, or 42.2 percent of total business insured.

Outward investment insurance rose 6.2 percent year-on-year; the figure includes new insurance for outward investments and insurance renewals for insured investments, which can also be treated as new insurance covers considering the right of investors to terminate their contracts after a lapse of a 3-year period. The growth in business insured can be partly attributed to the introduction of a new insurance product, namely insurance of non-shareholder loans or loans to subsidiaries of Slovenian investors abroad, which covers commercial as well as non-commercial risks. In 2008 new insurance covers were made with regard to investments into trade, finance, and wood processing, mainly for the area of South East Europe.

The 2008 insurance figures indicate that the growth of insurance of investment abroad is likely to continue. The positive trend was driven by increased risk arising from the global financial and economic crisis and supported by the fact that Slovenia is no longer a transition country and the ownership structures of Slovenian companies have become clearer, setting a higher demand for investment insurance. Furthermore, on the basis of experience gained in neighbouring countries and worldwide, Slovenian exporters became aware of permanent presence of political risks.

In export credit insurance, short-term credit insurance plummeted to EUR 385.4 million in 2008, expanding 68-fold over the 2007 figure. The major part of short-term credit insurance was linked to supporting export transactions in the area of Russia, followed by exports to Ukraine, Croatia, Iran, Serbia, etc.

Insurance of medium-term export credits fell short of 2007 figures, posting a 54.5 percent drop year-on-year. The drop may be a result of the global financial turmoil that led to a decrease in medium-term export transactions and hindered the acquisition of funds to finance these transactions. Other factors contributing to this situation include: less favourable insurance conditions for the markets of SE Europe resulting largely from unfavourable classification of these markets into risk categories (consistent with OECD classification) and, finally, the fact that the financing options provided to Slovenian exporters by potential Slovenian lending banks are still less competitive than those provided by foreign banks. Medium-term export credit insurance holds a 2.4 percent share in the total business insured. The majority of medium-term export credits insured in 2008 were linked to construction projects, mainly in Russia, Iran, and Serbia, export of machinery, devices for heat stations, and export of other capital equipment.

The top 2008 investment insurance clients include Serbia, Russia, Bosnia and Herzegovina, Ukraine, Macedonia, Croatia, Montenegro and Kazakhstan.

- **Exposure**

Exposure from business insured for the account of the Republic of Slovenia (insurance covers issued) stood at EUR 825.8 million at the end of 2008, representing a year-on-year rise of 38.9 percent. The amount of exposure represents 44.7% of the limit as defined in the Republic of Slovenia Budget for 2008 Implementation Act and 3.9% of the limit as defined in the Act Governing Insurance and Financing of International Commercial Transactions. The growth was driven by the 20-fold increase in exposure from short-term export credit (re)insurance and an increase in exposure from medium-term export credit insurance, mainly relating to outward investment insurance that was up 20.7 percent, while medium-term insurance against commercial risks saw a downturn of 11.3 percent.

Exposure on valid offers of insurance, counted under total net exposure pursuant to the ZZFMGP, jumped 188.2 percent to reach EUR 107.0 million at the end of the year.

Exposure on insurance for the account of the state as at 31 December 2008 was related largely to Russia, followed by Serbia, Bosnia and Herzegovina, Macedonia, Ukraine, Kazakhstan, Croatia, Montenegro, Belarus, Iran, etc.

- **Insurance technical figures**

Insurance premium from insurance against non-marketable risks amounted to EUR 4.1 million in 2008, up 2.1 percent from the 2007 figure. The increase in premium was largely attributable to reinsured short-term export credits. Although recording a rise in both volume and exposure, premium paid from outward investment insurance dropped by 8.9 percent, reflecting the global trend of reducing insurance premium for investment insurance in the time before the financial crisis struck and as a result of lower risk attached to projects insured, mainly with regard to insurance of non-shareholder loans against non-marketable risks. Income from handling fees was negligible because SID Bank, in conformity with its business policy and valid price lists, returns the amount charged to exporters and other persons insured, or considers it in the premium charged, if the project is implemented.

In 2008, no new claims were paid. The amounts disclosed under paid claims in the amount of EUR 13 thousand refer to the payment of collection costs for claims already paid in previous years. SID Bank successfully recovered EUR 71 thousand from paid claims, the relatively low amount being linked to a low number of claims paid out from insurance for the account of the state in previous years. The volume of claims under consideration as at 31 December 2008 remained at the 2007 level, totalling EUR 0.2 million, but the volume of potential claims rose considerably by 225.2 percent, arising mainly out of potential claims (reported protracted default) in the Russian Federation (financial sector), reaching EUR 8.7 million at the end of 2008.

The current business result from insurance made for the account of the state amounted to EUR 6.9 million, and was used to further increase the contingency reserves, closing the year at EUR 109.9 million.

Contingency reserves

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

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

As at 31 December 2008, contingency reserves utilized for financing were comprised of long-term domestic currency loans extended to A-rated financial institutions, totalling EUR 82.9 million, securites in the total value of EUR 17.6 million, and deposits in banks amounting to EUR 8.9 million. The changing share of these liquid investments depends largely on the foreseen insurance proceeds and the related liquidity of contingency reserves. Treasury investments from contingency funds are mainly composed of short-term and long-term government securities and deposits in banks. The major part of all investments is taken up by AA-rated (S&P) investments, with the share of investments to residents exceeding 70 percent.

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

In 2008 Credit and Investment Insurance carried out the following activities aimed at introducing new products and services as part of a system of official export credit support:

- Developed a new investment insurance product, namely insurance of non-shareholder loans to subsidiaries of Slovenian companies abroad against commercial and commercial (non-marketable risks), providing the lending banks with up to 95 percent guarantee
- Signed a Reinsurance Agreement with Zavarovalnica Triglav as a provider of revolving export credit insurance (insurance of claims) and SID Bank
- Analysed the market to assess the demand for insuring bank service guarantees (bid security, performance security, advance payment security, etc.)
- Actively promoted the existing and planned products and services of SID Bank through personal visits to potential clients (exporters, investors, banks, financial institutions)

6.2.6. Transactions under Special Authorisation – Interest Rate Equalization Programme (IREP)

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

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

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

6.3. Review of SID Bank Group Operations in 2008

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

In its first three years of operation, PKZ reported strong growth in business volume, partly driven by strong growth in both GDP rates and exports. In 2008 which saw the conjuncture change in the first half to stagnation and then to a sharp decline in economic activity in the last quarter of the year, PKZ achieved zero growth in premiums. The increased number of insolvency cases was reflected in a significant worsening of the company's loss ratio forecasts whereas the negative effects of the financial crisis were evident in impairments of PKZ's financial assets. Despite all of the above, the insurance company recorded a positive business result in 2008.

The volume of short-term credit insurance contracts entered into by PKZ in 2008 was EUR 5.1 billion, posting a 9.3 percent rise compared to 2007.

Gross premiums written reached EUR 14.1 million, maintaining the level of 2007. The discrepancy between the changes in business insured and premium written was due to the erosion of premium rates resulting from intense competition in the past years, which is normally reflected in business results after a certain lapse of time.

Claims paid amounted to EUR 4.7 million, representing 33.3 percent of premiums written. Recoveries (paid to PKZ) totalled EUR 1.3 million, or 28.6 percent of claims paid (the increase in recoveries from EUR 0.8 million in 2007 is attributable to a major recovery received in 2008).

Liabilities from insurance contracts reached EUR 31 million, climbing 29.8 percent year-on-year. Unlike in 2007, when high growth in liabilities from insurance contracts (30 percent) was driven by volume growth, the 2008 increase resulted from negative expectations for the claim year 2008. Insurance liabilities less reinsurers' share rose 37.8 percent from 2007; the difference in growth rates before and after consideration of the reinsurers' share is largely a result of the reinsurance scheme changing in 2007 to include a higher own share of the company. The effects of this change, in particular on provisions for outstanding claims, are felt for years after the change.

Gross profit was EUR 0.5 million (EUR 1.9 million in 2007). In respect of the changes to the required credit risk equalisation reserve and the related tax effects, net profit for the business year 2008 was EUR 0.7 million (EUR 1.8 million in 2007).

Equity stood at EUR 16.9 million at the end of 2008, with the credit risk reserve amounting to EUR 9.0 mililion of this amount (in 2007 equity stood at EUR 18.7 million, and the credit risk reserve was EUR 9.5 million). The decrease in equity was caused by lower business results of 2008, negative revaluation surplus driven by the turmoil in financial markets and the fact that the amount of dividend paid was equal to the company's balance sheet total for 2007.

In 2009 PKZ will continue to pursue its mission in the face of harsh economic conditions. To mitigate the consequences of the market uncertainties, PKZ took several measures in 2008 adapting them continuously to the changing situation in the market. PKZ is already experiencing much stronger demand for its services and predicts the trend to continue in 2009 in the face of economic uncertainty, reduced orders and the related need of businesses to look to new clients and markets. Working to achieve an acceptable loss ratio under current conditions and in anticipation of growing uncertainty and increasing number of insolvencies, PKZ does not plan for a considerable growth in business insured and exposure although a rise in average premium rate is expected.

Even under such conditions, PKZ will continuously study the market possibilities for new and upgraded credit insurance products and these will be the focus of its research and development activities. The company's existing information support will be upgraded, mainly to enhance the support for on-line business with the insured (PKZ-Net) and to develop several new applications for additional analyses.

To streamline its business operations, PKZ transferred some of its activities to SID Bank based on contracts for outsourced transactions.

In terms of ownership and business performance, the operations of PKZ remain an integral part of the SID Bank Group, thus ensuring synergetic effects of these complementary segments.

6.3.2. PRO KOLEKT Group

In 2008 business operations of the PRO KOLEKT Group were focused on active marketing of the Group's services and its recognizability in the markets of South East Europe. In 2008 the PRO KOLEKT Group signed Agency Agreements in Kosovo, Montenegro and Albania. Thus the Group acted in line with its strategic orientation to establish a network of subsidiaries and business partners to cater to the entire area of South East Europe (SEE), which as a territory accounts for 76 percent of all debt collections handled by PRO KOLEKT. Out-of-court debt collection performed in observation of legal norms and principles is still a relatively new activity in SEE countries, which explains the growing demand and interest of companies in debt collection services.

Today, the PRO KOLEKT Group performs debt collection services in almost all countries across the globe, on the basis of contracts or agreements concluded with over a hundred debt collection agencies. In 2008 the PRO KOLEKT Group maintained fruitful cooperation with renowned worldwide debt collection agencies such as Atradius and Intrum Justitia, and in 2009 established cooperation with the Hermes Group.

In 2008 3,063 collection claims in the total value of EUR 32.2 million were referred to the PRO KOLEKT Group. In 2007, the number of assigned claims was 1,029, with their total value reaching EUR 25.5 million. In 2008 the Group resolved 627 debt collections in the total value of EUR 6.2 million, whereas in the year before the number of resolved claims was 508, their total value amounting to EUR 5.2 million. The 2008 results show a 23.4 percent rise in the number of resolved cases, and a 19.2 percent rise in the value of debt collected. Since 2008 the PRO KOLEKT Group also conducts marketing and preparation of credit rating reports.

In 2008 the PRO KOLEKT Group acquired most of its business from PKZ, and due to combating the effects of the financial and economic crisis expects the growth of business cooperation to continue in 2009. The PRO KOLEKT Group also performs debt collection services for other insurance companies who are members of the Berne Union.

In 2008 the Group experienced some business problems, followed by problems with liquidity, but managed to overcome them in the second part of the year. The business indicators of the PRO KOLEKT Group saw a marked upturn in the same period. In 2008 particular attention was paid to corporate organisation of the PRO KOLEKT Group.

In 2008 the Group generated EUR 772 thousand in revenues from sale of services, whereas in 2007 the end-of-year figure amounted to EUR 464 thousand. The PRO KOLEKT Group ended the business year 2008 with a loss of EUR 57 thousand.

In 2009, the Group plans to successfully handle debt collections in the total amount of EUR 7.0 million, an increase of 32 percent compared to 2008. Furthermore, it plans to sell EUR 218 thousand worth of credit rating reports, which is 19 percent above the 2008 figure. All in all, in 2009 the PRO KOLEKT Group intends to generate EUR 1.2 million in revenue from sale of services and a profit of EUR 42 thousand.

6.3.3. PRVI FAKTOR Group

In 2008 the strong growth of business volume of the PRVI FAKTOR Group was maintained. The company purchased over EUR 1 billion worth of accounts receivable, an increase of nearly 29 percent from 2007. Within this amount, PRVI FAKTOR, Zagreb acquired EUR 465.6 million in receivables, PRVI FAKTOR, Ljubljana purchased EUR 300.6 million worth of receivables, PRVI FAKTOR, Beograd EUR 219.3 million, and PRVI FAKTOR, Sarajevo EUR 48.3 million worth of accounts receivable. The subsidiaries contributed nearly 71 percent of the total PRVI FAKTOR Group turnover, and the share of subsidiaries in the consolidated business result is even higher.

The PRVI FAKTOR Group finances most receivables arising from deliveries of goods or services among the entities within the country. Within the total business volume, factoring of domestic receivables accounted for 86.6 percent, export factoring for 6.5 percent, and import factoring for 6.9 percent. PRVI FAKTOR is a member of several networks of factoring companies (Factors Chain International and International Factors Group) and through these networks it generated EUR 34.5 million of business (insurance and financing of export-import related receivables), accounting for 3.3 percent of the Group's total turnover.

The growth in business volume led to an increase in consolidated total assets which stood at EUR 368.8 million as at 31 December 2008, marking a year-on-year rise of 13.5 percent. In terms of total assets, the largest company in the PRVI FAKTOR Group is PRVI FAKTOR, Zagreb, with total assets amounting to EUR 170.0 million at the end of the 2008.

As a result of harsh financial conditions, the growth in business volume was not matched by the growth in business results for the year, the Group's profit falling short of the 2007 figure. The PRVI FAKTOR Group generated net profit of EUR 3.0 million in 2008.

The total assets of PRVI FAKTOR, Ljubljana stood at EUR 156.7 million at the end of 2008, posting a year-on-year rise of 26.6 percent. In 2008 the company's net profit was EUR 4.7 million (EUR 1.7 million in 2006).

The objectives of the PRVI FAKTOR Group for the year 2009 are to maintain the Group's share in the existing markets and to further improve the services the Group delivers to its clients. The PRVI FAKTOR Group plans to acquire receivables in the amount of EUR 895 million in 2009 and generate pre-tax profit of EUR 4.1 million. In 2009, the PRVI FAKTOR Group will pay particular attention to upgrading the information support for most back office and management processes.

6.3.4. Centre for International Cooperation and Development

In 2008 the Centre for International Cooperation and Development (CMSR) achieved its business objectives. Its priority for the year 2008 was to provide international development cooperation in accordance with the public authorisation issued by the Republic of Slovenia and under the provisions of the International Development Cooperation Act. In the course of its activities, CMSR performed allocation and management of grants and participated in the finalization of the system required to conduct these tasks. Furthermore, CMSR maintained and expanded its contacts with beneficiary states (in particular, competent ministries and municipalities) and with potential Slovenian providers of development assistance (companies and experts). In 2008 CMSR allocated a grant in the total amount of EUR 1.5 million to support four development investment projects whose total value amounted to EUR 13.2 million.

In 2009 provision of international development cooperation will remain the priority task of CMSR. It has established itself as an institution fully able to allocate budgetary resources to development projects abroad through the use of Official Development Assistance instruments and, in so doing, help Slovenian companies obtain export transactions, thus generating economic growth, employment, and budget revenue increase. In the light of the above, CMSR expects that as part of the government's anti-crisis package the budgetary resources for development assistance allocated through CMSR will increase considerably in 2009.

In 2008 CMSR was also successful in performing its research and publishing activities.

CMSR continued its long and fruitful cooperation with SID Bank, its co-founder and an important business partner. With the need of SID Bank for expert analyses increasing due to the expansion of the Bank’s activities, the cooperation between the two has become even more productive.

In 2008 CMSR was again selected to revise the content of the Internet portal named *Izvozno okno* (Export Window) posted by the Public Agency for Entrepreneurship and Foreign Investment – JAPTI. CMSR plans its cooperation with JAPTI to continue in the same extent in 2009. Together with the Ministry of Foreign Affairs, CMSR implemented a project aimed at estimating living expenses abroad.

CMSR continued its publication of the magazine *Mednarodno poslovno pravo* (International Business Law). At the beginning of the year, it published the publication Doing Business in Slovenia and published it in electronic form on the Slovenia's Business Portal.

CMSR's net revenue surplus over expenses was EUR 5 thousand. Although its 2009 revenues from certain projects will be below the 2007 levels, CMSR plans to generate revenue surplus over expenses in the amount of EUR 9 thousand.

6.4. Risk management

SID Bank manages and controls risks in conformity with all risk management standards. In assuming risks, the Bank pays particular attention to credit risk, while minimising other types of risk (currency, liquidity and interest rate risk). SID Bank’s risk management practices need to reflect the Bank’s distinctive character derived from its public role and the division of its business into transactions 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 likelihood of risk incidents and to minimise losses when a loss event occurs. Risk management is concerned with identifying, measuring and reducing risks, thus ensuring safe and stable operation, which is also SID Bank's priority risk management objective as in the long term it leads to increased equity value, helps the Bank maintain its reputation, and maximises the benefits for the Bank's clients and other stakeholders.

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

The identification of risks is performed within organisational units that remain separated from commercial units up to the level of the Management Board, thus ensuring independent risk assessment. Responsibility for the direct implementation of risk management lies with the following bodies and organisational units:

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

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

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

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

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

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

The principal risks faced by SID Bank are credit risk, currency risk, liquidity risk, interest rate risk and operational risk.

The risk management aspect is particularly important in credit and investment insurance as these transactions are conducted on behalf and for the account of the Republic of Slovenia. While the loss ratio can be offset using the contingency reserve, higher losses on these transactions 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.

At SID Bank, effective risk management starts with a proper organisational structure. 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. As in the banking segment, the authorisation to conclude transactions is clearly defined, with all transactions of EUR 5 million or more being subject to the approval by the International Trade Promotion Commission. The Commission also holds ultimate authority over other risk management issues, such as approving insurance policies for certain countries or groups of countries which, in addition to the insurance limits specified in the ZZFMGP, limit the potential amount of loss. Moreover, SID Bank addresses the issues relating to the classification of risks, establishment of premium rates, etc., through a special analysis of fiscal sustainability of insurance transactions conducted for the account of the Republic of Slovenia in cooperation with the competent ministry and the International Trade Promotion Commission. The initial findings revealed and the subsequent findings confirmed that even if worst-case scenarios were to materialise, the state budget would not suffer direct consequences, and any subsequent impacts would not be significant.

Capital and capital adequacy

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

As required by Basel II and in addition to capital requirements relating to credit and currency risk, SID Bank introduced capital requirements relating to operational risks for the first time in 2008. SID Bank calculates these capital requirements using a basic indicator approach.

SID Bank's capital as calculated in accordance with the Regulation of the Bank of Slovenia on Capital Adequacy of Banks and Savings Banks (CABSB), which covers all SID Bank's transactions conducted for its own account (i.e. all operations except transactions involving the insurance of international business transactions, the management of contingency reserves and IREP), amounted to EUR 150.5 million as at 31/12/2008, an increase of EUR 82.4 million compared to the end of 2007. The increase in the capital largely stems from the EUR 50 million paid in capital of the Bank in October 2008 and the withdrawal of a Bank of Slovenia regulation requiring that capital should be reduced by the difference between the impairments or provisions determined in the course of a collective assessment under IFRS and the impairments or provisions calculated on the basis of percentages specified in the Bank of Slovenia Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks.

The capital adequacy ratio is the ratio between the capital and the capital requirements relating to credit, currency and operational risks. Capital adequacy as calculated based on Basel II requirements for all transactions that were conducted by SID Bank for its own account (i.e. all operations except transactions involving the insurance of international business transactions, the management of contingency reserves and IREP) stood at 11.08% as at 31/12/2008.

Credit risk

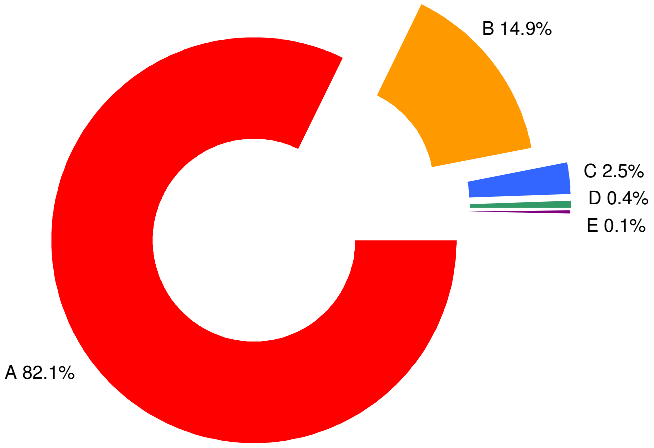
Credit risk is the risk of loss arising from a debtor’s failure to settle its obligations. Credit risk management begins before entering into a contractual relationship by determining the credit rating of a client and by securing appropriate collateral. The credit exposure is approved by the Credit Risk Committee. During the course of a transaction, credit risk is managed by closely monitoring and managing the credit portfolio, limiting the concentration of credit risk with a client, a group of clients, an industry and a country, by classifying and creating provisions for anticipated losses, and by providing sufficient capital when losses exceed expectations.

Credit risk reflects the following:
- risk of losses arising from credit transactions,
- risk arising from the geographic location of the debtor’s country,
- risks arising from a securities issuer,
- counterparty credit risk arising from settlement and derivative financial instruments.

Although SID Bank introduced an individual assessment of losses and impairments calculations under 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, the Bank still maintains this classification[2]. The clients with the highest credit rating have the ‘A’ ranking and the clients with the lowest credit rating the ‘E’ rating. The quality of the credit portfolio can thus be continuously monitored against these rating classes and compared with other banks.

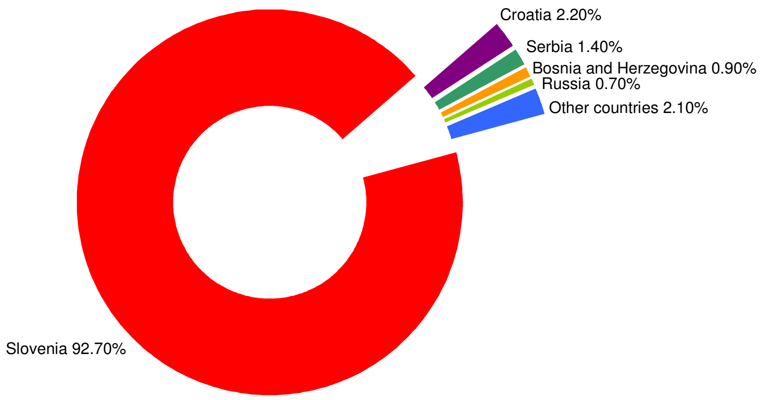
[2] For its internal use, SID Bank uses more detailed credit rating categories expressed in three-letter codes.

• SID Bank credit portfolio by credit rating class as at 31/12/2008



The balance of the SID Bank credit portfolio as at 31/12/2008 shows that as much as 82.1 percent of all loans, other claims and off-balance sheet liabilities are classified in the highest credit rating class ‘A’, further 14.9 percent of the portfolio falls into the ‘B’ credit rating class, 2.5 percent in ‘C’, whereas classes ‘D’ and ‘E’ account for less than 0.5 percent.

• SID Bank credit portfolio by debtor country as at 31/12/2008

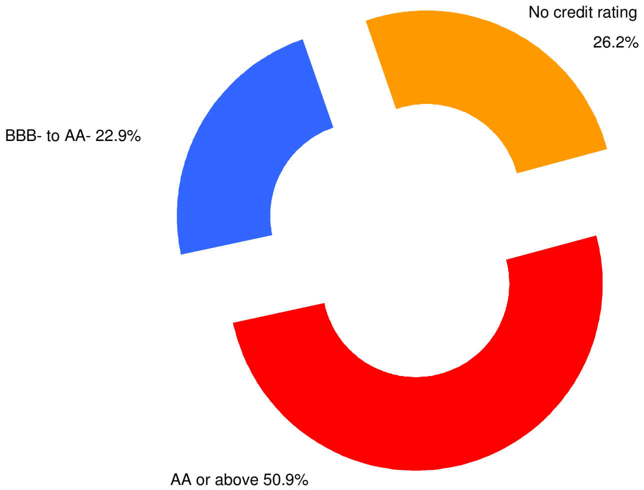


Claims and off-balance sheet liabilities from Slovene debtors account for slightly less than 93 percent of the credit portfolio, followed by exposure to former Yugoslav states (Croatia, Serbia, Bosnia and Herzegovina) and Russia.

Impairments and provisions constitute an important element of managing the risk of loss arising from credit transactions. (The impairments and provision creation policy is described in more detail in item 5.2.5 of notes to the financial statements.) As at 31 December 2008, SID Bank’s impairments and provisions totalled EUR 24.1 million, which is EUR 8.5 million more than as at 31 December 2007. The SID Bank’s provisions created due to the impairments of securities totalled EUR 0.97 million in 2008. Impairments and provisions are derived from group and individual assessments of losses, with losses arising from exposures falling into credit rating classes C, D or E being assessed on an individual basis. The ratio between total provisions and impairments and total exposure classified in these classes is 1.22 percent.

Issuer risk arises from the credit portfolio, which is managed by SID Bank in order to ensure liquidity and asset-liability management. SID Bank does not conduct trading transactions. The Bank manages credit risk mainly by setting limits concerning the issuer credit rating and by monitoring the market values of securities.

• Securities portfolio by issuer credit rating as at 31/12/2008



Detailed breakdown of the securities portfolio by issuer credit rating as at 31/12/2008 is available in item 5.4.3. of notes to the financial statements.

Liquidity risk

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

SID Bank does not accept deposits, meaning it is not exposed to liquidity risk in the conventional sense. Nevertheless, problems could occur should SID bank be unable to draw on the funds promised. If circumstances warrant, SID Bank follows a stress test scenario.

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

SID Bank also monitors its exposure to liquidity risk by means of liquidity ratios (ratios between outflows and inflows over one- to six-month periods). The Bank of Slovenia set the minimum value of one for this ratio for the periods of up to 30 days. With SID Bank, the mentioned ratio mostly exceeded 1.5. Despite the worsening financial and economic conditions, SID Bank has not experienced liquidity-related difficulties, thanks to the long maturity of its liabilities and adequate secondary liquidity.

Liquidity risk in its broader sense, i.e. 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 would 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.

• Balance sheet by maturity as at 31/12/2008

	Assets		Liabilities		Gap
Maturity class	in EUR million	as % of total assets	in EUR million	as % of total assets	in EUR million
Demand	0.0	0.0%	0.0	0.0%	0.0
Up to 1 month	81.5	3.9%	0.4	0.0%	81.1
1 month to 3 months	63.6	3.0%	204.3	9.8%	-140.7
3 months to 1 year	196.1	9.4%	651.0	31.2%	-454.9
1 year to 5 years	1,111.5	53.2%	1,033.5	49.5%	78.0
Over 5 years	635.0	30.5%	198.5	9.5%	436.5
Total	**2,087.7**	**100.0%**	**2,087.7**	**100.0%**	**0.0**

Detailed breakdown of assets and liabilities items as at 31/12/2008 by maturity is available in item 5.7.1.1. of notes to the financial statements.

Currency risk

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

Throughout the year 2008, the share of all investments in a foreign currency closely matched the share of liabilities in a foreign currency. Investments in US dollars stood at EUR 15.4 million at year-end, exceeding the USD-denominated liabilities by EUR 1.2 million. Positions in other foreign currencies were negligible throughout the year.

Pursuant to the Regulation on Reporting on the Capital and Capital Requirements of Banks and Savings Banks, there was no need to establish capital requirements for currency risk at the end of the year.

At the end of 2008, SID Bank had a single foreign-currency forward contract amounting to USD 1 million to hedge against currency risk it encounters in its daily operations on financial markets.

• Balance sheet by currency structure as at 31/12/2008

	Assets		Liabilities		Gap	
	in EUR million	% of total assets	in EUR million	% of total assets	in EUR million	% of capital*
EUR	2,072.3	99.3%	2,073.5	99.3%	-1.2	0.0%
USD	15.4	0.7%	14.2	0.7%	1.2	0.0%
Other currencies	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	**2,087.7**	**100.0%**	**2,087.7**	**100.0%**	**0.0**	**0.0%**

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

Detailed presentation of the balance sheet by currency structure as at 31/12/2008 is available in item 5.7.1.2. of notes to the financial statements.

Interest rate risk

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

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

During the year, in addition to coordinating the accrual of interest, SID Bank also used, to a limited extent, derivative financial instruments (interest rate swaps) as an additional tool to mitigate interest risk. At the end of 2008, SID Bank held no interest rate swaps.
Detailed presentation of the balance sheet by interest rate risk exposure as at 31/12/2008 is available in item 5.7.1.3. of notes to the financial statements.

• Presentation of liabilities and investments by period remaining to interest rate repricing as at 31/12/2008

	Assets		**Liabilities**		**Gap**
Maturity class	in EUR million	as % of total assets	in EUR million	as % of total assets	in EUR million
Non-interest bearing	35.0	1.7%	184.3	8.8%	-149.3
Demand	3.0	0.1%	0.0	0.0%	3.0
Up to 1 month	137.9	6.6%	66.6	3.2%	71.3
1 month to 3 months	674.5	32.3%	505.2	24.2%	169.3
3 months to 1 year	1,219.5	58.4%	1,331.6	63.8%	-112.1
1 year to 5 years	12.7	0.6%	0.0	0.0%	12.7
Over 5 years	5.1	0.3%	0.0	0.0%	5.1
Total	**2,087.7**	**100.0%**	**2,087.7**	**100.0%**	**0.0**

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 organisation, 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, organisational structure and external events.

SID Bank has put in place an operational risk management policy according to Basel standards recommendations. Operational risks are monitored using the basic indicator approach. The management of operational risk is based on the established system of internal controls, the decision-making and authorisation policies, 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. They were managed through additional measures, such as the establishment of a business continuity plan and other measures aimed at increasing information security.

Risk management in the SID Bank Group

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

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

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

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

Risk profile

SID Bank has prepared a risk profile, which documents and categorises a set of quantitative and qualitative assessments of risks assumed by the SID Bank Group in the course of its operation and the control environment used to manage those risks.

The risk profile is used as a basis for:
- comprehensive risk management process,
- assessing the adequacy of internal capital,
- planning internal audit procedures,
- direct supervision by the Bank of Slovenia.

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

Internal capital adequacy assessment

In accordance with its risk management strategy and capital management policy, the SID Bank Group has established an appropriate process of assessing the adequacy of its internal capital, which has the following characteristics:

- it 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 Group during the course of its operations,
- it provides for adequate internal capital reflecting the Bank Group's risk profile,
- it is appropriately integrated in the management system.

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

The following risks and factors are taken into account in assessing the adequacy of 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 relating to credit risks have an 81% share, operational risks a 2% share, and concentration and external factor risks a 17% share.

Risk management at the SID Bank Group is presented in detail in chapter 6 on disclosures.

6.5. Information System

A banking information system must ensure safe and controlled access to timely, integral and available information. In addition to supporting business processes, the information system must enable reporting to banking regulators and other external institutions and help users in the decision-making process. In response to the constantly changing and increasing business needs of SID Bank and regulatory requirements, the information system needs to be regularly updated and improved.

In 2008 SID Bank adopted a renewed information system development strategy which served as the basis for conducting numerous activities in the field of information and technological development.

Particular attention was paid to renewing, upgrading, standardizing and optimizing server infrastructure to integrate virtual environment technologies as well as to the introduction of a storage area network . As part of the package of measures designed to ensure business continuity, a secondary site was set up and used to test the disaster recovery plans. In terms of security, several improvements and upgrades on various system segments were made, including segmentation of LAN, upgrade of firewalls, and implementation of an additional spam filter.

The activities aimed at standardizing and unifying the system software continued throughout 2008, as did standardization of work with outsource providers and introduction of IT support to software change management. The primary document information system was upgraded to and supplemented with a transaction-based and relational database system.

In the field of application software, particular attention was given to further improvement of support to the key Bank's processes. SID Bank continued to work on the system to offer support to loan/deposit transactions, and successfully implemented its information support to securities transactions. Reengineering of the payment transactions programme including introduction of SWIFT network services was completed in 2008. SID Bank was connected to the SEOnet.

One of SID Bank's crucial ongoing tasks relating to information technology is to provide the groundwork for high-quality and timely reporting. In this respect, 2008 saw execution of a number of activities aimed at supplementing and upgrading the Bank’s external reporting processes under the requirements from external institutions and the Bank’s internal reporting, which is becoming increasingly complex and extensive in response to the growing business needs. In this context, SID Bank also worked on preparing the bases for a step-by-step construction of a data warehouse.

In addition to the above, the Bank ran other activities relating to development and maintenance of the information system in compliance with the ISO27001 (ISO/BS17799) standard.

Given the role of SID Bank in the SID Bank Group, the activities performed in line with the Strategy were focused on coordinating the development of information systems of all companies of the Group. To enhance its efficiency, risk management and business strategy, the Bank also worked on the optimization of its processes, aware that the business strategy and risk management strategy are the main construction elements of the strategy for future development of the SID Bank information system.

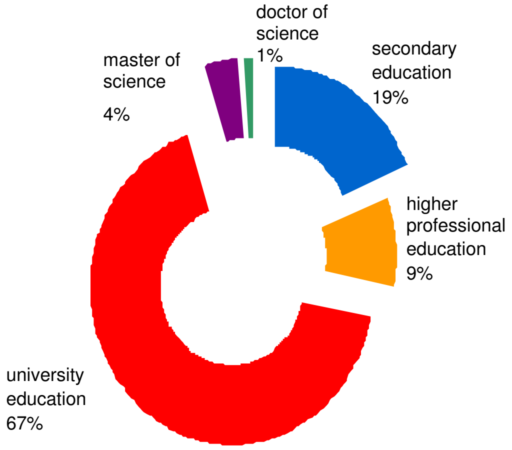
6.6. Personnel

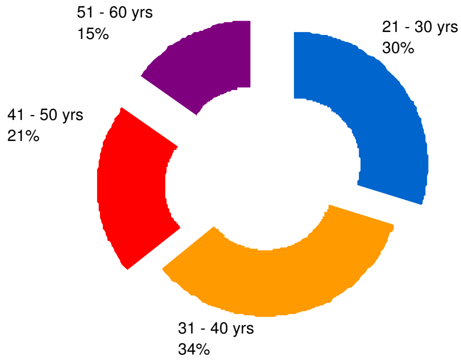
Recruitment – structure and trends

Personnel recruitment in 2008 was conducted in accordance with the annual recruitment plan and the orientations of the Action Strategy, based primarily on balancing recruitment against the growth of business volume and development of new products, hiring professionals who possess industry-specific knowledge and experience, and on retaining competent and high-potential staff working for SID Bank or the SID Bank Group.

In 2008, 12 new employees were engaged. SID Bank ended the year with 76 employees (50 women and 26 men) with the average number of employees in 2008 totalling 75.

• Personnel structure by education level as at 31 December 2008





Employee development

SID Bank is committed to promoting employee development to ensure the education and qualification structure comparable to the development level and strategic goals of the Bank and successful adaptation of the employees to the changes and challenges of their work environment.

Annual appraisal interviews and semi-annual interviews were conducted with all employees in order to determine the achievement of set goals.

Annual appraisal interviews provide the basis for the assessment of an individual's development potential, the identification of key personnel (managers and specialists – responsible for the development of new activities) and the preparation of an annual training plan, as they point to requirements for new knowledge and facilitate targeted training and education of individual employees and employee groups.

Training

In line with the SID Bank Action Strategy, the Bank encourages acquisition of the needed knowledge and skills and their transfer into practice. In 2008 SID Bank employees acquired knowledge needed for specific expert fields (e.g., loans, treasury, insurance, legal matters, information technology, accounting, and internal audit). Training took the form of in-house training and participation in conferences, workshops, seminars, postgraduate studies and the like, both in Slovenia and abroad.

Employees also acquired certain general skills, especially with regard to foreign languages, information technology, leadership, goal setting, time management, team building, etc. More specific target areas included banking topics, legal matters, customer relations management, SWIFT, prevention of money laundering, corporate financial and business analyses, insurance of bank investments, business negotiations, project finance, international financial reporting standards, tax legislation, payment systems, and public procurement.

In 2008 seventy-four employees (97 percent of all employees) attended various forms of training. The number of hours spent on training averaged at 66 per employee.

Remuneration

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

The payment of salaries and other remuneration complies with the provisions of existing legislation and the Collective Agreement of Banks and Savings Banks in Slovenia, whereas promotion and performance benefits are regulated with an internal SID Bank act. Performance incentives are awarded to the employees by their superiors on a monthly basis as a variable component of pay, amounting to not more than 10 percent of the employee's salary, or, under the amendment of an internal SID Bank act, not more than 20 percent of the salary for special achievements. The grounds for promotion at the same job position are established on the basis of the appraisal report drawn up by the superior following the conduct of annual and semi-annual interviews. In 2008, 30 employees were promoted through this process.

Project work is subject to special rewards and forms the basis of individual development and the development of teamwork and cooperation.

In 2008, SID Bank covered part of the premium for the voluntary supplementary pension insurance and the premiums for the voluntary supplementary health insurance for all employees.

Internal communications

As SID Bank performs a highly-specialized activity, it is critical for its performance that the employees understand and support the Bank's activities, which 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 meetings, minutes and decisions of corporate bodies, internal rules and regulations, expert library, descriptions of processes and procedures, proposals and ideas, and clippings), internal e-newsletter and quarterly publications of SID Bank's newsletter Cekin.

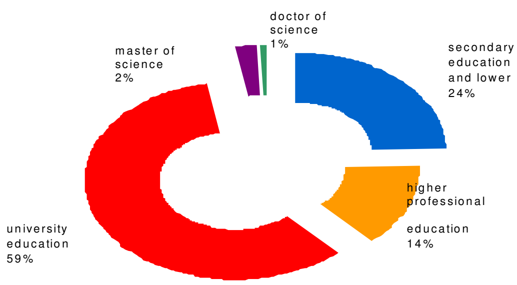
In 2008, like in previous years, a survey on organisation climate and employee satisfaction was carried out. For the first time, SID Bank contracted an outsource firm to conduct the survey using the questionnaire on the Organisational Climate in Slovenian Companies (SiOK). The survey results facilitated comparisons with other Slovenian companies and will form a sound basis for devising measures to address low-rated categories and identify trends in the measurements of future years.

Employees of the SID Bank Group

Company	2006	2007	2008
SID Bank	68	69	76
PKZ	38	40	51
PRO KOLEKT Group	6	15	19
PRVI FAKTOR Group	76	108	130
CMSR	7	9	11
Total	195	241	287

At the end of 2008, the PRO KOLEKT Group employed 19 people, six of whom work in Ljubljana, six in Zagreb, two in each of the companies in Belgrade and Bukarest, and one in each of the other companies of the Group. The PRVI FAKTOR Group ended the year 2008 with a total of 130 employees, 38 of whom work in the Ljubljana company whereas another 44 work in Zagreb, 34 in Belgrade and 14 in Sarajevo.

- ***Education structure of SID Bank employees as at 31 December 2008***



6.7. Internal Audit

In terms of organisational structure and human resources, the Internal Audit closely follows the requirements of the Banking Act and is organised as a service directly responsible to the Management Board, and of appropriate personnel structure.

In 2008 the Internal Audit provided audit assurances and advisory services consistent with The International Standards for the Professional Practice of Internal Auditing, the code of internal auditing principles, the code of professional ethics for internal auditors, and relevant provisions of the Banking Act.

The goals and objectives of internal auditing – by providing independent and objective assurances and consulting activity designed to support a conceptually sound and consistent method for assessing and improving the efficiency of risk management, thus helping the management of the Bank accomplish its objectives:

- Regulated, cost-effective, efficient and profitable operation and development, creation and sale of high-quality financial products
- Safeguarding of assets against loss resulting from negligence, unauthorised use, poor management, default and fraud, and other deficiencies
- Conduct of operations in compliance with the legislative, regulatory and administrative provisions, internal rules of the Bank, and management guidelines
- Upgrading and maintenance of reliable accounting and other data and information; true and fair representation of the data in reports,

were met in 2008 through a series of activities performed by the Internal Audit in the field of internal control and consulting.

In 2008 the Internal Audit defined the plan of internal audit reviews for the year on the basis of the risk profile and, accordingly, performed internal audit reviews of thus selected processes and procedures by individual organisational units or SID Bank's business functions and reviewed the annual reports and financial statements of some SID Bank's subsidiaries. Throughout 2008, the Internal Audit conducted 14 reviews. The findings of each review were reported to the Management Board on a timely basis, and every quarter reports were made to the Audit Committee and the Supervisory Board.

The recommendations made by the Internal Audit following reviews were oriented towards further improvement of internal controls by individual organisational unit and business function and towards a further reduction of risks in various segments of the Bank's operation. The Internal Audit continuously monitored the implementation of recommendations made and reported on the status of these in its regular reports.

In providing advisory services, the Internal Audit offered support to other business and expert areas of SID Bank, its major activities of 2008 focused on:

- Cooperation with the external auditor in organizing the final audit of the 2007 Annual Report, preliminary audit for 2008, negotiation of the contract with the auditing firm and review of the letters to the Management Board
- Participation in the preparation of the Rules on Evaluation of the Process of Assessing the Necessary Internal Capital of the Bank
- Involvement in the preparation of the Rules on Disclosures and Organisation of the Annual Report
- Involvement in the introduction of new products
- Participation in various projects
- Involvement in risk profile reassessments
- Involvement in the execution of external quality assessment of the internal audit service within SID Bank
- Ongoing provision of advisory services in reply to the current needs

The Internal Audit drew up three-monthly reports and an annual report on its operations. All reports were discussed at regular meetings of the Management Board, Audit Committee, and Supervisory Board.

7. Appendices

7.1. Management Bodies of SID Bank as at 31 December 2008

Supervisory Board

- Mitja Gaspari, MSc, Minister without Portfolio Responsible for Development and European Affairs
- Gregor Golobič, Minister of Higher Education, Science and Technology
- Dr. Maja Klun, Faculty of Administration, Representative of Expert Public
- Dr. Franc Križanič, Minister of Finance
- Dr. Matej Lahovnik, Minister of Economy
- Zlata Ploštajner, MSc, Minister without Portfolio Responsible for Local Self-Government and Regional Development
- Dr. Ivan Svetlik, Minister of Labour, Family and Social Affairs
- Stanislava Zadravec Caprirolo, M.I.A., Director-General of Treasury Directorate at the Ministry of Finance

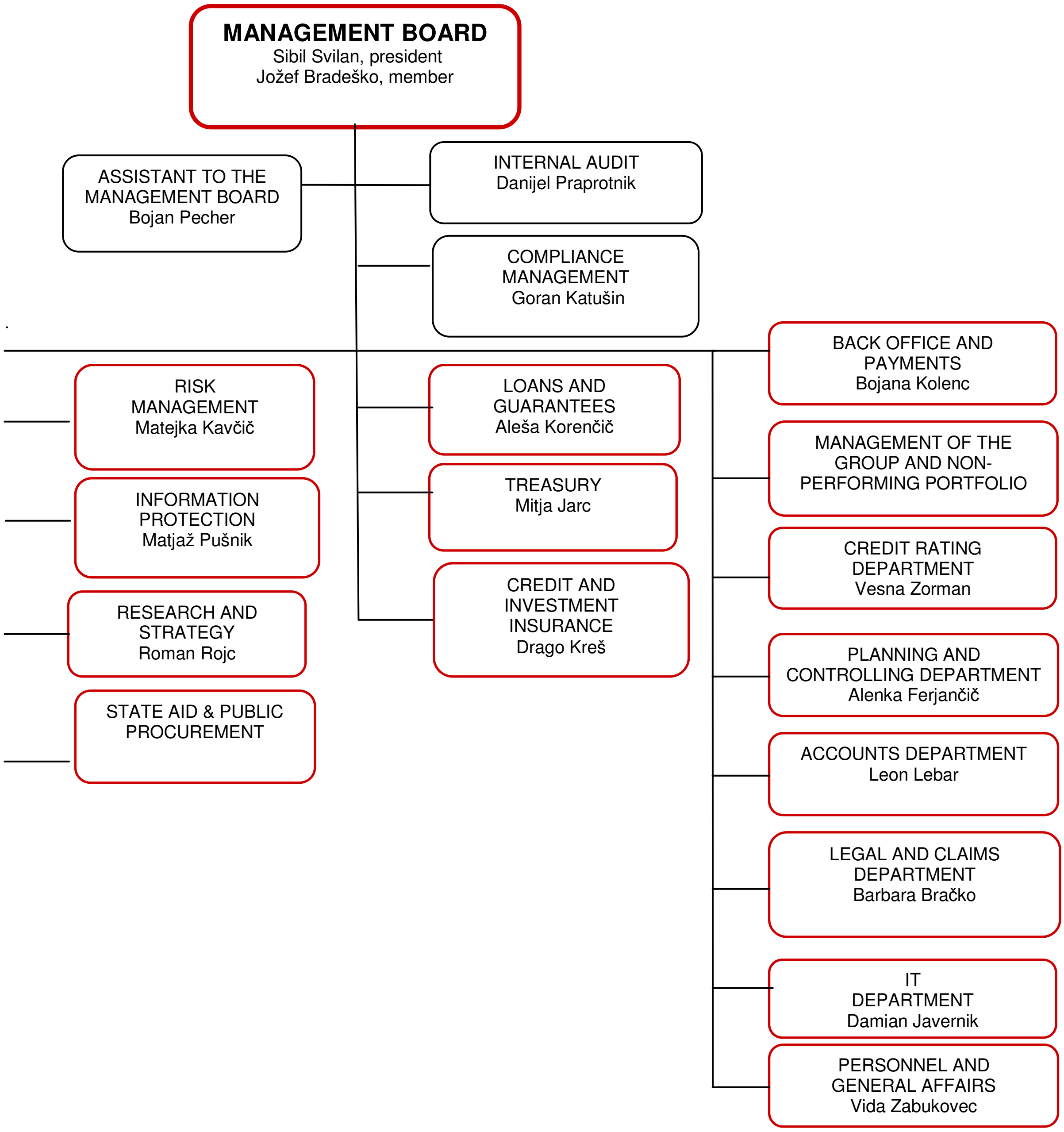
International Trade Promotion Commission

- Sabina Koleša, MSc – Chairperson, Ministry of Economy
- Janko Burgar, MSc – Deputy Chairperson, Ministry of Economy
- Dr. Robert Kokalj, Ministry of Foreign Affairs
- Janez Krevs, Bank of Slovenia
- Monika Pintar Mesarič, Ministry of Finance
- Jože Renar, MSc, Chamber of Commerce and Industry of Slovenia

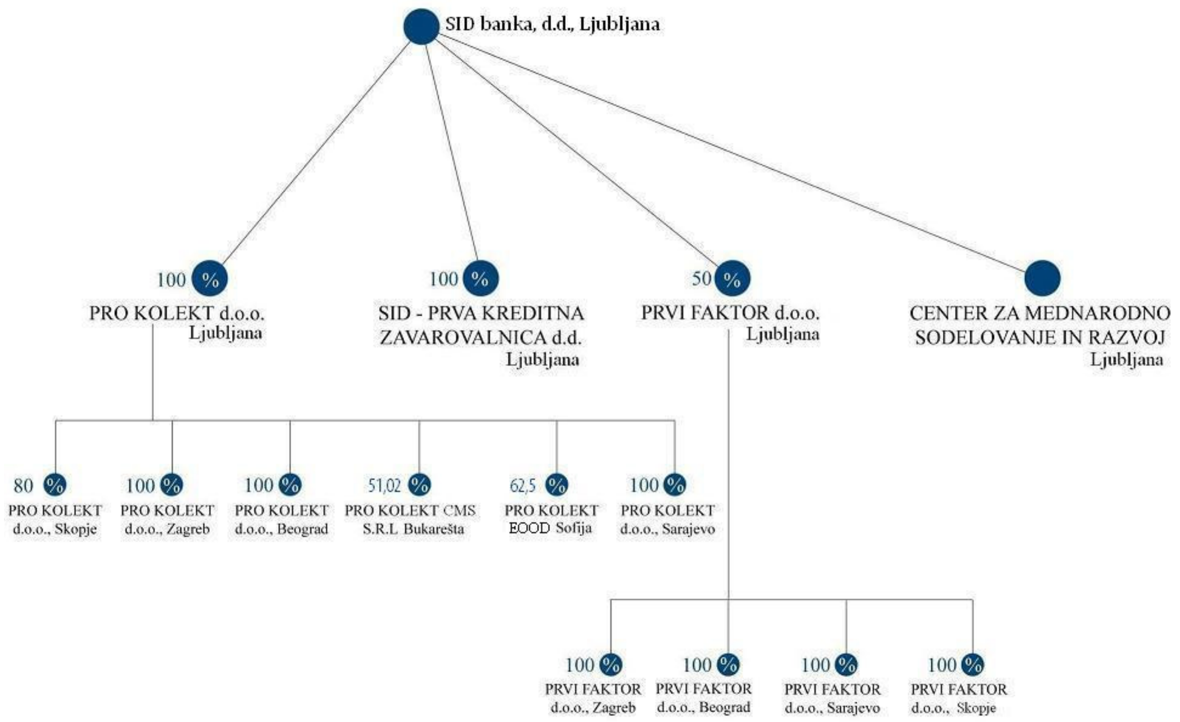
Management Board

- Sibil Svilan, MSc, President
- Jožef Bradeško, Member

7.2. Organisation Chart of SID Bank as at 31 December 2008



7.3. Organisation Chart of the SID Bank Group as at 31 December 2008



7.4. Statement of Corporate Governance

The Republic of Slovenia was the owner of over 90 percent of SID Bank shares prior to the squeeze-out of minority shareholders in September 2008. In respect of the fact that SID Bank's bonds were admitted for trading on a regulated market in December 2008, SID Bank thus becoming a listed company in the sense of the Market in Financial Instruments Act, the Governance Code for Public Joint-Stock Companies was not formally considered in the Bank's management practices in the year 2008. Nevertheless, SID Bank continuously observes the provisions of cogent rules and regulations applicable to corporate governance in banks. These are first and foremost the provisions of the Banking Act (Chapter 2 and, indirectly, the Companies Act) and the Bank of Slovenia regulation (Decision regulating due care of management board and supervisory board members of investment firms, Official Journal of RS, No. 28/07), which include the recommendations derived from the aforementioned Corporate Governance Code for Public Joint-Stock Companies and are as such legally binding for all banks. Another act to be considered is the Slovene Export and Development Bank Act, which stipulates the composition of the Supervisory Board.

In accordance with the regulatory framework, SID Bank has in place a two-tier management system with a two-member Management Board and a Supervisory Board. Both Bank's bodies act observe the above mentioned regulations and the company's Statute (also available at SID Bank web site: http://www.sid.si/sidslo.nsf), SID Bank's Strategy and policies adopted by the Bank's management or supervision bodies. To enhance the efficiency of its operation, the Supervisory Board has set up an Audit Committee. In view of the Bank’s full compliance with the regulations binding for banks, SID Bank also complies, though indirectly, with all the provisions of the Corporate Governance Code for Public Joint-Stock Companies.

SID Bank has adopted internal acts regulating accounting reporting procedures and through these put in place various internal controls. The functioning of internal controls and risk management practices are subject to internal audit reviews conducted by a special organisational unit. Further, the work of the Audit Committee of the Supervisory Board is mainly concerned with accounting reporting and risk management.

Since September 2008, the Republic of Slovenia has been the single shareholder of SID Bank, and even previously no minority shareholders exceeded the regulated threshold of qualifying shareholding. Minority shareholders also held no special control rights and no limitations on voting rights were in place. The Bank's management and supervision bodies are appointed in accordance with the regulations, and since September 2008 the authority of the General Meeting of Shareholders is exercised by the Government of the Republic of Slovenia.

In 2008 the Management Board was composed of Sibil Svilan, MSc, as President of the Board, and Jožef Bradeško, as Member of the Board.

The composition of the Supervisory Board, however, underwent several changes in 2008, mainly as the Slovene Export and Development Bank Act became applicable in September 2008 and due to the changes in the Government of the Republic of Slovenia that took place in November 2008. The members of the Supervisory Board as at 31 December 2008 were:

- Mitja Gaspari, MSc, Minister without Portfolio Responsible for Development and European Affairs
- Gregor Golobič, Minister of Higher Education, Science and Technology
- Dr. Maja Klun, Faculty of Administration, Representative of Expert Public
- Dr. Franc Križanič, Ministry of Finance
- Dr. Matej Lahovnik, Ministry of Economy
- Zlata Ploštajner, MSc, Minister without Portfolio Responsible for Local Self-Government and Regional Development
- Dr. Ivan Svetlik, Minister of Labour, Family and Social Affairs
- Stanislava Zadravec Caprirolo, M.I.A., Director-General of Treasury Directorate at the Ministry of Finance

The members of the Audit Committee as at 31 December 2008 were:

- Dr. Maja Klun – Chairperson
- Stanislava Zadravec Caprirolo, M.I.A., – Member
- Romana Logar – Member – External Expert

II. FINANCIAL STATEMENTS OF SID BANKA AND SID BANK GROUP

Contents

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

On 23 February 2009 the Management Board confirmed the financial statements of SID Bank and consolidated financial statements of SID Bank Group for the year ended 31 December 2008. Financial statements have been compiled in line with the International Financial Reporting Standards (IFRS) as adopted by the EU.

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

The management is responsible for the following:

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

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

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

Jožef Bradeško
Member of Management Board

Sibil Svilan, MSc.
President of Management Board

Deloitte.

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

Report on the Financial Statements

We have audited the accompanying financial statements of the SID – Slovenska izvozna in razvojna banka d.d., Ljubljana and group SID – Slovenska izvozna in razvojna banka d.d., Ljubljana which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of SID – Slovenska izvozna in razvojna banka d.d., Ljubljana and group SID – Slovenska izvozna in razvojna banka d.d., Ljubljana as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report On Other Legal and Regulatory Requirements

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

DELOITTE REVIZIJA d.o.o.

Andreja Bajuk Mušič
Certified auditor
Andreja Bajuk Mušič

Yuri Sidorovich
President of the board

Ljubljana, 16 April 2009

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

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. Balance sheet as at 31 December 2008

In EUR thousand		SID Bank		SID Bank Group	
	Notes	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Cash and balances with the central bank	2.4.1.	87	298	88	299
Financial assets held for trading	2.4.2.	125	129	126	129
Available-for-sale financial assets	2.4.3.	61,332	40,728	79,449	63,034
Loans	2.4.4.	2,012,564	1,192,496	2,191,029	1,346,026
- Loans to banks		*1,512,381*	*915,674*	*1,537,955*	*922,927*
- Loans to clients other than banks		*500,183*	*276,822*	*653,074*	*423,099*
Property, plant and equipment	2.4.5.	4,749	5,091	5,230	5,569
Intangible assets	2.4.6.	568	600	1,306	1,237
Long-term investments in equity of subsidiaries, associates and joint ventures	2.4.7.	7,712	7,712	419	419
Corporate income tax assets	2.4.8.	328	1,373	1,213	2,269
- Assets for corporate income tax		*0*	*1,229*	*255*	*1,491*
- Assets for deferred taxes		*328*	*144*	*958*	*778*
Other assets	2.4.9.	252	290	22,794	18,052
- Insurers assets		*0*	*0*	*20,177*	*17,570*
- Other assets		*252*	*290*	*2,617*	*482*
TOTAL ASSETS		**2,087,717**	**1,248,717**	**2,301,654**	**1,437,034**
Financial liabilities held for trading	2.4.10.	172	186	172	186
Financial liabilities measured at amortised cost	2.4.11.	1,921,672	1,137,069	2,079,910	1,274,967
- Bank deposits		*15,216*	*26,206*	*15,216*	*22,637*
- Deposits of clients other than banks		*22,376*	*32,879*	*22,376*	*32,878*
- Loans of banks		*1,633,867*	*1,069,125*	*1,792,105*	*1,211,554*
- Debt securities		*250,213*	*8,859*	*250,213*	*7,898*
Provision	2.4.12.	2,289	883	35,265	26,956
- Bank provision		*2,165*	*778*	*2,165*	*778*
- Liabilities from insurance contracts		*0*	*0*	*30,896*	*23,803*
- Other provision		*124*	*105*	*2,204*	*2,375*
Corporate income tax liabilities	2.4.13.	1,939	2,190	2,321	2,427
- Tax liabilities		*1,904*	*2,163*	*2,284*	*2,400*
- Non-current deferred tax liabilities		*35*	*27*	*37*	*27*
Other liabilities	2.4.14.	888	835	4,058	4,908
TOTAL LIABILITIES		1,926,960	1,141,163	2,121,726	1,309,444
Share capital	2.4.15.	140,000	89,600	140,000	89,600
Capital reserves	2.4.16.	1,139	1,139	1,139	1,139
Revaluation surplus	2.4.17.	(295)	(331)	(838)	(396)
Reserves from profit (including retained profit)	2.4.18.	19,923	17,566	38,095	31,835
Treasury shares	2.4.19.	(1,324)	(1,324)	(1,324)	(1,324)
Net profit for the year		1,314	904	2,856	6,736
EQUITY		160,757	107,554	179,928	127,590
TOTAL LIABILITIES AND EQUITY		**2,087,717**	**1,248,717**	**2,301,654**	**1,437,034**
CONTINGENCY RESERVES	2.4.22	**113,186**	**107,278**	**113,186**	**107,278**
Interest Rate Equalization Programme	2.4.22	**6,709**	**5,395**	**6,709**	**5,395**

Contingency reserves and the IREP refer to transactions performed by SID Bank on behalf and for the account of the Republic of Slovenia are not a part of the assets and the liabilities side of the sources of SID Bank. They are kept in separate accounts, which were defined by the Bank of Slovenia for keeping of transactions pursuant to special authorisation. Transactions pursuant to special authorisation are presented in item 2.4.22.

Net profit per share of SID Bank stood at EUR 2,70 as at 31 December 2008. It stood at EUR 3,95 as at 31 December 2007.

1.2. Income statement for the year 2008

In EUR thousand	Notes	SID Bank 2008	SID Bank 2007	SID Bank Group 2008	SID Bank Group 2007
Interest income and similar income		82,491	47,547	97,238	57,635
Interest expense and similar expense		(68,183)	(38,810)	(77,429)	(44,614)
Net interest	2.5.1.	14,308	8,737	19,809	13,021
Dividend income	2.5.2.	2,273	1,031	0	0
Fees and commissions received		1,209	566	5,398	3,582
Fees and commissions paid		(411)	(101)	(1,412)	(941)
Net fees and commissions	2.5.3.	798	465	3,986	2,641
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	2.5.4.	(184)	(17)	(255)	(78)
Net profits/losses from financial assets and liabilities held for trading	2.5.5.	(59)	20	(58)	20
Net foreign exchange gains/losses	2.5.6.	97	(258)	2,866	1,487
Net profits/losses from derecognition of assets, excluding non-current assets held for sale		2	0	2	0
Other net operating profits/losses	2.5.7.	2,501	2,593	8,629	9,308
- Income from non-banking services		*2,501*	*2,593*	*2,312*	*2,472*
- Revenues from insurance operations		*0*	*0*	*9,077*	*8,763*
- Expenses for insurance operations		*0*	*0*	*(2,760)*	*(1,927)*
Administrative costs	2.5.8.	(5,161)	(5,240)	(10,843)	(10,021)
Depreciation, amortisation	2.5.9.	(617)	(562)	(860)	(746)
Provision	2.5.10.	(1,526)	709	(5,088)	(2,818)
- Bank provision		*(1,387)*	*837*	*(1,387)*	*836*
- Liabilities from insurance contracts		*0*	*0*	*(3,761)*	*(2,803)*
- Other provision		*(139)*	*(128)*	*60*	*(851)*
Impairments	2.5.11.	(9,429)	(3,387)	(14,183)	(4,564)
Profit on ordinary activities		**3,003**	**4,091**	**4,005**	**8,250**
Corporate income tax on ordinary activities	2.5.12.	(424)	(451)	(1,463)	(1,485)
Deferred taxes		188	(24)	314	(29)
Net profit on ordinary activities		**2,767**	**3,616**	**2,856**	**6,736**
Net profit for the year		**2,767**	**3,616**	**2,856**	**6,736**
- Majority Shareholders				*2,856*	*6,736*

1.3. Cash flow statement for the financial year 2008

In EUR thousand	SID Bank 2008	SID Bank 2007	SID Bank Group 2008	SID Bank Group 2007
A. CASH FLOWS FROM OPERATING ACTIVITIES				
a) Net profit or loss before tax	3,003	4,091	4,005	8,250
Depreciation, amortisation	617	562	860	746
Impairments of tangible fixed assets, investment property, intangible long-term assets and other assets	970	(42)	1,700	(42)
Net foreign exchange (gains)/losses	(97)	258	(2,866)	1,537
Net (profits)-losses due to sales of tangible fixed assets and investment real estate	(2)	0	(2)	0
Other (profits)/losses from investment activities	(2,273)	(1,031)	0	0
Net unrealised profit from capital revaluation adjustment of available-for-sale (financial assets excluding the effect of deferred tax)	0	(416)	0	(418)
Other net profit and loss adjustments before tax	9,985	(709)	17,096	5,791
Cash flows from operating activities before changes in operating assets and liabilities	12,203	2,713	20,793	15,864
b) (Increase)/decrease in operating assets	(822,222)	(468,582)	(840,097)	(517,903)
Net (increase)/decrease in financial assets recognised at fair value through profit and loss	3	18	3	18
Net increase/(reduction) in available-for-sale financial assets	(21,538)	(5,317)	(18,571)	(8,461)
Net (increase)/reduction in loans	(800,610)	(463,244)	(819,760)	(508,813)
Net (increase)/reduction in deferred costs	49	6	0	0
Net (increase)/reduction in other assets	(126)	(45)	(1,768)	(647)
c) Increase/(decrease) in operating liabilities	784,530	437,828	805,307	485,436
Net increase/(reduction) in financial liabilities held for trading	(14)	23	(14)	23
Net increase/(decrease) in deposits and loans measured at amortised cost	784,534	440,350	806,158	486,110
Net (increase)/reduction in deferred income	23	26	0	0
Net increase/(reduction) in other liabilities	40	(2,571)	(837)	(697)
d) Cash flows from operating activities (a+b+c)	(25,436)	(28,041)	(13,997)	(16,603)
e) (Paid)/refunded corporate income tax	546	(2,007)	(28)	(3,298)
f) Net cash flows from operating activities (d+e)	(24,890)	(30,048)	(14,025)	(19,901)
B. CASH FLOWS FROM INVESTING ACTIVITIES				
a) Inflows from investing activities	2,313	1,276	242	248
Proceeds from the sale of property, plant and equipment and investment property	12	1	196	1
Proceeds from the sale of intangible long-term assets	28	244	46	247
Other inflows from investment activities	2,273	1,031	0	0
b) Outflows from investing activities	(281)	(2,085)	(830)	(1,471)
(Outflows for the acquisition of tangible fixed assets and investment property)	(121)	(366)	(462)	(545)
(Outflows for the acquisition of intangible long-term assets)	(160)	(329)	(368)	(536)
(Outflows for the acquisition of equity investments in subsidiaries, associates and joint ventures)	0	(1,390)	0	(390)
c) Net cash flows from investing activities (a-b)	2,032	3,361	(588)	(1,223)
C. CASH FLOWS FROM FINANCING ACTIVITIES				
a) Inflows from financing activities	50,400	0	50,400	500
Inflows from the issue of shares and other capital instruments	50,400	0	50,400	500
b) Net cash flows from financing activities (a)	50,400	0	50,400	500
D. Effect of exchange rate fluctuations on cash and cash equivalents	2	(67)	2	(67)
E. Net increase in cash assets and cash equivalents (Af+Bc+Cb)	27,542	(26,687)	35,787	(20,624)
F. Cash and cash equivalents at the beginning of the period	12,585	39,339	22,595	43,286
G. Cash and cash equivalents at the end of period (D+E+F)*	40,129	12,585	58,384	22,595

* The item includes cash on business account, cash in hand and bank deposits up to 90 days.

1.3.1. Cash equivalents

In EUR thousand	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Cash in hand	0	0	1	1
Cash in business accounts	25	63	2,593	5,352
Bank deposits, of which:	40,104	12,522	55,790	17,242
- Unicredit banka Slovenija d.d.	*15,313*	*3,722*	*15,354*	*3,722*
- Hypo Bank d.d.	*11,617*	*0*	*11,617*	*0*
- Banka Celje d.d.	*5,303*	*0*	*7,909*	*0*
- Volksbank d.d.	*5,152*	*7,051*	*7,229*	*7,873*
- Adria Bank A.G.	*2,003*	*0*	*2,003*	*0*
- NLB d.d.	*465*	*648*	*2,088*	*648*
- Lon d.d.	*251*	*0*	*251*	*0*
- Probanka d.d.	*0*	*1,101*	*1,608*	*1,431*
- Factor banka d.d.	*0*	*0*	*2,547*	*0*
- NLB LHB banka a.d. Beograd	*0*	*0*	*2,425*	*0*
- Gorenjska banka d.d.	*0*	*0*	*2,191*	*0*
- NLB Tuzlanska banka d.d.	*0*	*0*	*555*	*0*
- Societe General - Splitska banka d.d.	*0*	*0*	*13*	*0*
- SID banka d.d.	*0*	*0*	*0*	*3,568*
Total	40,129	12,585	*58,384*	22,595

1.4. Statement of changes in equity

1.4.1. SID Bank

For the 2008 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Reserves from profit	Treasury shares	Net profit	Equity
OPENING BALANCE FOR THE PERIOD (1 January 2008)	**89,600**	**1,139**	**(331)**	**17,566**	**(1,324)**	**904**	**107,554**
Net profits/losses from revaluation of available-for-sale financial assets	0	0	36	0	0	0	36
Net profit/loss for the financial year (from the income statement)	0	0	0	0	0	2,767	2,767
New share capital subscribed (paid)	50,400	0	0	0	0	0	50,400
Allocation of net profit to profit reserves in accordance with a decision of General Meeting of Shareholders	0	0	0	904	0	(904)	0
Allocation of net profit to statutory reserves	0	0	0	139	0	(139)	0
Allocation of net profit to reserves under articles of association	0	0	0	1,314	0	(1,314)	0
CLOSING BALANCE FOR THE PERIOD (31 December 2008)	**140,000**	**1,139**	**(295)**	**19,923**	**(1,324)**	**1,314**	**160,757**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR						**1,314**	

The Supervisory Board shall decide on distribution of profit when considering the Annual Report, in accordance with the 1st paragraph of the Article 230 of the Companies Act (ZGD-1).

For the 2007 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Reserves from profit	Retained earnings	Treasury shares	Net profit	Equity
OPENING BALANCE FOR THE PERIOD (1 January 2007)	**38,906**	**27,631**	**130**	**21,439**	**17,308**	**(1,324)**	**308**	**104,398**
Net profits/losses from revaluation of available-for-sale financial assets	0	0	(461)	0	0	0	0	(461)
Net profit/loss for the financial year (from the income statement)	0	0	0	308	0	0	3,308	3,616
Allocation of net profit to profit reserves	0	0	0	2,712	0	0	(2,712)	0
Capital increase from existing equity components	50,694	(26,492)	0	(6,893)	(17,308)	0	0	0
CLOSING BALANCE FOR THE PERIOD (31 December 2007)	**89,600**	**1,139**	**(331)**	**17,566**	**0**	**(1,324)**	**904**	**107,554**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR							**904**	

1.4.2. SID Bank Group

For the 2008 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Reserves from profit	Retained earnings	Treasury shares	Net profit	Equity
BALANCE FOR THE PERIOD (1 January 2008)	**89,600**	**1,139**	**(396)**	**30,547**	**1,288**	**(1,324)**	**6,736**	**127,590**
Net profits/losses from revaluation of available-for-sale financial assets	0	0	(506)	0	0	0	0	(506)
Net profit/loss for the financial year (from the income statement)	0	0	0	0	0	0	2,856	2,856
Capital increase from new equity components	50,400	0	0	0	0	0	0	50,400
Allocation of net profit to reserves from profit in accordance with a decision of General Meeting of Shareholders	0	0	0	940	0	0	(940)	0
Allocation of net profit to statutory reserves	0	0	0	139	0	0	(139)	0
Allocation of net profit to reserves under articles of association	0	0	0	1,314	0	0	(1,314)	0
Allocation of net profit to retained earnings	0	0	0	0	3,123	0	(3,278)	(155)
Exchange rate differences and differences resulting from consolidation	0	0	64	0	(321)	0	0	(257)
Other changes of net profit*	0	0	0	1,910	(845)	0	(1,065)	0
CLOSING BALANCE FOR THE PERIOD (31 December 2008)	**140,000**	**1,139**	**(838)**	**34,850**	**3,245**	**(1,324)**	**2,856**	**179,928**

* Other changes of profit reserves include changes in profit reserves and retained earnings due to consolidation entry in accounts. The major portion of the amount 1,189 is represented by elimination of formed loan impairments in the group from the previous years, while EUR 478 thousand result from the change of credit risk provision. Retained earnings were adjusted due to paying out of the dividends inside the group, which were correspondingly excluded during the consolidation process. The remaining amount refers to adjustment values between the consolidated balance sheet and the consolidated income statement.

For the 2007 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Reserves from profit	Retained earnings	Treasury shares	Net profit	Equity
BALANCE FOR THE PERIOD (31 December 2006)	**38,906**	**27,631**	**251**	**24,618**	**25,898**	**(1,324)**	**3,722**	**119,702**
Effect of changes from the transition to the IFRS	0	0	0	1,588	0	0	0	1,588
OPENING BALANCE FOR THE PERIOD (1 January 2007)	**38,906**	**27,631**	**251**	**26,206**	**25,898**	**(1,324)**	**3,722**	**121,290**
Net profits/losses from revaluation of available-for-sale financial assets	0	0	(581)	0	0	0	0	(581)
Net profit/loss for the financial year (from the income statement)	0	0	0	0	0	0	6,735	6,735
Capital increase from existing equity components	50,694	(26,492)	0	(6,893)	(17,309)	0	0	0
Allocation of net profit to profit reserves	0	0	0	3,355	1,156	0	(4,511)	0
Alignment of differences in the consolidation process	0	0	(66)	(94)	1	0	0	(159)
Changes in equity components due to amendments to accounting policies	0	0	0	7,945	(8,458)		513	0
Other*	0	0	0	28	0	0	277	305
CLOSING BALANCE FOR THE PERIOD (31 December 2007)	**89,600**	**1,139**	**(396)**	**30,547**	**1,288**	**(1,324)**	**6,736**	**127,590**

* Changes of profit reserves and retained earnings due to consolidation entry in accounts, consolidation corrections and exclusions from consolidation.

Distributable profit

In EUR thousand	2008	2007
Net profit for the year	2,767	3,616
Portion of net profit allocated to statutory reserves	(139)	0
Portion of net profit allocated to reserves under articles of association	(1,314)	(1,808)
Portion of net profit allocated to other profit reserves*	(657)	(904)
Distributable profit	657	904

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

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

When compiling the annual report, the Management Board formed statutory reserves in the amount of EUR 139 thousand from net profit totalling EUR 2,767 thousand pursuant to the 3rd and 4th paragraph of Article 64 or 2. item of the 1st paragraph of Article 230 of the Companies Act (ZGD-1). In accordance with the 4th item of the 1st paragraph of Article 230 of the Companies Act (ZGD-1), the Management Board formed reserves under articles of association in the amount of 50% or EUR 1,314 thousand.

* The Supervisory Board shall decide on distribution of profit when considering the Annual Report, in accordance with the 1st paragraph of the Article 230 of the Companies Act (ZGD-1).

As at 31 December 2008, distributable profit amounted to EUR 657 thousand, including the unused profit for 2008. In accordance with Article 25 of the Articles of Association, Management Board and Supervisory Board propose that the General Meeting of SID Bank allocate the distributable profit for 2008 in the total amount of EUR 657 thousand to other profit reserves.

2. Notes to the financial statements

Items 1 to 4 of this report present the balance sheet as at 31 December 2008, the income statement for 2008, the cash flow statement for 2008 and the statement of changes in equity for the year 2008 of SID Bank (separate statements) and SID Bank Group (consolidated statements). Statements also include comparable data as at 31 December 2007 or for the financial year 2007.

Financial statements are presented in EUR thousand. Assets and liabilities, denominated in foreign currencies, are translated into EUR at the mean exchange rate of the European Central Bank as at the balance sheet date. Revenues and expenses, denominated in foreign currencies, are translated into EUR at the mean exchange rate of the European Central Bank as at the day they occur or are recorded.

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

2.1. Basic information

2.1.1. SID Bank

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

SID Bank's share capital stood at EUR 140,000 thousand, divided into 1,456,808 ordinary registered no-par value shares issued in several issues. In 2008 the Republic of Slovenia became the sole shareholder of the bank.

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

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

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

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

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

- short-term export credit insurance and reinsurance against non-commercial and other non-marketable risks,
- investment insurance against non-commercial risks,
- medium-term export credit insurance against commercial and/or non-commercial risks,
- Interest Rate Equalization Programme (IREP).

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

As at 31 December 2008, SID Bank had 76 employees (as at 31 December 2007 there were 69).

SID Bank is a large company pursuant to Article 55 of ZGD-1.

2.1.2. SID Bank Group

Parent company

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

Subsidiary companies:

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

Joint ventures:

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

Basic data on companies in SID Bank Group as at 31 December 2008

In EUR thousand	Ownership share of SID Bank	Voting rights	Nominal value of investment	Capital	Assets	Liabilities	Net sales revenues*	Net profit (loss)	No. of emplo-yees
SID Bank				160,757	2,087,717	1,926,960	83,700	2,767	76
PKZ	100%	100%	4,206	16,884	51,560	34,676	11,145	345	51
PK Ljubljana	100%	100%	419	145	314	169	354	(114)	6
PK Zagreb	100%	100%	24	33	3,676	3,643	311	46	6
PK Skopje	80%	80%	8	3	5	2	14	1	1
PK Belgrade	100%	100%	25	7	23	16	66	0	2
PK Bucharest	51.02%	51.02%	20	13	25	12	70	(1)	2
PK Sofia	62.5%	62.5%	26	21	34	13	27	(9)	1
PK Sarajevo	100%	100%	26	(3)	31	34	44	(9)	2
PF Ljubljana	50%	50%	3,087	10,005	156,704	146,699	4,243	4,748	38
PF Zagreb	50%	50%	2,651	5,909	168,708	162,799	6,945	2,385	44
PF Belgrade	50%	50%	1,250	2,441	91,814	89,373	3,876	43	34
PF Sarajevo	50%	50%	451	817	15,971	15,154	970	242	14
PF Skopje	50%	50%	5	5	5	0	0	0	0

Basic data on companies in SID Bank Group as at 31 December 2007

In EUR thousand	Ownership share of SID Bank	Voting rights	Nominal value of investment	Capital	Assets	Liabilities	Net sales revenues*	Net profit (loss)	Number of employ-yees
SID Bank				107,550	1,248,713	1,141,163	48,113	3,612	69
PKZ	100%	100%	4,206	18,685	46,706	28,021	9,112	1,526	40
PK Ljubljana	100%	100%	419	259	370	111	346	(144)	7
PK Zagreb	100%	100%	14	(23)	3,598	3,621	121	(19)	3
PK Skopje	80%	80%	8	2	2	0	5	(6)	1
PK Belgrade	100%	100%	25	(21)	22	43	28	(46)	1
PK Bucharest	80%	80%	20	1	7	6	6	(23)	1
PK Sofia	100%	100%	26	15	26	11	5	(11)	1
PK Sarajevo	100%	100%	26	6	21	15	0	(19)	1
PF Ljubljana	50%	50%	3,087	6,806	123,811	117,005	2,031	1,661	35
PF Zagreb	50%	50%	2,651	4,507	158,980	154,473	1,573	1,161	39
PF Belgrade	50%	50%	1,250	6,201	75,570	69,369	2,155	4,294	25
PF Sarajevo	50%	50%	451	570	13,189	12,619	360	131	9
PF Skopje	50%	50%	5	5	5	0	0	0	0

* Net revenues of SID Bank include interest and commissions as its principal activity.

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

Basic data on other companies in SID Bank Group as at 31 December 2008

In EUR thousand	Ownership share of SID Bank	Voting rights	Nominal value of investment	Capital	Assets	Liabilities	Net sales revenues*	Net profit (loss)	Number of emplo-yees
CICD	0	29%	0	97	2,554	2,457	437	5	11

Basic data on other companies in SID Bank Group as at 31 December 2007

In EUR thousand	Ownership share of SID Bank	Voting rights	Nominal value of investment	Capital	Assets	Liabilities	Net sales revenues*	Net profit (loss)	Number of emplo-yees
CICD	0	29%	0	97	1,727	1,630	343	35	9

2.1.3. Consolidation

Companies included in consolidation

Consolidated financial statements include the following companies:

- By the method of full consolidation:
  - Parent company - SID Bank,
  - Subsidiary – PKZ, in which SID Bank holds a 100% stake,

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

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

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

Companies excluded from consolidation

Due to immateriality for the true and fair representation of its financial position, profit or loss, cash flows and changes in equity, SID Bank excluded from consolidation the CIDC institute and PRO KOLEKT Group, which consists of:

- PRO KOLEKT Ljubljana,
- PRO KOLEKT Zagreb,
- PRO KOLEKT Skopje,
- PRO KOLEKT Belgrade,
- PRO KOLEKT Bucharest,
- PRO KOLEKT Sofia,
- PRO KOLEKT Sarajevo.

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

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

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

2.2. Accounting policies

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

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

- Accrual basis,
- Going concern,
- True and fair presentation under the circumstances of a fluctuating value of the Euro and of individual prices, disregarding hyperinflation.

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.

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

2.2.1. Cash and cash equivalents

Cash assets consist of cash and cash equivalents. Cash comprises cash on hand, bank accounts at banks and cash in transit. Cash assets are disclosed separately for the local and foreign currencies.

In the balance sheet, cash on hand is a constituent part of the item cash and balances with the central bank. Balances of bank accounts and cash in transit are part of the item Loans to banks.

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

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

2.2.2. Financial assets held for trading

Financial assets held for trading, as one of the two types of financial assets measured at fair value through profit and loss, include derivatives.

When operating on its own behalf and for its own account, 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.

Despite effective risk management some derivatives do not fulfil all the criteria for the application of accounting treatment of risk management in accordance with the IAS 39, and are disclosed as Financial assets held for trading.

Upon initial recognition at historical cost, taking into account date of the transaction (trading date), derivatives are disclosed at fair value determined on the basis of quoted market prices. Gains or losses arising from derivative financial instruments are disclosed in the income statement as realised gains or losses from financial assets and in the balance sheet as assets if their fair value is positive, and as liabilities, if their fair value is negative.

2.2.3. Available-for-sale financial assets

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

Securities are initially recognised at fair value, which usually equals the purchase price, taking into account date of the transaction (trading date). The purchase cost includes additional costs directly attributable to the acquisition, and increase the purchase value. Purchase price is divided to "net" purchase price and the interest paid.

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

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

After the initial recognition, debt and equity securities are disclosed on the basis of quoted market prices. The differences between the market price and the amortised cost (unrealised gains) of debt instruments and the differences between the fair value and the acquisition cost in capital instruments are disclosed under a separate component of equity – revaluation surplus. Both positive and negative differences are possible; the former increase and the latter decrease the revaluation surplus.

In case there is objective proof of impairment due to an event or events which occurred after the initial recognition, debt and equity instruments have to be permanently impaired.

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

Individual assessment of impairment is also used for debt instruments.

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

Credit Committee is the body assessing whether important events recognizable as conclusive and objective proof of impairment have occurred.

Losses due to impairment recognized in profit or loss for equity instruments can not be cancelled through he 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 profit or loss, the loss due to the impairment has to be cancelled, and the amount of cancellation be recorded in he income statement.

Exchange rate differences arising from debt instruments are recognised in profit or loss, while exchange rate differences arising from revaluation to fair value are recognised in the revaluation surplus.

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

2.2.4. Loans

The item includes loans to banks, loans to clients other than banks, banks deposits and factoring receivables.

Loans and deposits are recognised when cash is transferred to the client. They are disclosed at amortised cost comprising the initial value of the principal reduced by eventual repayments and increased by accrued interest for the period and charged loan approval fees.

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

Factoring receivables are receivables with fixed or determinable payments and are not quoted on an active market. Financing of receivables is possible with or without the right to return the receivable back if not paid.

Factoring receivables are measured at amortised cost using the effective interest rate method reduced potential value adjustments due to impairment. Factoring receivables are derecognized when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all the risks and rewards of ownership.

2.2.5. Impairment of loans, guarantees and factoring receivables

SID Bank and SID Bank Group regularly, at least per date as at balance sheet, check for the existence of objective proof on 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 impairment of financial assets are important information on financial difficulties of the associated subject, non-payment interest or principal, possibility of bankruptcy or financial reorganization of the associated subject, economic situation in the local environment, which coincide with the non-payment.

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

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

Impairment of loans and guarantees

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

- Non-risk balance-sheet items,
- individually significant items, of which joint exposure for classification to one business partner exceeds EUR 200 thousand.

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. .

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

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

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 Point 9 of the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks.

If financial assets are assessed individually but impairment is not necessary and consequently not recognised, 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 realise certain receivables in accordance with contractual provisions and that losses will be incurred.

The amount of adjustment or impairment is assessed on the basis individual assessment of individual debtor. When creating impairments of individually significant receivables, the estimated recoverable amount of the receivable is taken into account.

2.2.6. Property, plant and equipment

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

Property, plant and equipment are initially recognised 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. The purpose of these costs is labelled as repairs and maintenance costs of property, plant and equipment. Subsequent costs increasing future benefits of the asset are disclosed as increase in the purchase cost of a tangible fixed asset. Subsequent costs extending the useful life of the asset are disclosed as a decrease in the accrued depreciation adjustment 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
Buildings	Up to 5.0%
Computer equipment	Up to 50.0%
Passenger cars	12.5-20.0%
Other equipment	Up to 25.0%
Furniture	11.0-25.0%
Small tools	25.0-100.0%

Tangible fixed assets are impaired, when their carrying amount exceeds their recoverable amount. The value of impairment loss is recognised as expenses in profit or loss. 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:

- 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 derecognised upon disposal or when no future economic benefits are expected from its future use or disposal.

2.2.7. Intangible assets

Intangible assets with a definite useful life

The item includes investments in software and other property rights. If the useful life is definite, the asset is amortised at amortisation rate which is 20% to 25% for software and 12% to 20% 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 recognised as expenses in profit or loss. 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 intangible asset. If such signs exist, the recoverable value of the asset is estimated, equalling:

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

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

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

Intangible assets with indefinite useful life

The item includes goodwill.

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

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

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

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

Associated companies are companies in which the parent company directly or indirectly holds between 20% and 50% of voting rights. SID Bank holds a 50% stake in the parent company of the PRVI FAKTOR Group, therefore PRVI FAKTOR Group is consolidated proportionally.

If there is evidence which indicates the need for impairment of an investment in a subsidiary or associated company, the recoverable value is assessed for each individual investment.

Dividends received are disclosed among the income from dividends in the separate income statement.

In the consolidated financial statements an investment in the equity of a subsidiary not included in consolidation is disclosed at purchase value. The investment in the parent company of PRO KOLEKT Group is disclosed at purchase value.

2.2.9. Other assets

Assets from insurance operations

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

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

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

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

Other assets

Receivables are recognised as an asset in the amounts arising from the relevant documents under the assumption that they will be repaid. The fair, i.e. realisable 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 amortised 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.

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

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

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

In rehabilitation procedures also information is material. If there is no such information, the estimate of the realisable value may not exceed 20%.

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

2.2.10. Financial liabilities measured at amortised cost

The item includes liabilities to banks and clients other than banks.

The items are disclosed at amortised cost comprising the initial value of the principal reduced by eventual repayments and increased by accrued interest for the period and eventual expenses for fees related to the raising of loans.

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

2.2.11. Provision

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

Bank provision

This item includes impairments for issued guarantees, approved undrawn credit facilities and credit lines, calculated according to procedures shown in the item 2.2.5. of this report.

Liabilities from insurance contracts

- **Unearned premiums**

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

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

- **Provisions for outstanding claims**

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

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

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

Provisions for appraisal costs have also been formed.

- **Provisions for bonuses**

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

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

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

- **Provisions for unexpired risks**

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

<u>Other provisions</u>

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

- **Provisions for loyalty bonuses**

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

- **Provisions for retirement severance pay**

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

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

2.2.12. Other liabilities

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

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

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

No interest is accrued on other liabilities.

2.2.13. Capital

Capital includes share capital, capital reserves, profit reserves, revaluation surplus from financial assets, capital revaluation – treasury 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 an for increase in capital. Profit reserves are recognised 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 strengthening the capital adequacy.

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

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

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

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

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

2.2.14. Off-balance-sheet items

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

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

The principal aim of assumed and irrevocable liabilities arising from approved undrawn credit facilities and credit

lines is to provide assets for SID Bank's client in accordance with the concluded contract.

Risks related to contingent liabilities and assumed financial liabilities are estimated on the basis of applicable provisions and are described in detail in Chapter 2.2.5.

2.2.15. Operations under Special Authorisation

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

2.2.16. Interest income and expense

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

In the income statement, income and expenses arising from granted and received loans and other interest are recognised in the relevant period on the basis of 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 amortised cost according to the effective interest rate method.

2.2.17. Fees and commissions received and paid

Revenues from fees and commissions comprise commissions from granted loans and guarantees. As stated in the item 5.2.4, revenues from loan approval fees are evenly distributed over the entire period of loan repayment.

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

2.2.18. 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 preparation of credit rating, commission charged for operation on special authorisation, rents charged and other services.

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

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

2.2.19. Impairment of loans and factoring receivables, measured at amortised cost

Losses arising from impairment of loans are recognised if there is objective evidence that the client will not be able to repay the total amount of an approved loan and accrued interest. 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.

2.2.20. Taxation

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 applicable tax rate of the taxable base.
Deferred corporate income taxes are fully disclosed using the method of a liability on the balance sheet 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

balance sheet date and that are expected to be in use when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred corporate income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.2.21. Effect of changes in foreign exchange rates

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

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

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

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

2.2.22. Significant amounts

Significant items in the separate balance sheet are those which exceed 1% of total assets of separate balance sheet on the balance sheet date, i.e. EUR 20,887 thousand as at 31 December 2008. Significant items in the separate income statement are those which exceed 0.5% of total assets of the separate balance sheet on the balancing date, i.e. EUR 10,438 thousand in the separate income statement for 2008.

Significant items in the consolidated balance sheet are those which exceed 1% of total assets of the consolidated balance sheet on the balance sheet date, i.e. EUR 23,017 thousand as at 31 December 2008. Significant items in the consolidated income statement are those which exceed 0.5% of total assets of the consolidated balance sheet on the balancing date, i.e. EUR 11,508 thousand in the separate income statement for 2008.

2.2.23. Cash flow statement

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

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

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

2.2.24. Statement of changes in equity

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

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

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

2.2.25. 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.

2.2.26. Adjustments to new or amended standards applicable as of 1 January 2008 and impact of un-enforced and un-applied standards and notes

The newly applicable standards and interpretations in the reporting period

In the reporting year the following interpretations entered into force: IFRIC 11 IFRS 2 (Group and Treasury Share Transactions), IFRIC 12 (Service Concession Arrangements) and IFRIC 14 IAS 19 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction). The adoption of these interpretations did not result in a change of accounting policies applied by SID Bank.

Interpretations not yet in force or applied

The standards and interpretations, which were not yet in force in the reporting year ending 31 December 2008, and which were not applied when preparing the financial statements of SID Bank and SID Bank Group:

- The new standard IFRS 8 Operating Segments: it requires an entity to report information about its reportable segments and replaces IAS 14 Segment Reporting. The standard is effective on or after 1 January 2009.
- Changes in IFRS 2 Share-based Payment: changes become applicable on or after 1 January 2009; occurrence of circumstances necessary to include when preparing the financial statements of SID Bank and SID Bank Group is not expected.
- IAS 1 Presentation of Financial Statements: changes of requirements for presentation of general purpose financial statements and revised terminology as a whole. Changes become applicable on or after 1 January 2009; a material impact on preparation of the separate and consolidated financial statements is not expected.
- Changes in IAS 23 Borrowing Costs: all borrowing costs may no longer be accounted as expenses. Changes become applicable on or after 1 January 2009; an impact on preparation of the separate and consolidated financial statements is not expected.
- Changes in IAS 32 Financial Instruments: Presentation - changes become applicable on or after 1 January 2009; occurrence of circumstances necessary to include when preparing the separate and consolidated financial statements is not expected.
- Changes in IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements have already been adopted and enter into force 1 July 2009. They will be used for the first time in financial statements in 2010; an impact on preparation of the consolidated financial statements is not expected.

2.3. Reclassification of items in the Income statement

There were no changes in the income statement for the year 2007. However, the income statement for the year 2008 is not completely comparable to the income statement for the year 2007 due to minor changes in classification of items concerning the insurer. Reclassification is shown in the table bellow.

In 2008, SID Bank Group made a reclassification of a part of other net operating profits/losses and a part of administration costs into net fees and commissions.

	SID Bank Group	
	Audited Annual Report 2007	After reclassification in the Annual Report for 2006
Net fees	2,585	2,641
Other net operating profits/losses	9,379	9,308
Administrative costs	(10,036)	(10,021)
Total	1,928	1,928

2.4. Notes to balance sheets

(In EUR thousand)

2.4.1. Cash and balances with the central bank

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Cash in hand	0	0	1	1
Mandatory reserves	87	298	87	298
Total	87	298	88	299

2.4.2. Financial assets held for trading

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Derivative financial instruments held for trading under forward contracts	125	56	126	56
Derivative financial instruments held for trading under swap contracts	0	73	0	73
Total	125	129	126	129

The item indicates receivables due to positive valuation of forward in the amount of USD 1 million.

2.4.3. Available-for-sale financial assets

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Short-term debt securities	992	0	6,318	7,410
Long-term debt securities	60,248	40,462	72,746	54,787
Equity instruments	92	266	385	837
Total	61,332	40,728	79,449	63,034

Debt securities by type of issuer

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Government securities	32,106	12,187	38,660	15,907
- Republic of Slovenia bonds	*31,114*	*12,187*	*35,683*	*14,914*
- Republic of Slovenia treasury bills	*992*	*0*	*2,977*	*993*
Bonds of foreign countries	8,402	401	8,664	744
- Central government bonds	*8,362*	*353*	*8,624*	*696*
- Local government bonds	*40*	*48*	*40*	*48*
Bank bonds	7,147	10,279	11,058	16,297
- Domestic banks	*2,542*	*2,576*	*3,497*	*3,635*
- Domestic banks- subordinate bonds	*2,271*	*2,358*	*3,952*	*4,039*
- Foreign banks	*2,334*	*5,345*	*3,609*	*8,623*
Bonds of other foreign financial organisations	620	1,891	1,267	4,685
Bonds of non-financial companies	12,965	15,704	19,415	24,564
- Domestic non-financial companies	*10,271*	*10,271*	*11,818*	*11.508*
- Foreign non-financial companies	*2,694*	*5,433*	*7,597*	*13,056*
Capital investment	92	266	385	837
Total	61,332	40,728	79,449	63,034

The disclosed balance of long-term securities of SID Bank as at 31 December 2008 includes interest calculated at effective interest rate in the amount of EUR 1,854 thousand. The interest calculated at effective interest rate equally distributes the interest 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.

Interest calculated at effective interest rate for SID Bank Group amounts to EUR 1,907 thousand.

Debt securities by interest accrual method

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
At fixed interest rate	54,091	31,463	66,242	45,962
At variable interest rate	6,156	8,999	11,829	16,236
Non-interest	1,085	266	1,378	836
Total	61,332	40,728	79,449	63,034

Breakdown of securities by issuer rating

	SID Bank		SID Bank Group	
Rating	Fair value as at 31 December 2008	Structure in %	Fair value as at 31 December 2008	Structure in %
Rating according to S&P				
AAA	8,366	13.6	9,027	11.4
AA+	2,288	3.7	2,288	2.9
AA	20,553	33.5	27,414	34.5
AA-	147	0.3	959	1.2
A+	501	0.8	501	0.6
A	691	1.1	1,379	1.7
A-	250	0.4	4,447	5.6
BBB+	12,437	20.6	13,802	17.4
BBB	0	0	1,205	1.5
BB	0	0	199	0.3
BB+	0	0	301	0.4
D	0	0	56	0.1
No rating	16,099	26.3	17,871	22.4
Total	61,332	100	79,449	100

Changes in debt securities and equity instruments

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Balance as at 1 January	40,728	35,411	63,034	54,620
Purchases	53,810	26,122	59,693	45,300
Foreign exchange differences	0	0	(78)	(48)
Sale, realisation	(32,236)	(20,805)	(41,500)	(36,684)
Change in fair value – impairment	(970)	0	(1,700)	(154)
Balance as at 31 December	61,332	40,728	79,449	63,034

In November SID Bank permanently impaired the LANISL Float 09 security in the amount of EUR 970 thousand, which represents 97% of its purchase price. SID Bank Group also impaired securities KAUPT, LEH and NLB Dinamični, forming permanent impairments of securities amounting in total to EUR 1,700 thousand.

Debt securities of SID Bank include EUR 2,271 thousand in subordinated securities, namely BDM11, NKBMFL49 and NLB13 bonds. Exposure to interest rate risk is presented in items 2.5.1. and 3.3.1.

SID Bank Group owns EUR 3,952 thousand in subordinated securities (beside the ones in SID Bank, namely FB15, AB06, AB08, BCE7 and ZT01). Exposure to interest rate risk is presented in items 2.5.1. and 3.3.2., while exposure to foreign-exchange risk is presented in item 3.2.2.

Of the total portfolio of SID Bank as at 31 December 2008, BDM11 and TALLIN bonds in the amount of EUR 752 thousand and the mutual fund MP Plus in the amount of EUR 92 thousand were not listed on the stock exchange. Besides these, from the portfolio of SID Bank as at 31 December 2008, mutual fund NLB Dinamični and MP Asia were also not listed on the stock exchange. Total value of securities not listed on the stock exchange in SID Bank Group was EUR 991 thousand.

2.4.4. Loans

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Loans to banks	1,512,381	915,674	1,537,955	922,927
Loans to clients other than banks	500,183	276,822	653,074	423,099
Total	2,012,564	1,192,496	2,191,029	1,346,026

Loans to banks

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Short-term loans	39,762	70,196	59,633	72,159
Long-term loans	1,412,278	817,043	1,412,278	817,043
Deposits	60,315	28,372	62,695	28,372
Transaction accounts	26	63	3,349	5,353
Total	1,512,381	915,674	1,537,955	922,927

Loans to banks, issued by SID Bank in foreign currency, amount to USD 20,143 thousand, deposits in foreign value amount to USD 655 thousand.

In 2008 commercial banks remained the most important SID Bank's partner, their share in SID Bank loan portfolio reaching 74.4%. Majority of investments are thus represented by loans to Slovene commercial banks and to banks of foreign buyers of Slovene goods and services. The remaining 25.6% share in SID Bank loan portfolio is represented by loans to Slovene companies and their foreign buyers.

The maturity structure of SID Bank's loan portfolio confirms the orientation of SID Bank towards operations in accordance with Act Governing Insurance and Financing of International Business Transactions (ZZFMGP) an the Slovene Export and Development Bank Act (ZSIRB), with the share of long-term loans amounting to 92.1% of SID Bank's loan portfolio at the end of 2008.

Loans to banks represent a 70% share in SID Bank Group. The majority of assets is placed as long-term loans. Direct financing of companies represents the minor share of the loan potential of SID Bank Group. Factoring services are mainly aimed at financing of companies.
A part of deposits in commercial banks, are allocated by SID Bank Group to coverage of losses from insurance contracts and liquidity control.

Short-term loans to banks

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Loans in EUR	39,762	70,239	52,312	71,390
Loans with currency clause	0	0	7,321	812
Value adjustments of loans	0	(43)	0	(43)
Total	39,762	70,196	59,633	72,159

Long-term loans to banks

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Loans in EUR	1,399,123	797,588	1,399,123	797,588
Loans in foreign currency	14,287	20,733	14,287	20,733
Value adjustments of loans	(1,132)	(1,278)	(1,132)	(1,278)
Total	1,412,278	817,043	1,412,278	817,043

Long-term loans to banks issued by SID Bank or SID Bank Group in foreign currency amount to USD 20,143 thousand.

Deposits to banks

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Short-term in EUR	59,850	24,479	62,230	24,479
Short-term in foreign currency	465	648	465	648
Long-term in EUR	0	3,245	0	3,245
Total	60,315	28,372	62,695	28,372

Short-term deposits to banks issued by SID Bank or SID Bank Group in foreign currency amount to USD 655 thousand.

Changes in loans – gross exposure

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Balance as at 1 January	916,995	594,233	924,248	603,914
New loans and deposits	2,762,952	1,794,572	2,988,580	2,066,664
Repayments	(2,166,433)	(1,471,810)	(2,373,740)	(1,746,330)
Balance as at 31 December	1,513,514	916,995	1,539,088	924,248

Changes in adjustments (impairment)

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Balance as at 1 January	1,321	59	1,321	59
Value adjustments of loans	384	1,934	384	1,934
Elimination of value adjustments of loans	(572)	(672)	(572)	(672)
Balance as at 31 December	1,133	1,321	1,133	1,321

SID Bank's and SID Bank Group's interest rates on refinanced loans in domestic and foreign currencies were treated on a case-by-case basis, depending on the loan maturity.

Floating rates of SID Bank and SID Bank Group consisted of 1, 3, 4 or 6-month EURIBOR/LIBOR or the swap interest rate for adequate maturity and the margin of between 0.18% p.a. and 2.4% p.a. Fixed interest rate of SID Bank moves between 4.05% p.a. and 5.6% p.a. In SID Bank Group it moves between 3.05% p.a. and 5.6% p.a..

Interest rate for loans to banks in foreign currency, attained by SID Bank, consisted of 6-month EURIBOR/LIBOR and the margin of between 0.25% p.a. and 1.4% p.a.. The same applies for SID Bank Group.

Exposure of SID Bank to interest rate risk is presented in items 2.5.1. and 3.3.1., while exposure to foreign-exchange risk is presented in item 3.2.1.

Exposure of SID Bank Group to interest rate risk is presented in items 2.5.1. and 3.3.2., while exposure to foreign-exchange risk is presented in detail in item 3.2.2.

Loans to clients other than banks

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Short-term loans	113,948	54,070	122,262	77,224
Long-term loans	385,044	222,434	385,181	220,357
Claims arising from guarantees	1,191	318	1,191	318
Factoring	0	0	144,440	125,200
Total	500,183	276,822	653,074	423,099

Short-term loans to clients other than banks

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Foreign currency loans to non-financial companies	0	699	23,243	16,887
Domestic currency loans to non-financial companies	68,978	18,917	54,049	25,952
Domestic currency loans to other financial organisations	14,547	5,307	14,547	5,307
Domestic currency loans to foreign entities	34,197	30,775	34,197	30,775
Value adjustments of short-term loans	(3,774)	(1,628)	(3,774)	(1,697)
Total	113,948	54,070	122,262	77,224

Long-term loans to clients other than banks

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Foreign currency loans to non-financial organisations	1,044	1,100	1,044	1,100
Domestic-currency loans to non-financial organisations	293,169	152,076	293,306	152,076
Domestic currency loans to other financial organisations	46,399	35,850	46,399	33,773
Domestic currency loans to local level state units	13,974	0	13,974	0
Domestic currency loans to subordinate clients	29	0	29	0
Foreign currency loans to foreign entities	0	319	0	319
Domestic currency loans to foreign entities	48,427	43,770	48,427	43,770
Value adjustments of long-term loans	(17,998)	(10,681)	(17,998)	(10,681)
Total	385,044	222,434	385,181	220,357

Claims arising from guarantees of SID Bank

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Claims arising from realised guarantees	2,412	2,335	2,412	2,335
Value adjustments of realised guarantees	(1,221)	(2,017)	(1,221)	(2,017)
Total	1,191	318	1,191	318

Claims arising from factoring operations

	SID Bank Group	
	31.12.2008	31.12.2007
Domestic factoring	98,822	109,288
Export factoring	14,060	13,254
Import factoring	6,889	5,089
Domestic factoring - loan	30,169	0
Export factoring - loan	15	0
Value adjustments of short-term receivables - factoring	(5,515)	(2,431)
Total	144,440	125,200

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

Changes in loans to clients other than banks - gross exposure

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Balance as at 1 January	291,149	176,694	439,925	271,502
New loans and deposits	399,229	241,622	834,573	643,706
Repayment	(167,201)	(127,167)	(592,916)	(475,283)
Balance as at 31 December	523,177	291,149	681,582	439,925

Changes in adjustments (impairment)

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Balance as at 1 January	14,327	12,351	16,826	14,943
Value adjustments of loans (impairments)	15,235	14,883	20,181	16,526
Elimination of value adjustments of loans (elimination of impairments)	(6,568)	(12,907)	(8,499)	(14,643)
Balance as at 31 December	22,994	14,327	28,508	16,826

Variable rates of SID Bank and SID Bank Group for clients, other than banks in foreign currency for direct financing of legal entities consisted of 6-month LIBOR and the margin of between 0.70% p.a. and 1.2% p.a.

Variable rates of SID Bank and SID Bank Group for clients, other than banks in domestic currency for direct financing of legal entities consisted of 1, 3 or 6-month EURIBOR and the margin of between 0.48% p.a. and 2.5% p.a.

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

Fixed interest rates of SID Bank Group for loans to clients, other than banks ranged between 4.9% p.a. and 12.5% p.a.

Exposure of SID Bank to interest rate risk is presented in items 2.5.1. and 3.3.1., while exposure to foreign-exchange risk is presented in detail in item 3.2.1.

Exposure of SID Bank Group to interest rate risk is presented in items 2.5.1. and 3.3.2., while exposure to foreign-exchange risk is presented in detail in item 3.2.2.

2.4.5. Property, plant and equipment

Changes in property, plant and equipment in 2008

	SID Bank			SID Bank Group			
	Real estate	Equipment	Total	Real estate	Equipment in acquisition	Equipment	Total
Purchase value							
Balance as at 1 January 2008	6,588	1,404	7,992	6,588	19	2,240	8,847
Transfer	0	0	0	0	0	(40)	(40)
Increase	0	122	122	0	0	462	462
Decrease	0	(32)	(32)	0	0	(214)	(214)
Balance as at 31 December 2008	6,588	1,484	8,072	6,588	19	2,448	9,055
Value adjustments							
Balance as at 1 January 2008	(1,852)	(1,049)	(2,901)	(1,852)	0	(1,426)	(3,278)
Depreciation, amortisation	(316)	(138)	(454)	(316)	0	(291)	(607)
Decrease	0	32	32	0	0	60	60
Balance as at 31 December 2008	(2,168)	(1,155)	(3,323)	(2,168)	0	(1,657)	(3,825)
Net book value as at 01 January 2008	4,736	355	5,091	4,736	19	814	5,569
Net book value as at 31 December 2008	4,420	329	4,749	4,420	19	791	5,230

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

Changes in property, plant and equipment in 2007

	SID Bank			SID Bank Group			
	Real estate	Equipment	Total	Real estate	Equipment in acquisition	Equipment	Total
Purchase value							
Balance as at 1 January 2007	6,404	1,318	7,722	6,404	19	1,942	8,365
Increase	184	179	363	184	0	511	695
Decrease	0	(93)	(93)			(213)	(213)
Balance as at 31 December 2007	6,588	1,404	7,992	6,588	19	2,240	8,847
Value adjustments							
Balance as at 1 January 2007	(1,545)	(1,025)	(2,570)	(1,545)	0	(1,271)	(2,816)
Depreciation, amortisation	(307)	(117)	(424)	(307)	0	(263)	(570)
Increase Decrease	0	93	93	0	0	108	108
Balance as at 31 December 2007	(1,852)	(1,049)	(2,901)	(1,852)	0	(1,426)	(3,278)
Net book value as at 01 January 2007	4,859	293	5,152	4,859	19	671	5,549
Net book value as at 31 December 2007	4,736	355	5,091	4,736	19	814	5,569

2.4.6. Intangible assets

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Property rights	568	600	818	749
Goodwill	0	0	488	488
Total	568	600	1,306	1,237

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

Goodwill in SID Bank Group occurred as a result of purchase of a share in capital of PRVI FAKTOR, Ljubljana. Pursuant to a test of goodwill performed as at 31 December 2008 it was established that an impairment of goodwill is not necessary.

Changes in intangible assets in 2008

	SID Bank			SID Bank Group		
	In acquisition	In use	Total	In acquisition	In use	Total
Purchase value						
Balance as at 1 January 2008	36	834	870	51	1,040	1,091
Transfer	(197)	197	0	(197)	238	41
Increase	161	0	161	161	167	328
Decrease	0	(35)	(35)	(15)	(37)	(52)
Balance as at 31 December 2008	0	996	996	0	1,408	1,408
Value adjustments						
Balance as at 1 January 2008	0	(270)	(270)	0	(342)	(342)
Depreciation, amortisation	0	(164)	(164)	0	(254)	(254)
Decrease	0	6	6	0	6	6
Balance as at 31 December 2008	0	(427)	(427)	0	(590)	(590)
Net book value as at 01 January 2008	36	564	600	51	698	749
Net book value as at 31 December 2008	0	568	568	0	818	818

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

Changes in intangible assets in 2007

	SID Bank			SID Bank Group		
	In acquisition	In use	Total	In acquisition	In use	Total
Purchase value						
Balance as at 1 January 2007	62	761	823	62	846	908
Transfer	(258)	258	0	(258)	258	0
Increase	232	(4)	228	248	116	364
Decrease	0	(181)	(181)	0	(181)	(181)
Balance as at 31 December 2007	36	834	870	52	1,039	1,091
Value adjustments						
Balance as at 1 January 2007	0	(214)	(214)	0	(248)	(248)
Depreciation, amortisation	0	(136)	(136)	0	(174)	(174)
Decrease	0	80	80	0	80	80
Balance as at 31 December 2007	0	(270)	(270)	0	(342)	(342)
Net book value as at 01 January 2007	62	547	609	62	598	660
Net book value as at 31 December 2007	36	564	600	52	697	749

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

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Investment in PKZ Ljubljana	4,206	4,206	0	0
Investment in PRO KOLEKT Ljubljana	419	419	419	419
Investment in PRVI FAKTOR Ljubljana	3,087	3,087	0	0
Total	7,712	7,712	419	419

Changes in long-term investments

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Balance as at 1 January	7,712	6,322	419	29
Increase	0	1,390	0	390
Balance as at 31 December	7,712	7,712	419	419

2.4.8. Corporate income tax assets

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Receivables for prepaid corporate income tax	0	1,229	255	1,491
Deferred tax assets	328	144	958	778
Total	328	1,373	1,213	2,269

As at 31 December 2007, SID Bank had long-term deferred receivables for taxes arising from the provisions for severance pay upon retirement and loyalty bonuses of bank employees, and from the impairment of available-for-sale financial asset – LANISL Float 09 bond.

As at 31 December 2007, SID Bank Group had deferred receivables for taxes arising from impairment of available-for-sale financial assets, the provisions for severance pay upon retirement and loyalty bonuses of bank employees, for impaired operating receivables and reinsurer commissions.

2.4.9. Other assets

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Insurers assets	0	0	20,177	17,570
Other assets	252	290	2,617	482
Total	252	290	22,794	18,052

Insurers assets

	SID Bank Group	
	31.12.2008	31.12.2007
Reinsurers' assets in unearned premiums	1,011	1,126
Reinsurers' assets in claims provisions	14,388	11,546
Reinsurers' assets in bonuses and discounts	1,060	1,184
Reinsurers' assets in provision for unexpired risks	729	0
Receivables from premiums	1,156	1,148
Value adjustments of receivables from premiums	(1,102)	(995)
Grant receivables	2,025	2,404
Receivables from credit ratings	87	95
Receivables arising from reinsurance	8	11
Other accrued revenues and deferred expenses	815	1,051
Total	20,177	17,570

Other assets

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Inventories	0	0	5	3
Fees and commissions receivables	39	24	1,709	14
Advances to suppliers for operating assets	5	7	34	35
Trade receivables	55	17	500	3
Other receivables	83	121	109	122
Value adjustments of other receivables	(2)	0	(27)	0
Deferred costs and accrued revenues	72	121	72	121
Other short-term deferred costs	0	0	182	45
Other accrued revenues and deferred expenses	0	0	33	139
Total	252	290	2,617	482

2.4.10. Financial liabilities held for trading

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Derivative financial instruments held for trading, forward contract valuation	172	24	172	24
Derivative financial instruments held for trading, swap contract valuation	0	163	0	162
Total	172	186	172	186

The item indicates liabilities due to negative valuation of currency forward in the amount of USD 1 million.

2.4.11. Financial liabilities measured at amortised cost

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Bank deposits	15,216	26,206	15,216	22,637
Deposits of clients other than banks	22,376	32,879	22,376	32,878
Loans of banks	1,633,867	1,069,125	1,792,105	1,211,554
Debt securities	250,213	8,859	250. 213	7,898
Total	1,921,672	1,137,069	2,079,910	1,274,967

Bank deposits

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Deposits in EUR	15,216	26,206	15,216	12,285
Deposits in foreign currency	0	0	0	10,351
Total	15,216	26,206	15,216	22,637

Deposits of clients other than banks

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Deposits in EUR	22,376	32,879	22,376	32,878
Total	22,376	32,879	22,376	32,878

Loans of banks

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Short-term in EUR	0	0	143,557	127,111
Short-term in foreign currency	0	0	803	2,778
Long-term in EUR	1,619,673	1,058,145	1,633,551	1,070,685
Long-term in foreign currency	14,194	10,980	14,194	10,980
Total	1,633,867	1,069,125	1,792,105	1,211,554

Debt securities

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Debt securities	250,213	8,859	250,213	7,898
Total	250,213	8,859	250,213	7,898

In December 2008 SID Bank issued securities insured by the guarantee of the Republic of Slovenia in the amount of EUR 250 million on the domestic market.

Changes in financial liabilities measured at amortised cost

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Balance as at 1 January	1,137,069	694,395	1,274,967	786,533
New loans and deposits	1,247,196	730,800	1,420,696	883,960
Repayment	(462,593)	(288,126)	(615,753)	(395,526)
Balance as at 31 December	1,921,672	1,137,069	2,079,910	1,274,967

Long-term liabilities of SID Bank to foreign banks relate to liabilities from loans raised in the international syndicated loans market of between 2000 and 2005, bilateral credit lines in co-operation with KfW- Kredit fuer Wiederaufbau and the Council of Europe Development Bank, and a line of Schuldschein issues between 2000 and 2008, insured by the guarantee of the Republic of Slovenia.

Float rates of SID Bank and SID Bank Group for long-term loans from foreign banks range between 3 or 6-month EURIBOR/LIBOR + 0.0225% p.a. to 3 or 6-month EURIBOR/LIBOR + 0.38% p.a.

Interest rates for loans in foreign currency are fixed and range between 3.85 and 8.85% p.a. for SID Bank Group.

2.4.12. Provision

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Bank provision	2,165	778	2,165	778
Liabilities from insurance contracts	0	0	30,896	23,803
Other provisions	124	105	2,204	2,375
Total	2,289	883	35,265	26,956

Bank provisions include provisions for covering contingent losses arising from issued guarantees and undrawn credit facilities and credit lines.

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Provisions for guarantees	1,374	757	1,374	718
Provisions for undrawn credit facilities and credit lir	791	21	791	60
Total	2,165	778	2,165	778

Changes in bank provisions

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Balance as at 1 January	778	1,623	778	1,623
Provisions formed	2,770	3,769	2,770	3,769
Foreign exchange difference	(1)	(9)	(1)	(9)
Provisions released	(1,382)	(4,605)	(1,382)	(4,605)
Balance as at 31 December	2,165	778	2,165	778

Liabilities from insurance contracts

	SID Bank Group	
	31.12.2008	31.12.2007
Unearned premiums	1,577	1,853
Provisions for outstanding claims	26,079	19,928
Provisions for bonuses and discounts	1,878	2,022
Provisions for unexpired risks	1,362	0
Total	30,896	23,803

Liabilities from insurance contracts show gross technical reserves including reinsurers' share.

Provisions for outstanding claims

	SID Bank Group	
	31.12.2008	31.12.2007
Provisions for incurred and reported loss events	2,303	3,023
[Provisions for incurred and unreported loss events	23,177	16,400
Provisions for appraisal costs	599	505
Total	26,079	19,928

Changes in liabilities from insurance contracts

	SID Bank Group	
	2008	2007
Balance as at 1 January	23,803	18,322
Changes	7,093	5,481
Balance as at 31 December	30,896	23,803

Other provisions

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Long-term provisions to employees	124	105	285	245
Deferred income from reinsurance premiums	0	0	1,919	2,130
Total	124	105	2,204	2,375

Provisions to employees

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
[Long-term provisions for loyalty bonuses	9	7	27	10
Long-term provisions for retirement severance pay	115	98	258	235
Total	124	105	285	245

Changes in provisions for pensions and similar liabilities to employees

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Balance as at 1 January	105	119	245	222
Provisions formed	20	2	32	39
Provisions released	(1)	(16)	(2)	(16)
Foreign exchange differences	0	0	10	0
Balance as at 31 December	124	105	285	245

The calculation for loyalty bonuses was based on the assumption that all beneficiaries are still the employees of SID Bank when the conditions are established for the payment of this bonus. The amounts of bonuses were discounted to the present value, taking into account the time schedule of the payment of loyalty bonuses and the average interest rate of government debt securities published by the Ministry of Finance for the purpose of calculating the returns of voluntary supplementary pension insurance. The full interest rate calculated in such way was taken into account (4.43%). The following input parameters were used: loyalty bonuses for 10 years EUR 378.23 and EUR 567.35 for 20 years.

The calculation of severance pay takes into account the difference between the period for which the severance pay was earned and the period that has yet to pass in order to meet the conditions for retirement. The amounts of severance pay were discounted to the present value, taking into account the time schedule of the payment of bonuses and the average interest rate of government debt securities published by the Ministry of Finance for the purpose of calculating the returns of voluntary supplementary pension insurance. The full interest rate calculated in such way was taken into account (4.43%). The following input parameters were used: amount based on the Employment Relationship Act (two average monthly salaries of the employee for the past three months), increased by the achieved growth in salaries in the banking sector in the last five years, a length of service upon retirement for men 40 years and for women 38 years.

SID Bank Group has mostly unified the methodology of calculating provision for severance pay and loyalty bonuses. A part of companies in SID Bank Group calculates provisions based on actuarial calculation, which takes into account growth of wages with inflation, promotion of the employees and their wages according to their length of service. Discount rate is 5.85% p.a. The calculations take into account specifics of collective agreements applicable to separate companies of the group.

Changes in deferred revenues from reinsurance commissions

	SID Bank Group	
	2008	2007
Balance as at 1 January	2,130	1,443
Provisions formed	0	687
Provisions released	(211)	0
Balance as at 31 December	1,919	2,130

2.4.13. Corporate income tax liabilities

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Income tax liabilities	1,904	2,163	2,284	2,400
Non-current deferred tax liabilities	35	27	37	27
Total	1,939	2,190	2,321	2,427

Income tax liability of SID Bank in the amount of EUR 1,904 thousand represents 2/3 of liability arising from transition to the use of IFRS in 2006, reduced by overpaid tax advances in the year 2008 in the amount of EUR 248 thousand. SID Bank included the liability in the tax account for 2008. The deferred liability for tax represents a liability arising from the revaluation adjustment of available-for-sale financial assets.

2.4.14. Other liabilities

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Liabilities for salaries and other liabilities to employees	310	266	570	448
Liabilities to suppliers	120	137	1,025	2,089
Reinsurance liabilities	0	0	0	7
Liabilities from insurance operations	0	0	69	14
Other liabilities	20	18	326	84
Accrued costs and deferred income	438	414	2,068	*2,266*
- Accrued costs	*348*	*366*	*692*	*561*
- Accrued reinsurance statement	*0*	*0*	*616*	*654*
- Accrued costs of reinsurers for recourses	*0*	*0*	*666*	*1,003*
- Short-term deferred revenues	*90*	*48*	*94*	*48*
Total	888	835	4,058	4,908

2.4.15. Share capital

General Meeting of Shareholders adopted a Decree on transfer of minority shareholders' shares to the majority shareholder the Republic of Slovenia, at the 18th meeting 28 July 2008. The Decree on transfer of shares was entered in registry on 18 September 2008. As at this date, the Republic of Slovenia became the sole shareholder of SID bank.

At the 19th meeting of General Meeting of Shareholders on 19 September 2008, a Decree on increase in capital in the amount of EUR 50,400 thousand was adopted. After the deposit of newly issued shares on 26 September 2008, the increase in capital was entered in registry on 15 October 2008.

All of the entered capital is EUR 140,000 thousand, divided into 1,456,808 ordinary registered no-par value shares, is deposited. All the shares are ordinary registered shares of the same class; each ordinary registered no-par value share has a corresponding amount in share capital.

2.4.16. Capital reserves

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Payments exceeding nominal amounts of paid-up shares	1,139	1,139	1,139	1,139
Total	1,139	1,139	1,139	1,139

2.4.17. Revaluation surplus

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Revaluation surplus from available-for-sale financial assets	(295)	(331)	(838)	(332)
Consolidation equity adjustment	0	0	0	(64)
Total	(295)	(331)	(838)	(396)

The effects of financial crisis showed in increased negative revaluation surplus in 2008, namely for EUR 543 thousand in net effect in relation to the previous year. Revaluation surplus for available-for-sale financial assets increased for EUR 543 thousand EUR 677 thousand, but deferred taxes in the amount of EUR 134 thousand have been formed from this amount. Negative revaluation surplus decreased for EUR 1.700 thousand, since permanent impairments of three debt securities and one mutual fund were formed (see item 2.4.3.).

2.4.18. Reserves from profit (including retained profit)

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Reserves from profit	19,923	17,566	34,850	31,649
- Statutory reserves	*8,033*	*7,894*	*8,392*	*8,217*
- Reserves for treasury shares	*1,325*	*1,325*	*1,325*	*1,324*
- Reserves under articles of association	*8,449*	*7,135*	*10,552*	*9,238*
- Other reserves from profit	*2,116*	*1,212*	*5,548*	*3,359*
- Credit risk equalisation provisions	*0*	*0*	*9,033*	*9,511*
Retained earnings	0	0	3,245	186
Total	19,923	17,566	38,095	31,835

In accordance with a decree of the General Meeting of Shareholders of SID Bank, the net distributable profit in the amount of EUR 904 thousand was allocated to other profit reserves on 31 December 2007.

Capital (revenues and expenses recognized directly in capital) is directly influenced by revaluations of available-for-sale financial assets and changes in credit risk equalisation provisions.

Credit risk equalisation provisions decreased for EUR 478 thousand in 2008. Tax effect due to this change amounts to EUR 105 thousand (EUR 162 thousand for current tax, EUR 267 thousand for the change of deferred taxes), net effect amounting to EUR 373 thousand.

2.4.19. Treasury shares

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Repurchased treasury shares	(1,324)	(1,324)	(1,324)	(1,324)
Total	(1,324)	(1,324)	(1,324)	(1,324)

2.4.20. Capital adjustment

	SID Bank	
Capital components		Revaluation according to CPI growth (2.10%)
Subscribed capital	140,000	2,940
Capital reserves	1,139	24
Reserves from profit	19,923	418
Revaluation surplus	(295)	(6)
Treasury shares	(1,324)	(28)
	159,443	3,348

In the event of capital revaluation according to the growth in the consumer price index, the profit/loss before tax would be EUR 3,348 thousand lower and would be negative in the amount of EUR 581 thousand.

2.4.21. Off-balance-sheet items

Debtors under guarantees and other corporate guarantees

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Debtors under guarantees	72,192	52,482	72,812	52,482
Financial liabilities and receivables assumed	114,576	138,809	120,292	156,031
- Approved undrawn loans	*63,164*	*23,563*	*67,414*	*34,564*
- Raised undrawn loans	*25,000*	*92,500*	*25,000*	*92,500*
- Debtors under derivatives	*1,387*	*7,760*	*1,387*	*7,779*
- Other financial liabilities assumed	*1,178*	*148*	*2,644*	*6,350*
- guarantees received	*23,847*	*14,838*	*23,847*	*14,838*
Unclaimed recourse receivables	0	0	10,984	8,676
- Other guarantees given	0	0	15	2,947
Total	186,768	191,291	204,103	220,136

The breakdown of guarantees by maturity

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Short-term	8,902	15,272	9,522	15,272
Long-term	63,290	37,210	63,290	37,210
Total	72,192	52,482	72,812	52,482

The breakdown of guarantees by type

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Guarantees	55,682	35,181	56,302	35,191
- Waste export	*21,640*	*11,635*	*21,640*	*11,635*
- Advance repayment	*15,324*	*6,681*	*15,324*	*6,681*
- Performance	*9,293*	*6,653*	*9,293*	*6,653*
- Payment bonds	*4,951*	*4,980*	*5,571*	*4,990*
- Warranty	*2,045*	*2,620*	*2,045*	*2,620*
- Customs bonds	*2,317*	*2,492*	*2,317*	*2,492*
- Bid bonds	*112*	*120*	*112*	*120*
Assumed risk	16,510	17,301	16,510	17,301
Total	72,192	52,482	72,812	52,482

The breakdown of guarantees by currency

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
EUR	69,906	49,510	70,526	49,510
USD	0	636	0	636
HRK	2,260	2,314	2,260	2,314
EGP	26	22	26	22
Total	72,192	52,482	72,812	52,482

Financial liabilities assumed

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Approved undrawn loans	63,164	23,563	67,414	34,564
Total	63,164	23,563	67,414	34,564

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 2008, with a drawing date in 2007.

Debtors under assumed financial liabilities

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Raised undrawn loans	25,000	92,500	25,000	92,500
Total	25,000	92,500	25,000	92,500

This item represents approved undrawn credit line in the amount of EUR 25,000 thousand.

Debtors under derivatives

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Foreign currency forward contracts	1,387	2,760	1,387	2,779
Interest swap	0	5,000	0	5,000
Total	1,387	7,760	1,387	7,779

As at 31 December 2008, SID Bank had a concluded currency forward in the amount of USD 1 million.

Other financial liabilities assumed

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Other financial liabilities assumed	1,178	148	2,644	6,350
Total	1,178	148	2,644	6,350

Guarantees received

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Guarantees received	23,847	14,838	23,847	14,838
Total	23,847	14,838	23,847	14,838

In this item SID Bank discloses the value of deposits received and insurance policies as credit insurance instruments as at 31 December 2008.

Unclaimed recourse receivables

	SID Bank Group	
	31.12.2008	31.12.2007
Unclaimed recourse receivables	10,984	8,676
Total	10,984	8,676

Other guarantees given

	SID Bank Group	
	31.12.2007	31.12.2007
Compensation received	0	15
Guarantees given for factoring operations	15	2,932
Total	15	2,947

2.4.22. Operations under Special Authorisation

The operations which SID Bank as the national export credit agency (ECA) performs on behalf and for the account of the Republic of Slovenia are in terms of accounting clearly separated from the operations performed for SID Bank's own account.

In accordance with the Act Governing Insurance and Financing of International Business Transactions (ZZFMGP) and on behalf and for the account of the Republic of Slovenia, SID Bank implements the Interest Rate Equalization Programme (IREP) for export credits in euros and American dollars falling within the scope of the OECD Arrangement on Officially Supported Export Credits.

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

Transactions pursuant to special authorisation are presented in detail in the business report, in items 6.2.5. and 6.2.6.

Investments from contingency reserves

	31.12.2008	31.12.2007
Loans to banks	91,813	62,803
Loans to clients other than banks	0	2,520
Available-for-sale financial assets	17,647	38,278
Other assets	3,726	3,677
Total	113,186	107,278

In other assets, receivable on PRO KOLEKT Zagreb in the amount of EUR 3,726 thousand is disclosed.

Liabilities for contingency reserves

	31.12.2008	31.12.2007
Contingency reserves	109,896	102,965
Revaluation surplus from available-for-sale financial assets	(362)	(330)
Accrued (costs) and deferred income	3,652	4,643
Total liabilities for contingency reserves	113,186	107,278

Changes in contingency reserves

	2008	2007
Balance as at 1 January	102,965	97,848
Surplus of income over expenses	6,931	5,117
Balance as at 31 December	109,896	102,965

Contingency reserves in 2008 increased by EUR 6,931 thousand which equalled the surplus of income over operating expenses in the name and on behalf of the state.

Investments from the interest rate equalisation programme

	31.12.2008	31.12.2007
Loans	3,045	1,476
Available-for-sale financial assets	3,664	3,919
Total	6,709	5,395

Liabilities from the interest rate equalisation programme

	31.12.2008	31.12.2007
Financial liabilities measured at amortised cost	5,402	1,461
Remittances	1,230	3,846
Surplus of income over expenses	276	95
Revaluation surplus from available-for-sale financial assets	(199)	(7)
Total liabilities from the interest rate equalisation programme	6,709	5,395

The assets from the interest rate equalisation programme in 2008 increased by EUR 276 thousand, which equalled the surplus of operating income over expenses on behalf of and for the account of the state, pursuant to a remittance of the Republic of Slovenia as at 29 December 2008 in the amount of EUR 1,230 thousand.

2.5. Notes to the Income statement

(In EUR thousand)

2.5.1. Net interest

	SID Bank			
	2008		2007	
	Income	Expenses	Income	Expenses
Interest from financial assets held for trading	90	(48)	274	(163)
Interest from available-for-sale assets	1,799	0	1,454	0
Interest from granted loans and deposits made	80,445	(67,906)	45,816	(38,647)
Interest for issued securities	0	(229)	0	0
Interest from other financial assets	157	0	3	0
Total	82,491	(68,183)	47,547	(38,810)
Net interest	14,308		8,737	

Income from overdue interest amounts to EUR 594 thousand. Expenses for overdue interest amount to EUR 49.

	SID Bank Group			
	2008		2007	
	Income	Expenses	Income	Expenses
Interest from financial assets held for trading	90	(48)	274	(163)
Interest from available-for-sale assets	2,664	0	2,268	0
Interest from granted loans and deposits made	94,327	(77,152)	55,090	(44,451)
Interest for issued securities	0	(229)	0	0
Interest from other financial assets	157	0	3	0
Total	97,238	(77,429)	57,635	(44,614)
Net interest	19,809		13,021	

2.5.2. Dividend income

	SID Bank	
	2008	2007
Dividend income	2,273	1,031
Total	2,273	1,031

Dividends were paid by the subsidiaries PKZ Ljubljana in the amount of EUR 1,498 thousand and PRVI FAKTOR Ljubljana in the amount of EUR 775 thousand.

2.5.3. Net fees

	SID Bank			
	2008		2007	
	Income	Expenses	Income	Expenses
Fees and commissions on banking services	0	(152)	0	(89)
Commissions for payment transactions	0	0	0	(1)
Fees and commissions from loans	763	0	332	0
Fees and commissions for guarantee transactions	390	0	207	0
Fees and commissions for securities	0	(13)	0	(9)
Other fees and commissions	56	(246)	27	(2)
Total	1,209	(411)	566	(101)
Net fees	798		465	

	SID Bank Group			
		2008		2007
	Income	Expenses	Income	Expenses
Fees and commissions on banking services	0	(152)	0	(89)
Commissions for payment transactions	0	(123)	0	(283)
Fees and commissions from loans	4,970	(334)	3,348	(181)
Fees and commissions for guarantee transactions	372	(544)	207	(377)
Fees and commissions for securities	0	(13)	0	(9)
Other fees and commissions	56	(246)	27	(2)
Total	5,398	(1,412)	3,582	(941)
Net fees	3,986		2,641	

2.5.4. Profits/losses from financial assets and liabilities not measured at fair value through profit or loss

	SID Bank			
	2008		2007	
	Income	Expenses	Income	Expenses
Available-for-sale financial assets	102	(286)	7	(24)
Total	102	(286)	7	(24)
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss		(184)		(17)

	SID Bank Group			
	2008		2007	
	Income	Expenses	Income	Expenses
Available-for-sale financial assets	108	(363)	7	(24)
Financial liabilities measured at amortised cost	0	0	0	(61)
Total	108	(363)	7	(85)
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss		(255)		(78)

2.5.5. Net profits/losses from financial assets and liabilities held for trading

	SID Bank			
	2008		2007	
	Income	Expenses	Income	Expenses
Derivative financial instruments under forward transactions	207	(257)	128	(55)
Derivative financial instruments under swap transactions	0	(9)	0	(53)
Total	207	(266)	128	(108)
Net profits/losses from financial assets and liabilities held for trading		(59)	20	

	SID Bank Group			
	2008		2007	
	Income	Expenses	Income	Expenses
Derivative financial instruments under forward transactions	208	(257)	128	(55)
Derivative financial instruments under swap transactions	0	(9)	0	(53)
Total	208	(266)	128	(108)
Net profits/losses from financial assets and liabilities held for trading		(58)	20	

2.5.6. Net foreign exchange gains/losses

	SID Bank			
	2008		2007	
	Income	Expenses	Income	Expenses
Foreign exchange differences	7,797	(7,700)	4,131	(4,389)
Total	7,797	(7,700)	4,131	(4,389)
Net foreign exchange profits/losses	97			(258)

	SID Bank Group			
	2008		2007	
	Income	Expenses	Income	Expenses
Foreign exchange differences	18,746	(15,880)	9,109	(7,622)
Total	18,746	(15,880)	9,109	(7,622)
Net foreign exchange profits/losses	2,866		1,487	

2.5.7. Other net operating profits/losses

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Income from non-banking services	2,501	2,593	2,312	2472
Revenues from insurance operations	0	0	9,077	8,763
Expenses for insurance operations	0	0	(2,760)	(1,927)
Total	2,501	2,593	8,629	9,308

Income from non-banking services

	SID Bank			
	2008		2007	
	Income	Expenses	Income	Expenses
Income from non-banking services	2,528	0	2,460	0
Other operating profits/losses	115	0	243	0
Subscriptions	0	(98)	0	(86)
Other operating expenses	0	(44)	0	(24)
Total	2,643	(142)	2,703	(110)
Other net operating profits/losses	2,501		2,593	

The majority of income from non-banking services is accounted for by the service fee according to the Act Governing Insurance and Financing of International Commercial Transactions under the agreement concluded with the Ministry of Finance regulating mutual relations associated with the implementation of Chapter II of the said Act dated 1 December 2004 in the amount of EUR 2,075 thousand (2007: EUR 2,075 thousand).

	SID Bank Group			
	2008		2007	
	Income	Expenses	Income	Expenses
Income from non-banking services	2,257	0	2,472	0
Other operating profits/losses	657	0	195	0
Subscriptions	0	(112)	0	(112)
Other operating expenses	0	(490)	0	(83)
Total	2,914	(602)	2,667	(195)
Other net operating profits/losses	2,312		2,472	

Revenues from insurance operations

	SID Bank Group			
	2008		2007	
	Income	Expenses	Income	Expenses
Gross insurance premiums written	13,661	0	13,749	0
Reinsurance commissions	3,026	(8,420)	2,649	0
Reinsurance premiums written	0	0	0	(8,354)
Credit rating information written	810	0	719	0
Total	17,497	(8,420)	17,117	(8,354)
Net insurance premiums written	9,077		8,763	

Expenses for insurance operations

	SID Bank Group			
	2008		2007	
	Income	Expenses	Income	Expenses
Gross claims settled	0	(4,576)	0	(4,186)
Settled bonuses	0	(868)	0	(405)
Credit rating information expenses	0	(709)	0	(658)
Settled gross recourses	1,064	0	1,441	0
Reinsurance share in claims and recourses	1,819	0	1,638	0
Reinsurance share in bonuses	510	0	243	0
Total	3,393	(6,153)	3,322	(5,249))
Net expenses for insurance operations		(2,760)		(1,927)

2.5.8. Administrative costs

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Labour costs	(3,684)	(3,447)	(7,804)	(6,961)
General and administrative costs	(1,477)	(1,793)	(3,039)	(3,060)
Total	(5,161)	(5,240)	(10,843)	(10,021)

Labour costs

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Gross salaries	(2,560)	(2,278)	(5,569)	(4,851)
Costs of pension insurance	(230)	(206)	(390)	(343)
Social security costs	(189)	(169)	(501)	(549)
Payroll tax	(79)	(148)	(280)	(233)
Other labour costs	(626)	(646)	(1,064)	(985)
Total	(3,684)	(3,447)	(7,804)	(6,961)

In SID Bank the costs of pension insurance (EUR 230 thousand) together with the costs of voluntary supplementary pension insurance (EUR 116 thousand) totalled EUR 346 thousand in 2008.

In 2008, SID Bank had 75 employees on average; as at 31 December 2007, there were 76 employees, of which 14 (18.42%) had finished secondary school, 7 (9.21%) had finished post-secondary vocational studies (level VI), 51 (67.10%) had finished higher education (level VII), 3 (3.95%) had a master's and 1 (1.32%) a doctor's degree.

The earnings of the members of Management Board of SID Bank in 2008 totalled EUR 362 thousand, the earnings of other employees with service contracts EUR 239 thousand, and the earnings of the members of Supervisory Board and Audit Committee of SID Bank EUR 48 thousand.

In SID Bank Group the costs of pension insurance totalled EUR 390 thousand and the costs of voluntary supplementary pension insurance EUR 618 thousand in 2008.

In 2008, SID Bank Group had 258 employees on average. As at 31 December 2008, SID Bank Group had 288 employees. 22.9% of the employees in SID Bank Group had finished secondary school, 12.2% had finished post-secondary vocational studies (level VI), 61,8% had finished higher education (level VII), 2.4% had a master's and 0.7% a doctor's degree.

The earnings of the members of Management Board of SID Bank Group in 2008 totalled EUR 911 thousand, the earnings of other employees with service contracts EUR 488 thousand, and the earnings of the members of Supervisory Board and Audit Committee of SID Bank EUR 48 thousand.

The representatives of SID Bank in Supervisory Boards of affiliated companies received no bonuses or other revenues (attendance fees) from performing supervisory functions in the companies of SID Bank Group.

SID Bank and SID Bank Group formed no provisions for wages revaluation as at 31 December 2008.

General and administrative costs

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Material costs	(115)	(129)	(202)	(243)
Service costs	(1,362)	(1,664)	(2,837)	(2,817)
Total	(1,477)	(1,793)	(3,039)	(3,060)

Costs of payments to auditors (part of the service costs item)

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Auditing of the annual report	(46)	(84)	(113)	(147)
Other auditing services	0	0	(9)	(3)
Advice on taxation	0	0	(10)	0
Total	(46)	(84)	(132)	(150)

2.5.9. Depreciation, amortisation

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Depreciation of tangible fixed assets	(454)	(426)	(607)	(567)
Amortisation of intangible assets	(163)	(136)	(253)	(179)
Total	(617)	(562)	(860)	(746)

2.5.10. Provision

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Bank provision	(1,387)	837	(1,387)	836
Liabilities from insurance contracts	0	0	(3,761)	(2,803)
Other provisions	(139)	(128)	60	(851)
Total	(1,526)	709	(5,088)	(2,818)

Bank provision

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Net changes in provisions for guarantees	(618)	166	(618)	166
- Provision expenses	(1,037)	(1,189)	(1,037)	(1,189)
- Revenues from the release of provisions	419	1,355	419	1,355
Net change in provisions for undrawn loans	(769)	671	(769)	670
- Provision expenses	(1,732)	(1,920)	(1,732)	(1,920)
- Revenues from the release of provisions	963	2,591	963	2,590
Total	(1,526)	709	(1,387)	836

Liabilities from insurance contracts

	SID Bank Group	
	2008	2007
Changes in gross unearned premiums	275	654
Changes in unearned premiums - reinsurers' share	(115)	(332)
Changes in gross provisions for outstanding claims	(6,150)	4,183
Change in provisions for outstanding claims – reinsurers' share	2,842	(2,006)
Changes in gross provision for bonuses and rebates	144	645
Reinsurers' share in expenses for bonuses and rebates	(124)	(341)
Changes in provisions for unexpired risks	(1,362)	0
Changes in provisions for unexpired risks - reinsurers' share	729	0
Total	(3,761)	(2,803)

Other provisions

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Net changes in provisions for legal issues	(99)	(44)	(110)	(44)
- Provision expenses	(99)	(44)	(110)	(44)
Net change in provisions for pensions and similar liabilities	(40)	(84)	(40)	(121)
- Provision expenses	(138)	(98)	(138)	(136)
- Revenues from the release of provisions	98	14	98	15
Net deferred revenues from reinsurance commissions	0	0	210	(686)
- Provision expenses	0	0	(645)	(686)
- Revenues from the release of provisions	0	0	855	0
Total	(139)	(128)	60	(851)

2.5.11. Impairments

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Impairment of loans, guarantees and receivables measured at amortised cost	(15,419)	(16,775)	(20,262)	(18,343)
Impairment of available-for-sale financial assets	(970)	0	(1,704)	0
Impairments of other assets	(2)	(43)	(13)	(155)
Adjustment to impairments of loans granted to companies of the group	0	0	496	(546)
Income from loans, guarantees and receivables measured at amortised cost	6,962	13,430	7,284	14,344
Income from the elimination of impairments of available-for-sale financial assets	0	0	4	0
Income from the elimination of impairments of other assets	0	1	12	136
Total	(9,429)	(3,387)	(14,183)	(4,564)

2.5.12. Corporate income tax on ordinary activities

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Income tax	(424)	(451)	(1,463)	(1,485)
Deferred taxes	188	(24)	314	(29)
Total	(236)	(475)	(1,149)	(1,514)

Receivables and liabilities due to deferred taxes are presented in detail in items 2.4.8. and 2.4.13.
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	
	2008	2007	2008	2007
Profit	3,003	4,091	4,005	8,250
Tax profit (according to applicable tax rates in respective countries)	(661)	(941)	(1,684)	(2,043)
Tax base reducing revenues	489	235	1,280	486
Expenditures not recognised in tax	(260)	(54)	(1,164)	(376)
Expenditures recognised in tax			31	46
Increase in tax base for transitionally used tax relief	(25)	(12)	(48)	80
Tax reliefs	33	321	122	321
Tax	(424)	(451)	(1,463)	(1,485)

Current tax represents the tax amount which has to be paid according to the Corporate Income Tax Act at the prescribed tax rate. It was 22% in the year 2008.

The majority part of revenues not subject to tax charge is referred to revenues from dividends, which the bank may exclude from tax base, because all the conditions of tax legislation have been fulfilled.

The majority part of expenditures not recognised in tax, refer to impairment of available-for-sale financial assets.

Effective tax rate from tax expense is 14.12%, and effective tax rate from current tax is 7.86%.

SID Bank had no outstanding tax liabilities on 31 December 2008.

In SID Bank Group corporate income tax liability for 2008 amounted to EUR 1,463 thousand. The liability in income statement was reduced deferred tax assets arising from impairment of debt securities, classified into available-for-sale financial assets, from receivables adjustments formed and from the demarcation of expenses an revenues in total amount of EUR 314 thousand, which increases the consolidated net profit of the year 2008.

Deferred tax income or expense results from the change of carrying amounts of deferred tax assets or deferred tax liabilities. SID Bank Group had EUR 921 thousand in net receivables arising from deferred taxes as at 31 December 2008.

SID Bank Group had no outstanding tax liabilities on 31 December 2008.

2.6. Relations with subsidiaries
(In EUR thousand)

2.6.1. Loans given

	SID Bank	
	31.12.2008	31.12.2007
PRO KOLEKT Ljubljana		
Short-term loan in EUR thousand	29	0
Value adjustment in EUR thousand	(1)	0
PRVI FAKTOR Ljubljana		
Short-term loan in EUR thousand	14,547	5,307
Value adjustment in EUR thousand	(320)	(117)
PRVI FAKTOR Zagreb		
Short-term loan in EUR thousand	11,014	11,021
Value adjustment in EUR thousand	(583)	(583)
Long-term loan in EUR thousand	9,903	11,241
Value adjustment in EUR thousand	(524)	(595)
PRVI FAKTOR Belgrade		
Long-term loan in EUR thousand	5,161	5,134
Value adjustment in EUR thousand	(491)	(490)
PRVI FAKTOR Sarajevo		
Long-term loan in EUR thousand	3,054	0
Value adjustment in EUR thousand	(291)	0
Total principal in EUR thousands	43,708	32,703
Total value adjustment in EUR thousand	(2,210)	(1,785)
Total subsidiaries in EUR thousand	41,498	30,918

2.6.2. Borrowing

	SID Bank	
	31.12.2008	31.12.2007
PRO KOLEKT Ljubljana		
Short-term loan	0	80
PKZ Ljubljana		
Short-term loan	0	3,569
Certificates of deposit	0	961
Total	0	4,610

2.6.3. Other receivables

	SID Bank	
	31.12.2008	31.12.2007
PKZ Ljubljana		
Receivables for services	15	14
PRO KOLEKT Ljubljana		
Receivables for services	31	0
Receivables adjustments	(1)	0
PRO KOLEKT Zagreb		
Receivables for services	5	2
PRO KOLEKT Sarajevo		
Receivables for services	1	0
PRO KOLEKT Romania		
Receivables for services	1	0
PRO KOLEKT Bulgaria		
Receivables for services	1	0
Total	54	16

2.6.4. Net interest

	SID Bank			
	2008		2007	
	Income	Expenses	Income	Expenses
PKZ Ljubljana	0	(194)	0	(100)
PRO KOLEKT Ljubljana	0	(1)	0	(6)
PRVI FAKTOR Ljubljana	743	0	222	0
PRVI FAKTOR Zagreb	1,305	0	861	0
PRVI FAKTOR Belgrade	334	0	563	0
PRVI FAKTOR Sarajevo	155	0	0	0
Total	2,537	(195)	1,646	(106)
Net interest	2,342		1,540	

Interest rate risk - realised interest rates in %

	2008	2007
Assets		
PKZ Ljubljana	4.15	3.57
PRVI FAKTOR Ljubljana	5.50	4.82
PRVI FAKTOR Zagreb*	5.88	5.23
PRVI FAKTOR Belgrade	6.11	5.66
PRVI FAKTOR Sarajevo	6.46	-

*including the syndicated loan (7-58/7) with NLB

2.6.5. Dividend income

	SID Bank	
	2008	2007
PKZ Ljubljana	1,498	939
PRVI FAKTOR Ljubljana	775	92
Total	2,273	1,031

2.6.6. Net fees

	SID Bank			
	2008		2007	
	Income	Expenses	Income	Expenses
PRVI FAKTOR Ljubljana	23	0	4	0
PRVI FAKTOR Zagreb	3	0	22	0
PRVI FAKTOR Belgrade	9	0	18	0
PRVI FAKTOR Sarajevo	6	0	0	0
Total	40	0	44	0
Net fees	40		44	

2.6.7. Other net operating profits/losses

	SID Bank			
	2008		2007	
	Income	Expenses	Income	Expenses
PKZ Ljubljana	271	0	259	0
PRO KOLEKT Zagreb	7	(5)	10	5
PRO KOLEKT Ljubljana	36	0	25	0
PRO KOLEKT Romania	3	0	0	0
PRO KOLEKT Bulgaria	2	0	0	0
PRO KOLEKT Sarajevo	1	0	0	0
PRO KOLEKT Belgrade	0	(2)	0	0
Total	320	(7)	294	0
Other net operating profits/losses	313		294	

The majority of revenues from non-banking services relates to rents charged for business premises, services provided for the compilation of credit rating information, information support services, treasury, accounting and human resources services.

All legal transactions in the group were conducted in such manner, that under circumstances known to contract partners at the time of transaction, no deprivation among the companies occurred.

2.7. Events after the balance sheet 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.

However, the following business events were important for SID Bank:

- On 2 March 2009, international rating agency Moody's rated SID Bank with an Aa2 rating with a positive outlook.

- On 5 March 2009 the National Assembly of the Republic of Slovenia adopted Act Amending the Slovene Export and Development Bank Act (ZSIRB-A), which announces increase in capital of the bank. After the increase in capital, the share capital is to stand at EUR 300 million (as at 31 December 2008 it stood at EUR 140 million). The amendments of the act also announce unlimited and irrevocable liability of the Republic of Slovenia for all the liabilities of SID Bank.

- Financial crisis affected the economic environment of operation of SID Bank and SID Bank Group. General economic situation deteriorated. We expect further deterioration of the general economic situation in the rest of the year 2009. SID Bank and SID Bank Group adjusted their economic expectations to the decreased economic activities of the local business entities. We estimate the economic environment to be even more unpredictable in the following year, making operation and management in such circumstances even more demanding. The effect of crisis on profit or loss of SID Bank and SID Bank Group is difficult to predict at this time, thus they are exposed to general insecurity.

- After the balance sheet day there were no changes in the structure of the loan portfolio of SID Bank. However, financial situation of some clients (MIP Pomurka Reja d.o.o., MIP d.d., Istrabenz d.d.), whose total exposure represents 0.97% of the loan portfolio of SID Bank, has deteriorated.

3. Risk Management and other disclosures

(In EUR thousand)

Risk management is presented in item 6.4. of the business section of the annual report.

3.1. Liquidity Risk

Managing liquidity risk means maintaining sufficient liquidity sources to settling current liabilities.

The companies of the SID Bank Group manage liquidity risk by planning inflows and outflows and by ensuring an appropriate balance of highly liquid financial investments. Therefore, part of the investments of the SID Bank Group is short-term, which reduces the liquidity risk. Each company in the SID Bank Group is responsible for its liquidity; occasional surpluses and deficits of liquid assets within the SID Bank Group are bridged by intra-group placement of assets.

SID Bank monitors its exposure to liquidity risk by means of liquidity indicators (ratios between outflows and inflows over one- to six-month periods).

3.1.1. SID Bank - Assets and liabilities items according to residual maturity as at 31 December 2008

	Sight	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Cash and balances with the central bank	0	0	0	0	0	87	87
Financial assets held for trading	0	0	0	0	125	0	125
Available-for-sale financial assets	0	0	21,927	9,405	22,153	7,847	61,332
Loans	25	81,334	41,484	186,574	1,089,115	614,032	2,012,564
Property, plant and equipment	0	0	0	0	0	4,749	4,749
Intangible assets	0	0	0	0	0	568	568
Long-term investments in equity of subsidiaries, associates and joint ventures	0	0	0	0	0	7,712	7,712
Corporate income tax assets	0	0	117	51	118	42	328
Other assets	0	180	0	72	0	0	252
TOTAL ASSETS	**25**	**81,514**	**63,528**	**196,102**	**1,111,511**	**635,037**	**2,087,717**
Financial liabilities held for trading	0	0	0	0	172	0	172
Financial liabilities measured at amortised cost	0	5,170	45,150	187,283	430,542	1,253,527	1,921,672
Provision	0	0	243	772	1,229	45	2,289
Corporate income tax liabilities	0	0	0	1,939	0	0	1,939
Other liabilities	0	451	0	437	0	0	888
Share capital	0	0	0	0	0	140,000	140,000
Capital reserves	0	0	0	0	0	1,139	1,139
Revaluation surplus	0	0	0	0	0	(295)	(295)
Reserves from profit (including retained profit)	0	0	0	0	0	19,923	19,923
Treasury shares	0	0	0	0	0	(1,324)	(1,324)
Net profit for the year	0	0	0	0	0	1,314	1,314
TOTAL LIABILITIES	**0**	**5,621**	**45,393**	**190,431**	**431,943**	**1,414,329**	**2,087,717**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	**25**	**75,893**	**18,135**	**5,671**	**679,568**	**(779,292)**	**0**

3.1.2. SID Bank Group - Assets and liabilities items according to residual maturity as at 31 December 2008

	Sight	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Cash and balances with the central bank	1	0	0	0	0	87	**88**
Financial assets held for trading	1	0	0	0	125	0	**126**
Available-for-sale financial assets	0	711	25,019	11,021	31,338	11,360	**79,449**
Loans	28,236	144,375	109,044	205,386	1,089,958	614,0230	**2,191,029**
Property, plant and equipment	0	0	0	0	0	5,230	**5,230**
Intangible assets	0	0	0	0	0	1,306	**1,306**
Long-term investments in equity of subsidiaries, associates and joint ventures	0	0	0	0	0	419	**419**
Corporate income tax assets	0	0	390	211	524	88	**1,213**
Other assets	4,365	2,700	644	929	948	13,208	**22,794**
TOTAL ASSETS	**32,603**	**147,786**	**135,097**	**217,547**	**1,122,893**	**645,728**	**2,301,654 0**
Financial liabilities held for trading	0	0	0	0	172	0	**172**
Financial liabilities measured at amortised cost	0	50,309	113,279	218,375	444,421	1,253,526	**2,079,910**
Provision	0	906	1,923	12,912	19,415	109	**35,265**
Corporate income tax liabilities	0	0	382	1,939	0	0	**2,321**
Other liabilities	0	2,080	679	782	517	0	**4,058**
Share capital	0	0	0	0	1,584	138,416	**140,000**
Capital reserves	0	0	0	0	945	194	**1,139**
Revaluation surplus	0	0	(5)	(6)	(456)	(371)	**(838)**
Reserves from profit (including retained profit)	0	0	0	0	3,358	34,737	**38,095**
Treasury shares	0	0	0	0	0	(1,324)	**(1,324)**
Net profit for the year	0	0	0	682	1,521	653	**2,856**
TOTAL LIABILITIES	**0**	**53,295**	**116,258**	**234,684**	**471,477**	**1,425,940**	**2,301,654**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	**32,603**	**94,491**	**18,839**	**(17,137)**	**651,416**	**(780,212)**	**0**

3.2. Currency risk

Currency risk management is aimed at determining the potential loss which might arise as a result of changes in exchange rates, through the application of an open foreign currency position, which is the difference between the sum of all investments in foreign currency and all liabilities in foreign currency.

At the end of year 2008 SID Bank and SID Bank Group had one currency forward contract in the amount of USD 1 million, with the aim of protection against currency risk. In order to neutralise as much as possible the effects of exchange rate differences on loans in EUR, SID Bank Group terms advances of transferors of receivables to EUR. In the insurer sector SID Bank Group harmonizes as much as possible the currency structure of assets covering technical provisions with currency structure of exposure.

3.2.1 SID Bank - Assets and liabilities items according to foreign currencies as at 31 December 2008

	EUR	USD	Other currencies	Total
Cash and balances with the central bank	87	0	0	87
Financial assets held for trading	125	0	0	125
Available-for-sale financial assets	61,332	0	0	61,332
Loans	1,997,120	15,444	0	2,012,564
Property, plant and equipment	4,749	0	0	4,749
Intangible assets	568	0	0	568
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	0	0	7,712
Corporate income tax assets	328	0	0	328
Other assets	252	0	0	252
TOTAL ASSETS	**2,072,273**	**15,444**	**0**	**2,087,717**
Financial liabilities held for trading	172	0	0	172
Financial liabilities measured at amortised cost	1,907,478	14,194	0	1,921,672
Provision	2,255	0	34	2,289
Corporate income tax liabilities	1,939	0	0	1,939
Other liabilities	888	0	0	888
Share capital	140,000	0	0	140,000
Capital reserves	1,139	0	0	1,139
Revaluation surplus	(295)	0	0	(295)
Reserves from profit (including retained profit)	19,923	0	0	19,923
Treasury shares	(1,324)	0	0	(1,324)
Net profit for the year	1,314	0	0	1,314
TOTAL LIABILITIES	**2,073,489**	**14,194**	**34**	**2,087,717**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	**(1,216)**	**1,250**	**(34)**	**0**

3.2.2. SID Bank Group - Assets and liabilities items according to foreign currencies as at 31 December 2008

	EUR	EUR With currency clause	USD	GBP	Other currencies	Total
Cash and balances with the central bank	87	0	0	0	1	**88**
Financial assets held for trading	126	0	0	0	0	**126**
Available-for-sale financial assets	79,044	0	145	260	0	**79,449**
Loans	2,056,028	105,139	15,445	14	14,403	**2,191,029**
Property, plant and equipment	4,958	0	0	0	272	**5,230**
Intangible assets	1,264	0	0	0	42	**1,306**
Long-term investments in equity of subsidiaries, associates and joint ventures	419	0	0	0	0	**419**
Corporate income tax assets	946	0	0	0	267	**1,213**
Other assets	20,578	0	0	0	2,216	**22,794**
TOTAL ASSETS	**2,163,450**	**105,139**	**15,590**	**274**	**17,201**	**2,301,654**
Financial liabilities held for trading	172	0	0	0	0	**172**
Financial liabilities measured at amortised cost	2,064,952	0	14,194	0	764	**2,079,910**
Provision	35,175	0	0	0	90	**35,265**
Corporate income tax liabilities	1,985	0	0	0	336	**2,321**
Other liabilities	3,882	0	0	0	176	**4,058**
Share capital	140,000	0	0	0	0	**140,000**
Capital reserves	1,139	0	0	0	0	**1,139**
Revaluation surplus	(839)	0	0	1	0	**(838)**
Reserves from profit (including retained profit)	38,095	0	0	0	0	**38,095**
Treasury shares	(1,324)	0	0	0	0	**(1,324)**
Net profit for the year	2,856	0	0	0	0	**2,856**
TOTAL LIABILITIES	**2,286,093**	**0**	**14,194**	**1**	**1,366**	**2,301,654**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	**(122,643)**	**105,139**	**1,396**	**273**	**15,835**	**0**

3.3. Interest Rate Risk

Interest Rate Risk is the risk of the value of financial instrument changing due to differences in market interest rate.

In assets, available-for-sale assets and given loans are exposed to interest rate risk. In liabilities, borrowed loans are exposed to interest rate risk.

3.3.1. SID Bank - Assets and liabilities items according to exposure to interest rate risk as at 31 December 2008

	Total	Interest free	Total Interest accrued	Sight	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Cash and balances with the central bank	87	0	87	0	0	0	0	0	87
Financial assets held for trading	125	125	0	0	0	0	0	0	0
Available-for-sale financial assets	61,332	1,511	59,821	0	1,153	25,037	19,224	9,412	4,995
Loans	2,012,564	19,735	1,992,829	2,965	136,700	649,499	1,200,331	3,334	0
Property, plant and equipment	4,749	4,749	0	0	0	0	0	0	0
Intangible assets	568	568	0	0	0	0	0	0	0
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	7,712	0	0	0	0	0	0	0
Corporate income tax assets	328	328	0	0	0	0	0	0	0
Other assets	252	252	0	0	0	0	0	0	0
TOTAL ASSETS	**2,087,717**	**34,980**	**2,052,737**	**2,965**	**137,853**	**674,536**	**1,219,555**	**12,746**	**5,082**
Financial liabilities held for trading	172	172	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	1,921,672	18,233	1,903,439	0	66,582	505,206	1,331,651	0	0
Provision	2,289	2,289	0	0	0	0	0	0	0
Corporate income tax liabilities	1,939	1,939	0	0	0	0	0	0	0
Other liabilities	888	888	0	0	0	0	0	0	0
Share capital	140,000	140,000	0	0	0	0	0	0	0
Capital reserves	1,139	1,139	0	0	0	0	0	0	0
Revaluation surplus	(295)	(295)	0	0	0	0	0	0	0
Reserves from profit (including retained profit)	19,923	19,923	0	0	0	0	0	0	0
Treasury shares	(1,324)	(1,324)	0	0	0	0	0	0	0
Net profit of the period	1,314	1,314	0	0	0	0	0	0	0
TOTAL LIABILITIES	**2,087,717**	**184,278**	**1,903,439**	**0**	**66,582**	**505,206**	**1,331,651**	**0**	**0**
Net exposure to interest rate risk	**0**	**(149,298)**	**149,298**	**2,965**	**71,271**	**169,330**	**(112,096)**	**12,746**	**5,082**
Cumulative exposure	**0**	**(149,298)**	**0**	**2,965**	**74,236**	**243,566**	**131,470**	**144,216**	**149,298**

3.3.2. SID Bank Group - Assets and liabilities items according to exposure to interest rate risk as at 31 December 2008

	Total	Interest free	Total Interest accrued	Sight	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Cash and balances with the central bank	88	1	87	0	0	0	0	0	87
Financial assets held for trading	126	126	0	0	0	0	0	0	0
Financial assets measured at amortised cost	79,449	1,803	77,646	0	1,864	28,129	20,840	18,597	8,216
Loans	2,191,029	26,374	2,164,655	11,830	264,705	682,382	1,202,404	3,334	0
Property, plant and equipment	5,230	5,230	0	0	0	0	0	0	0
Intangible assets	1,306	1,306	0	0	0	0	0	0	0
Long-term investments in equity of subsidiaries, associates and joint ventures	419	419	0	0	0	0	0	0	0
Corporate income tax assets	1,213	1,213	0	0	0	0	0	0	0
Other assets	22,794	22,794	0	0	0	0	0	0	0
TOTAL ASSETS	**2,301,654**	**59,266**	**2,242,388**	**11,830**	**266,569**	**710,511**	**1,223,244**	**21,931**	**8,303**
Financial liabilities held for trading	172	172	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	2,079,910	18,546	2,061,364	0	202,762	521,580	1,337,022	0	0
Provision	35,265	35,265	0	0	0	0	0	0	0
Corporate income tax liabilities	2,321	2,321	0	0	0	0	0	0	0
Other liabilities	4,058	4,058	0	0	0	0	0	0	0
Share capital	140,000	140,000	0	0	0	0	0	0	0
Capital reserves	1,139	1,139	0	0	0	0	0	0	0
Revaluation surplus	(838)	(838)	0	0	0	0	0	0	0
Reserves from profit (including retained profit)	38,095	38,095	0	0	0	0	0	0	0
Treasury shares	(1,324)	(1,324)	0	0	0	0	0	0	0
Net profit for the year	2,856	2,856	0	0	0	0	0	0	0
TOTAL LIABILITIES	**2,301,654**	**240,290**	**2,061,364**	**0**	**202,762**	**521,580**	**1,337,022**	**0**	**0**
Net exposure to interest rate risk	**0**	**(181,024)**	**181,024**	**11,830**	**63,807**	**188,931**	**(113,778)**	**21,931**	**8,303**
Cumulative exposure	**0**	**(181,024)**	**0**	**11,830**	**75,637**	**264,568**	**150,790**	**172,721**	**181,024**

3.3.3. Sensitivity analysis

SID Bank and SID Bank Group yearly compile a sensitivity analysis of assets and liabilities to sources of funds, which pay interest to the change of interest rate. The analysis is custom tailored for given and borrowed loans, and for available-for-sale financial assets.

Loans and deposits

The sensitivity analysis includes total given and borrowed loans, and deposits. It also includes issued debt securities It is based on the assumption that the market interest rate would change by 100 basis points (1% p.a.), which, according to management, represents the changes in the interest rates that were reasonably possible at that date. 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 1,148 thousand (by EUR 540 thousand in 2008). 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 net interest income would decrease by EUR 1,148 thousand (by EUR 540 thousand in 2007).

If the market interest rates increased by 100 basis points, net interest income of SID Bank Group would increase by EUR 1,524 thousand (by EUR 917 thousand in 2008). 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.

Available-for-sale financial assets

The sensitivity analysis of the securities portfolio carried out by SID Bank was based on the change in the 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 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.

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 calculation takes into account the average maturity of the portfolio which was 1.86 years in 2008 (3.31 years in 2007). The analysis is based on the assumption of a change in the market interest rate by 100 basis points (1% p.a.).

In bonds with a variable interest rate, the change in market interest rate by 100 basis points is reflected in an equal amount of the change in the coupon of such bonds. If the market interest rates increased by 100 basis points, the profit in the income statement would increase by EUR 61 thousand (by EUR 95 thousand in 2007). 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 changes would be apparent as loss in the income statement.

In bonds with a fixed interest rate, the increase in the market interest rate by 100 basis points would mean in 2008 a reduction of the capital by EUR 1,047 thousand (2007: reduction by EUR 844 thousand). 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 - in 2008 the capital would increase by EUR 1,047 thousand (2007: increase by EUR 844 thousand).

For the total portfolio of bonds, the increase in the market interest rate by 100 basis points in 2008 would result in the increase of profit by EUR 61 thousand in the income statement, and as a reduction of the total capital in the amount of EUR 985 thousand (2007: a reduction of total capital by EUR 749 thousand, an increase of profit in the income statement by EUR 95 thousand). For the total portfolio of bonds, the reduction in the market interest rate by 100 basis points in 2008 would result in loss in the amount of EUR 61 thousand in the income statement, and as an increase of the total capital in the amount of EUR 985 thousand (2007: an increase of capital by EUR 749 thousand, a loss in the income statement in the amount of EUR 95 thousand).

In bonds with a variable interest rate of SID Bank Group, the change in market interest rate by 100 basis points is reflected in an equal amount of the change in the coupon of such bonds. If the market interest rates increased by 100 basis points, the profit in the income statement in 2008 would increase by EUR 109 thousand (2007: by EUR 173 thousand). 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.

In bonds with a fixed interest rate of SID Bank Group, the increase in the market interest rate by 100 basis points would mean a reduction of capital in 2008 by EUR 1,399 thousand (2007: by EUR 1,190 thousand). 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.

For the total portfolio of bonds of SID Bank Group the increase in the market interest rate by 100 basis points in 2008 would result in the increase of profit in the income statement by EUR 109 thousand, and as a reduction of the total capital in the amount of EUR 1,290 thousand (2007: a reduction of total capital by EUR 1,017 thousand, an increase of profit in the income statement by EUR 173 thousand). For the total portfolio of bonds the reduction in the market interest rate by 100 basis points in 2008 would result in loss in the income statement in the amount of EUR 109 thousand, and as an increase of capital in the amount of EUR 1,290 thousand (2007: an increase of total capital by EUR 1,017 thousand, a loss in the income statement in the amount of EUR 173 thousand).

3.4. Credit Risk

SID Bank and SID bank Group have compiled adequate guidelines concerning credit rating classification of clients, determination of transactions' limits and processes of investment approval. The guidelines include all the data, criteria and model of classification of clients and investments. (see Business Report, item 6.2.4).

Total credit exposure

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Gross exposure	2,039,411	1,209,664	2,225,170	1,367,726
Individual impairments	(9,052)	(6,258)	(14,567)	(8,766)
Other impairments	(15,073)	(9,381)	(15,073)	(9,381)
Delimited interest, fees and commissions	(2,722)	(1,529)	(4,501)	(3,553)
Net exposure	2,012,564	1,192,496	2,191,029	1,346,026

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Outstanding, non-impaired	2,007,381	1,192,178	2,127,859	1,293,420
Overdue, non-impaired	0	0	41,886	34,457
Impaired	14,026	2,327	41,157	25,050
Value adjustments due to impairments	(8,843)	(2,009)	(19,873)	(6,901)
Total	2,012,564	1,192,496	2,191,029	1,346,026

Loan rescheduling

As at 31 December 2008, the carrying amount of rescheduled loans in SID Bank amounted to EUR 4,501 thousand. The new agreement on the conditions for the repayment of liabilities was reached for three Slovene companies.

The expected cash flow was taken into account in the establishment of the amount of impairments.

As at 31 December 2008, the carrying amount of rescheduled loans in SID Bank Group amounted to EUR 6,883 thousand.

Individually impaired loans

	SID Bank		SID Bank Group	
	2008	2007	2008	2007
Gross exposure	37,391	18,393	51,422	28,018
Individual impairments	(9,052)	(6,258)	(14,567)	(8,758)
Delimited fees and commissions	(50)	(37)	(96)	(2,069)
Net exposure	28,289	12,098	36,759	17,191

Receivables from clients for which individual impairments were formed are collateralised by receivable assignment contracts, pledged equity interests, mortgaged commercial real estate, pledged rights to inventories and assignment of insurance policies.

Value of collateral for granted and received loans

Total value of loan collateral in SID Bank as at 31 December 2008 was EUR 381,971 thousand.
In terms of the type of collateral, the assignment of receivables as collateral represents the largest proportion, followed by other corporate guarantees without a credit rating or with a rating below A-, pledged commercial real estate at market value, pledged receivables as collateral with value assessment, insurance policy of SID Bank on behalf of the Republic of Slovenia and other collateral.

Total fair value of loan collateral in SID Bank Group as at 31 December 2008 was EUR 410,235 thousand. In terms of the type of collateral, the assignment of receivables as collateral represents the largest proportion, followed by other corporate guarantees without a credit rating or with a rating below A-, pledged commercial real estate at market value, pledged receivables as collateral with value assessment, insurance policy of SID Bank on behalf of the Republic of Slovenia, bills of exchange, the owners' letters of comfort and other collateral.

Overdue, unpaid receivables

As at 31 December 2008, the carrying amount of overdue, unpaid receivables in SID Bank amounted to EUR 1,985 thousand.

SID Bank has overdue, unpaid receivables of the following companies: BIRO 71 d.o.o., MIP d.d., MPR d.o.o. and Droga Kolinska d.d.

As at 31 December 2008, the carrying amount of overdue, unpaid receivables in SID Bank Group amounted to EUR 31,425 thousand. SID Bank Group has overdue, unpaid receivables of the following companies: BIRO 71 d.o.o., MIP d.d., MPR d.o.o. and Droga Kolinska d.d., Agroživ a.d., M. Rodić d.o.o., Rodić M&B invest d.o.o., Mercator S d.o.o. and PK Trebic sunce d.o.o.

Due loans and receivables and impairments

The structure of exposure of loans and receivables by maturity

Year 2008

	SID Bank					
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	1,512,381	0	0	0	0	1,512,381
Loans to clients other than banks	498,228	574	14	176	1,191	500,183
Total	2,010,609	574	14	176	1,191	2,012,564

Year 2007

	SID Bank					
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	915,674	0	0	0	0	915,674
Loans to clients other than banks	276,504	0	0	0	318	276,822
Total	1,192,178	0	0	0	318	1,192,496

Year 2008

	SID Bank Group					
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	1,518,060	12,859	7,036	0	0	1,537,955
Loans to clients other than banks	505,537	51,013	60,626	33,833	2,036	653,074
Total	2,023,626	63,872	67,662	33,833	2,036	2,191,029

Year 2007

	SID Bank Group					
	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	920,970	1,957	0	0	0	922,927
Loans to clients other than banks	410,372	3,528	6,683	2,264	252	423,099
Total	1,331,342	5,485	6,683	2,264	252	1,346,026

In the year 2008 in SID Bank Group loan adjustments in the amount of EUR 29,641 thousand have been formed (2007: EUR 18,147 thousand).

Concentration of credit portfolio risks by activity

SID Bank Group assesses concentration of risks by activity

	2008		2007	
Banks	1,537,955	70.2%	913,450	67.9%
Non-financial organisations	577,493	26.4%	341,969	25.4%
Other financial institutions	75,581	3.4%	90,669	6.7%
Total	2,191,029	100%	1,346,088	100%

SID Bank also assesses risks by debtors' countries (Business report, item 6.4.).

Due to the different nature of operations and specific risks typical for insurance companies, we present below additional disclosures for the insurance sector of the SID Bank Group.

3.5. Other disclosures for the insurance sector of the SID Bank Group

3.5.1. Insurance risk

Short-term receivables from private buyers (as a rule, these are the loans of suppliers with a maturity of up to 180 days, exceptionally up to 1 year) are insured against commercial and non-commercial risks for sales abroad and/or at home on deferred payment and usually on an open account. The contracts are renewable and as a rule, the total turnover of the insured on the domestic and/or foreign markets is secured.

The policyholder obtains insurance coverage for an individual buyer when the limit for such coverage is granted. The limits of individual buyers represent an important tool for managing risks, which is used for determining the maximum amount of loss. Furthermore, the insurance company may reduce or cancel the granted limit for any buyer at any time. By cancelling or reducing the limit for a client exposure to such that client is reduced.

Risks can also be managed by limiting exposure by individual activities. The common exposure limits by country can be determined in the same way or by completely excluding coverage for an individual country, which represents an important tool for managing political risks.

3.5.2. The competences and management of insurance risks and tools for managing insurance risks

Insurance contracts can only be signed by the Management Board. The manager authorised to assume risks has the Management Board's authorisation to make agreements on credit insurance up to a certain amount of the annual premium, while only the Management Board is authorised to assume risks above the amount of the annual premium. The insurance offers and contracts are prepared according to the "four-eyes" principle.

The employees of the Risk Department are authorised, based on their experience, to assess risks on the basis of which the receivables due from individual debtor or the debtors belonging to the same group (companies associated in terms of ownership or management) are insured. Depending on the amount of exposure to the debtor or the group of debtors, the employee signatures with appropriate authorisations must be provided. Insurance of large exposures to debtors is decided by the Management Board and, when a certain amount is exceeded, also reinsurers. For most of receivables to be insured, the debtor's assessment is required as well as approval of insurance by (at least) two expert colleagues or management with appropriate authorisations (four-eyes principle).

Insurer sector of SID Bank Group continually monitors through various information sources all the important events, which affect directly or indirectly the debtors (risks) assumed in the insurance. Information is kept in a separate database. Information on trends in economic sectors and information relating to debtors in the insurance (i.e. financial information or information on payment discipline) are important.

3.5.3. Reinsurance

The insurance sector of the SID Bank Group protects its portfolio of insured risk with several reinsurance contracts. The majority of operations is secured by means of a quota reinsurance contract which is multi-level, with a controlling interest of 55%. It continued to protect its retention by means of the excess of loss reinsurance which was structured in such a manner that the retained amount after the risk or the group of risks does not exceed EUR 1,500 thousand. The excess of loss reinsurance programme has an available quota in total amount of EUR 2,000 thousand with the possibility of additional purchase.

The reinsurance contract covers all risks of the insurance portfolio (insurance against commercial and non-commercial risks).

In 2008, the insurance sector of the SID Bank Group further protected its portfolio with a contract made between SID Bank as the authorised institution representing the Republic of Slovenia (reinsurer) and an insurance company (cedant). For the insurance sector of the SID Bank Group, this contract represents reinsurance coverage of own interest in countries where non-commercial risks are also insured, and reinsurance coverage for countries where coverage from private market reinsurers can not be obtained.

3.5.4. Frequency of and scope of losses

Several factors affect the frequency and scope of losses which otherwise affect credit risks. The economic situation has the strongest impact. The actions of the insured can also have a significant impact on the scope and frequency of losses - on the one hand through the inherent risk related to the insured's activity and on the other hand by the method of managing risks used by the insured.

The business process of the insurance sector of the SID Bank Group is structured so as to manage the impact of as many factors that affect the scope and frequency of losses as possible. The method is described in previous items.

3.6. Assets carried at fair value and liabilities to fund sources

	SID Bank				SID Bank Group			
	31.12.2008		31.12.2007		31.12.2008		31.12.2007	
In EUR thousand	Book value	Fair value	Book value.	Fair value.	Book value	Fair value	Book value.	Fair value.
Cash and balances with the central bank	87	87	298	298	88	88	299	299
Financial assets held for trading	125	125	129	129	126	126	129	129
Available-for-sale financial assets	61,332	61,332	40,728	40,728	79,449	79,449	63,034	63,034
Loans	2,012,564	2,015,282	1,192,496	1,194,007	2,191,029	2,191,636	1,346,026	1,347,537
- Loans to banks	*1,512,381*	*1,514,492*	*915,674*	*916,858*	*1,537,955*	*1,537,955*	*922,927*	*924,112*
- Loans to clients other than banks	*500,183*	*500,790*	*276,822*	*277,149*	*653,074*	*653,681*	*423,099*	*423,425*
Property, plant and equipment	4,749	6,028	5,091	6,054	5,230	6,509	5,569	6,527
Intangible assets	568	568	600	600	1,306	1,306	1,237	1,237
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	7,712	7,712	7,712	419	419	419	419
Corporate income tax assets	328	328	1,373	1,373	1,213	1,213	2,269	2,269
- Assets for corporate income tax	*0*	*0*	*1,229*	*1,229*	*255*	*255*	*1,491*	*1,491*
- Assets for deferred taxes	*328*	*328*	*144*	*144*	*958*	*958*	*778*	*778*
Other assets	252	252	290	290	22,794	22,794	18,052	18,052
TOTAL ASSETS	**2,087,717**	**2,091,714**	**1,248,717**	**1,251,191**	**2,301,654**	**2,303,540**	**1,437,034**	**1,439,503**
Financial liabilities held for trading	172	172	186	186	172	172	186	186
Financial liabilities measured at amortised cost	1,921,672	1,922,267	1,137,069	1,137,553	2,079,910	2,080,508	1,274,967	1,275,474
- Bank deposits	*15,216*	*15,216*	*26,205*	*26,205*	*15,216*	*15,216*	*22,637*	*22,637*
- Deposits of clients other than banks	*22,376*	*22,376*	*32,880*	*32,880*	*22,376*	*22,376*	*32,878*	*32,878*
- Loans of banks	*1,633,867*	*1,634,499*	*1,069,125*	*1,069,609*	*1,792,105*	*1,792,756*	*1,211,554*	*1,212,061*
- Debt securities	*250,213*	*250,176*	*8,859*	*8,859*	*250,213*	*250,160*	*7,898*	*7,898*
Provision	2,289	2,289	883	883	35,265	35,265	26,956	26,956
Corporate income tax liabilities	1,939	1,950	2,190	2,190	2,321	2,332	2,427	2,427
- Tax liabilities	*1,904*	*1,915*	*2,163*	*2,163*	*2,284*	*2,295*	*2,400*	*2,400*
- Non-current deferred tax liabilities	*35*	*35*	*27*	*27*	*37*	*37*	*27*	*27*
Other liabilities	888	888	835	835	4,058	4,058	4,908	4,908
TOTAL LIABILITIES	1,926,960	1,927,566	1,141,163	1,141,647	2,121,726	2,122,335	1,309,444	1,309,951
EQUITY	160,757		107,554		179,928		127,590	
TOTAL LIABILITIES AND EQUITY	**2,087,717**	**1,927,566**	**1,248,717**	**1,141,647**	**2,301,654**	**2,122,335**	**1,437,034**	**1,309,951**

The financial instruments in SID Bank's balance sheet disclosed at fair value include financial assets and liabilities held for trading, financial assets available for sale and issued debt securities.

The fair values of loans, property, plant and equipment and financial liabilities measured at amortised cost differ from their book values disclosed in the balance sheet.

All listed financial instruments are initially recognised 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 2008 and the accrued interest for the period.

The fair value of property, plant and equipment as at 31 December 2008 was only calculated for the construction facility. The assessment was prepared on the basis of inquiries for the purchase of similar facilities comparable by size, activity and location.

The material bases for all other items of property, plant and equipment and intangible assets that would justify the reasons for the deviation of the carrying amount from the fair value are checked at least once a year. It was assessed that the carrying amount is a good approximation of the fair value.

3.7. Capital

Pursuant to the Banking Act, SID Bank calculates its capital and capital adequacy for transactions carried out on its own behalf and for its own account from its own resources.

SID Bank Equity

	31.12.2008	31.12.2007
Share capital	140,000	89,600
Treasury shares	(1,324)	(1,324)
Capital reserves	1,139	1,139
Profit reserves and retained earnings	19,923	17,566
Core capital deduction items	(568)	(7,318)
Core capital	157,717	99,663
Tier I additional capital	93	46
Deduction items from core capital and Tier I additional capital	(7,294)	(7,294)
Tier II additional capital	0	0
Equity	150,516	92,415

SID Bank Group

	31.12.2008	31.12.2007
Share capital	140,000	89,600
Treasury shares	(1,324)	(1,324)
Capital reserves	1,139	1,139
Profit reserves and retained earnings	38,095	31,835
Core capital deduction items	(1,189)	(1,152)
Core capital	162,347	86,489
Tier I additional capital	93	46
Deduction items from core capital and Tier I additional capital	(4,206)	(4,206)
Tier II additional capital	0	0
Equity	158,234	82,329

In calculation of capital and capital adequacy for the year 2008, in accordance with ZZFMGP, the operations of SID Bank, which is regulated by The Banking Act (excluding financing of international commercial transactions), was taken into account. In the year 2008, in accordance with Slovene Export and Development Bank Act, total operations of SID Bank for its own account were taken into account (i.e. excluding operations in insurance of international business transactions, management of contingency reserves and the Interest Rate Equalisation Programme.

Higher capital is a result of increase in capital in the amount of EUR 50 million in October 2008 and cancellation of a regulation of Bank of Slovenia, which prescribed decrease of capital for the difference in disclosed impairments or reservations due to consolidated loss assessment according to the IFRS and the amount of impairments or reservations ascertained pursuant to percentage defined by the Regulation of the Bank of Slovenia on the Assessment of Credit Risk Losses of Banks and Savings Banks.

a) Core capital deduction items

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Intangible assets	(568)	(600)	(1,189)	(1,152)

b) Deduction items from core capita and additional capital

	SID Bank		SID Bank Group	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Investments in other financial institutions that individually exceed 10% of the institution's capital	(3,088)	(3,088)		
Share in insurance companies	(4,206)	(4,206)	(4,206)	(4,206)
Total	(7,294)	(7,294)	(4,206)	(4,206)

4. Appendices

(In EUR thousand)

ANNEX 1

4.1. Separate balance sheets by segment as at 31 December 2008

SID BANK	31.12.2008	31.12.2007
Cash and balances with the central bank	87	298
Financial assets held for trading	125	129
Available-for-sale financial assets	61,332	40,728
Loans	2,012,564	1,192,496
- Loans to banks	*1,512,381*	*915,674*
- Loans to clients other than banks	*500,183*	*276,822*
Property, plant and equipment	4,749	5,091
Intangible assets	568	600
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	7,712
Corporate income tax assets	328	1,373
Other assets	252	290
TOTAL ASSETS	**2,087,717**	**1,248,717**
Financial liabilities held for trading	172	186
Financial liabilities measured at amortised cost	1,921,672	1,137,069
Provision	2,289	883
Corporate income tax liabilities	1,939	2,190
Other liabilities	888	835
TOTAL LIABILITIES	1,926,960	1,141,163
Share capital	140,000	89,600
Capital reserves	1,139	1,139
Revaluation surplus	(295)	(331)
Reserves from profit (including retained profit)	19,923	17,566
Treasury shares	(1,324)	(1,324)
Net profit for the year	1,317	904
EQUITY	160,757	107,554
TOTAL LIABILITIES AND EQUITY	**2,087,717**	**1,248,717**

PKZ		
	31.12.2008	31.12.2007
Available-for-sale financial assets	18,117	22,306
Loans	12,587	5,802
Property, plant and equipment	110	81
Intangible assets	117	85
Corporate income tax assets	414	760
Other assets	20,215	17,673
- Assets from insurance operations	*20,177*	*17,570*
- Other assets	*38*	*103*
TOTAL ASSETS	**51,560**	**46,707**
Provision	32,877	25,984
- Liabilities from insurance contracts	*30,896*	*23,804*
- Other provision	*1,981*	*2,180*
Corporate income tax liabilities	46	0
Other liabilities	1,753	2,037
TOTAL LIABILITIES	34,676	28,021
Share capital	4,206	4,206
Revaluation surplus	(544)	(1)
Reserves from profit (including retained profit)	12,540	12,983
Net profit for the year	682	1,498
EQUITY	16,884	18,686
TOTAL LIABILITIES AND EQUITY	**51,560**	**46,707**

PRVI FAKTOR GROUP (50%)		
	31.12.2008	31.12.2007
Financial assets held for trading	1	1
Loans	181,081	161,799
- Loans to banks	*12,987*	*5,981*
- Loans to clients other than banks	*168,094*	*155,818*
Property, plant and equipment	371	397
Intangible assets	133	64
Corporate income tax assets	471	136
Other assets	2,342	112
TOTAL ASSETS	**184,399**	**162,509**
Financial liabilities measured at amortised cost	175,125	153,160
Provision	99	89
Corporate income tax liabilities	336	237
Other liabilities	1,432	2,106
TOTAL LIABILITIES	176,992	155,592
Share capital	1,584	1,584
Capital reserves	945	1,015
Revaluation surplus	0	(64)
Reserves from profit (including retained profit)	3,357	1,260
Net profit for the year	1,521	3,122
EQUITY	7,407	6,917
TOTAL LIABILITIES AND EQUITY	**184,399**	**162,509**

ANNEX 2

4.2. Separate income statements by segments for the year 2008

SID BANK

	2008	2007
Interest income and similar income	82,491	47,547
Interest expense and similar expense	(68,183)	(38,810)
Net interest	14,308	8,737
Dividend income	2,273	1,031
Fees and commissions received	1,209	566
Fees and commissions paid	(411)	(101)
Net fees and commissions	798	465
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	(184)	(17)
Net profits/losses from financial assets and liabilities held for trading	(59)	20
Changes in fair value when calculating risk insurance	0	0
Net foreign exchange profits/losses	97	(258)
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	2	0
Other net operating profits/losses	2,501	2,593
Administrative costs	(5,161)	(5,240)
Depreciation, amortisation	(617)	(562)
Provision	(1,526)	709
Impairments	(9,429)	(3,387)
PROFIT ON ORDINARY ACTIVITIES	**3,003**	**4,091**
Corporate income tax	(424)	(455)
Deferred taxes	188	(20)
NET PROFIT FOR THE FINANCIAL YEAR	**2,767**	**3,616**

PKZ

	2008	2007
Interest income and similar income	1,419	1,067
Net interest	1,419	1,067
Fees and commissions paid	(14)	(14)
Net fees and commissions	(14)	(14)
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	(72)	(61)
Net foreign exchange profits/losses	(82)	(48)
Other net operating profits/losses	6,379	6,943
- Revenues from insurance premiums	*9,425*	*9,071*
- Expenses for insurance operations	*(2,873)*	*(2,042)*
- Other	*(173)*	*(86)*
Administrative costs	(2,607)	(2,382)
Depreciation, amortisation	(57)	(41)
Provision	(3,562)	(3,490)
- Liabilities from insurance contracts	*(3,761)*	*(2,804)*
- Other provision	*199*	*(686)*
Impairments	(899)	23
PROFIT ON ORDINARY ACTIVITIES	**505**	**1,997)**
Corporate income tax	(208)	(443)
Deferred taxes	48	(27)
NET PROFIT FOR THE FINANCIAL YEAR	**345**	**1,527**

PRVI FAKTOR GROUP (50%)		
	2008	2007
Interest income and similar income	14,461	9,817
Interest expense and similar expense	(10,378)	(6,602)
Net interest	4,083	3,215
Fees and commissions received	4,207	3,029
Fees and commissions paid	(1,005)	(839)
Net fees and commissions	3,202	2,190
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	1	0
Net foreign exchange profits/losses	2,851	1,725
Other net operating profits/losses	255	289
Administrative costs	(3,580)	(2,895)
Depreciation, amortisation	(186)	(143)
Provision	0	(37)
Impairments	(4,352)	(654)
PROFIT ON ORDINARY ACTIVITIES	**2,274**	**3,690**
Corporate income tax	(831)	(591)
Deferred taxes	78	23
NET PROFIT FOR THE FINANCIAL YEAR	**1,521**	**3,122**

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INDEPENDENT AUDITOR'S REPORT TO THE MANAGEMENT BOARD OF SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, d.d., LJUBLJANA

FOR REPORTING TO THE BANK OF SLOVENIA PURSUANT TO THE REGULATION ON THE AUDIT REVIEW OF THE ANNUAL REPORTS OF BANKS AND SAVINGS BANKS

In connection with:

- disclosures referred to in Article 207(1) of the Banking Act (Official Gazette of the Republic of Slovenia No. 131/2006 and 1-2/2008; hereinafter "ZBan-1"),
- the quality of information system, and
- compliance with risk management rules,

we reviewed/audited whether SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (hereinafter "the Bank") complied with ZBan-1 and its implementing regulations – Regulation on Disclosures by Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135; hereinafter "the Regulation on Disclosures"), Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135/2006, 28/2007, 104/207; hereinafter "the Regulation on Risk Management"), Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 28/2007; hereinafter "the Regulation on Loss Assessment") and Regulation on the Calculation of Own Funds of Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135/2006 and 104/2007; hereinafter "the Regulation on the Calculation of Own Funds") – in the financial year ended 31 December 2008.
The appropriateness of disclosures referred to in Article 207(1) of the Banking Act, information system quality, and compliance with risk management rules laid down in the above regulations are the responsibility of the Bank's Management Board. Our responsibility is to issue a report based on a review/audit of compliance with the above regulations.

Scope of review/audit

The review of the information system was conducted in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the reviewed information is free of material misstatement. A review is limited primarily to inquiries of the Bank's personnel and analytical procedures applied to the information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. We believe that our review provides a reasonable basis for our assurance conclusions.

The review of the appropriateness of disclosures referred to in Article 207(1) of the Banking Act and review of compliance with risk management rules were conducted in accordance with the International Standard on Auditing 800 – The Auditor's Report on Special Purpose Audit Engagements. The standard requires that we plan and perform the audit to obtain reasonable assurance about whether disclosures made in the annual report in accordance with Article 207(1) of the Banking Act are free of material misstatements and whether the Bank complied with all relevant provisions of general risk management standards as provided by the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks. An audit also includes assessing the principles used and estimates made by management as well as evaluating the overall presentation of the appropriateness of disclosures and compliance with risk management rules. We believe that our audit provides a reasonable basis for our opinion.

Opinion on disclosures

In our opinion, the Bank's disclosures referred to in Article 207(1) of ZBan-1 for the accounting period ended 31 December 2008 comply, in all material respects, with the provisions of ZBan-1 and the Regulation on Disclosures.

In terms of content, disclosures from Article 207(1) of ZBan-1 are consistent with the annual report.

In our opinion, the Bank's disclosure policies are appropriate and comply, in all material respects, with the Regulation on Disclosures.

Assurance on the quality of the information system

Based on our review, nothing has come to our attention that causes us to believe that:

- risk management information support does not comply, in all material respects, with the Bank's internal documented rules and requirements of the Bank of Slovenia;
- information system security does not comply, in all material respects, with the Bank's documented information system development strategy or with recommendations laid down in the Slovene standards oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 1799:2003 issued by the Slovene Standardisation Institute or other authorised body.

Opinion on compliance with risk management rules

In our opinion, the Bank complied, in all material respects, with the following as at 31 December 2008:

- general standards on credit risk management, market risk management, interest rate risk management, liquidity risk management and operational risk management, which are laid down in Appendices I to V of the Regulation on Risk Management;
- provisions of the Regulation on Loss Assessment, in connection with credit risk;
- provisions of the Regulation on the Calculation of Own Funds, in connection with own funds and capital requirements;
- provisions of ZBan-1, in connection with Internal Audit activities.

Deloitte revizija d.o.o.

Andreja Bajuk Mušič

Certified Auditor

Andreja Bajuk Mušič

Yuri Sidorovich

Partner/President of the Board

Deloitte.

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Ljubljana, Slovenija 1

Ljubljana, 23 April 2009

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INDEPENDENT AUDITOR'S REPORT TO THE MANAGEMENT BOARD OF SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, d.d., LJUBLJANA

FOR REPORTING TO THE BANK OF SLOVENIA PURSUANT TO THE REGULATION ON THE AUDIT REVIEW OF THE ANNUAL REPORTS OF BANKS AND SAVINGS BANKS

In connection with:

– disclosures referred to in Article 207(1) of the Banking Act (Official Gazette of the Republic of Slovenia No. 131/2006 and 1-2/2008; hereinafter "ZBan-1"),
– the quality of information system, and
– compliance with risk management rules,

we reviewed/audited, in accordance with a definition of a banking group under Article 297 of the Banking Act and on the basis of a communication of the Bank of Slovenia to SID Banka d.d., Ljubjana dated 18 October 2006 (24.20-0821/06 MK), whether the banking group SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (hereinafter "the Banking Group") complied with ZBan-1 and its implementing regulations – Regulation on Disclosures by Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135; hereinafter "the Regulation on Disclosures"), Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135/2006, 28/2007, 104/207; hereinafter "the Regulation on Risk Management"), Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 28/2007; hereinafter "the Regulation on Loss Assessment") and Regulation on the Calculation of Own Funds of Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135/2006 and 104/2007; hereinafter "the Regulation on the Calculation of Own Funds") – in the financial year ended 31 December 2008.
The appropriateness of disclosures referred to in Article 207(1) of the Banking Act, information system quality, and compliance with risk management rules laid down in the above regulations are the responsibility of the Management Board. Our responsibility is to issue a report based on a review/audit of compliance with the above regulations.

Scope of review/audit

The review of the information system was conducted in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the information reviewed is free of material misstatement. A review is limited primarily to inquiries of the Group's personnel and analytical procedures applied to the information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. We believe that our review provides a reasonable basis for our assurance conclusions.
The review of the appropriateness of disclosures referred to in Article 207(1) of the Banking Act and review of compliance with risk management rules were conducted in accordance with the International Standard on Auditing 800 – The Auditor's Report on Special Purpose Audit Engagements. The standard requires that we plan and perform the audit to obtain reasonable assurance about whether disclosures made in the annual report in accordance with Article 207(1) of the Banking Act are free of material misstatements and whether the Banking Group complied with all relevant provisions of general risk management standards as provided by the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks. An audit also includes assessing the principles used and estimates made by management as well as evaluating the overall presentation of the appropriateness of disclosures and compliance with risk management rules. We believe that our audit provides a reasonable basis for our opinion.

Opinion on disclosures

In our opinion, the Banking Group's disclosures referred to in Article 207(1) of ZBan-1 for the accounting period ended 31 December 2008 comply, in all material respects, with the provisions of ZBan-1 and the Regulation on Disclosures.

In terms of content, disclosures referred to in Article 207(1) of ZBan-1 are consistent with the annual report.

In our opinion, the Banking Group's disclosure policies are appropriate and comply, in all material respects, with the Regulation on Disclosures.

Assurance on the quality of the information system

Because we were not provided with a strategy for the development of information systems of the Banking Group we are unable to give an opinion on the review performed in connection with the security of information systems and on its conformity with the Banking Group's strategy. In connection with the above, we are also unable to give an assurance about whether the Banking Group complied with recommendations laid down in the Slovene standards oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 1799:2003 issued by the Slovene Standardisation Institute or other authorised body (in the independent auditor's report to the Management Board of Slovenska izvozna in razvojna banka, d.d., Ljubljana issued for the purpose of reporting to the Bank of Slovenia in accordance with the Regulation on the Audit Review of the Annual Reports of Banks and Savings Banks dated 27 April 2007 it is indicated that in its documented policies as well as practices SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana applies several recommendations laid down in the Slovene standards oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 1799:2003 with certain deviations).

With regard to all other cases, nothing has come to our attention during the review that would cause us to believe that risk management information support does not comply, in all material respects, with the requirements of the Bank of Slovenia.

Without qualifying our opinion, we wish to point out that the Banking Group has not laid down rules regarding the risk management information support.

Assurance on compliance with risk management rules

In our opinion, the Banking Group complied, in all material respects, with the following as at 31 December 2008:
- general standards on credit risk management as stipulated in Appendix I of the Regulation on Risk Management;
- provisions of the Regulation on Loss Assessment, in connection with credit risk;
- provisions of the Regulation on the Calculation of Own Funds, in connection with own funds and capital requirements.

Without qualifying our opinion, we wish to point out that given the specifics of the Banking Group, the latter has not prepared and adopted strategies and policies for assuming and managing risks related to interest rates and liquidity at the level of the Banking Group but at the level of individual companies/banks.

Deloitte revizija d.o.o.

Andreja Bajuk Mušič

Certified Auditor

Andreja Bajuk Mušič

Yuri Sidorovich

Partner/President of the Board

Deloitte.

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Ljubljana, Slovenija
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Ljubljana, 23 April 2009

III. DISCLOSURES BASED ON THE REGULATION ON DISCLOSURES BY BANKS AND SAVINGS BANKS

Pursuant to the Regulation on Consolidated Supervision (bank consolidation), SID Bank and, based on proportional consolidation, the PRVI FAKTOR Group are included in consolidated financial statements. The PRO KOLEKT Group and CMSR are excluded as their total assets represent less than 1% of the total assets of SID Bank and their revenues less than 1% of the revenues of SID Bank. The investment in the PRO KOLEKT Group is not a deduction item in the calculation of the capital of the SID Bank Group. Pursuant to the IFRS, the consolidated financial statements of the SID Bank Group include, in addition to SID Bank, the insurance company PKZ (full consolidation) and the PRVI FAKTOR Group (proportional consolidation). The banking and financial consolidation thus differ insofar as the latter includes the insurance company PKZ.

The disclosures in this section have been prepared pursuant to the Regulation on Disclosures by Banks and Savings Banks and include only consolidated data based on bank consolidation.

Risk management strategy and processes

The management of risks and the attitude towards risks, given the company's operating objectives, is one of the main challenges of every bank or financial institution. Similar to the management of risks at SID Bank, the main purpose of risk management in the SID Bank Group is to reduce the probability of risk realisation and to mitigate loss in case a certain risk is realised. Risk management comprises identifying, measuring and mitigating risks, while its purpose is secure and stable operations. In the scope of risk management, the SID Bank Group prioritises security and stability of operations which, in the long term, increases the value of capital, preserves the institution's reputation and maximises the benefits of the users of services provided by the SID Bank Group and other stakeholders.

Risk management is a continuous process of identifying, measuring, assessing, managing, monitoring and mitigating risks, carried out in accordance with SID Bank's long-term strategy, while its purpose is secure and stable operations of the SID Bank Group. The process starts with the establishment of an appropriate organisational structure and work processes, which facilitate the achievement of business objectives with the simultaneous secure operations complying with regulations. In the implementation of risk management measures, the principal objective is to achieve appropriate awareness at all levels of the Group's operations.

The risk management process is carried out in organisational units separated from commercial organisational units up to the level of the Management Board, which ensures independence. The following bodies and organisational units are responsible for direct implementation:

- credit committee: management of credit risks and large exposures,
- liquidity committee: liquidity and currency risks,
- assets and liabilities management committee: balance sheet structure, capital adequacy, aggregate risks,
- risk management department: preparing risk management policies, monitoring risks,
- credit ratings department: assessment of the clients' financial position,
- back office and payment transactions: daily monitoring of currency and liquidity risk in accordance with established limits.

Risks encountered by the SID Bank Group include mainly credit, currency, liquidity, interest rate and operational risks. Special attention is paid to the measurement and management of credit risk at the level of the SID Bank Group and exposure of the SID Bank Group to individual clients, sectors, and countries.

Risk management in the SID Bank Group is a demanding process. After all, the processes of **two owners** come together in factoring. The internal structure of the SID Bank Group has been adequately supplemented so that risk management processes are harmonised throughout the Group. The parent company and the subsidiary have defined procedures for assuming, identifying, measuring and mitigating risks. **Both companies are responsible for independent risk management.** Special attention is paid to credit risk, as it is the most significant risk. An important role in this aspect is that of the credit committees of both companies; the credit committee of SID Bank checks also the Group's credit exposure. Risk management departments exist in all companies of the SID Bank Group, as do internal audit departments.

Capital

Capital adequacy of SID Bank Group (SID Bank for own account and the PRVI FAKTOR Group)

In EUR thousand	31.12.2008	31.12.2007
Paid-up share capital	140,000	89,600
Treasury shares	(1,324)	(1,324)
Capital reserves	1,139	1,139
Profit reserves and retained earnings	23,722	17,942
Other core capital deduction items	(1,190)	(20,868)
- Intangible assets	(1,190)	(1,152)
- Difference between the reported impairments and provisions according to IFRS and the regulation on loss assessment	0	(19,716)
Core capital	162,347	86,489
Additional capital	93	46
Total core and additional capital I	162,440	86,535
Deduction items from core capital and Tier I additional capital	(4,206)	(4,206)
- Interest in insurance companies	(4,206)	(4,206)
Total capital - for the purpose of capital adequacy	158,234	82,329
Capital requirements	(127,310)	(23,434)
- For credit, settlement and counterparty risks	(124,237)	(22,592)
- For currency risk	(722)	(842)
- For operational risk	(2,351)	0
Share premium	30,924	58,895
Capital adequacy ratio	9.94	28.11

In line with the Act Governing Insurance and Financing of International Commercial Transactions the calculation of capital and capital adequacy for 2007 considered the operations of SID Bank, which are regulated by the Banking Act (excluding financing of international commercial transactions). In 2008, the calculation pursuant to the Slovene Export and Development Bank Act included all operations of SID Bank for its own account (i.e. all except international commercial transactions insurance, contingency reserve management and the interest rate equalisation programme – IREP).

Higher capital is the result of a capital increase in the amount of EUR 50 million in October 2008 and the abolishment of the Bank of Slovenia's regulation imposing a capital decrease by the difference between disclosed impairments and provisions in group assessment of losses according to the IFRS and the amount of established impairments and provisions calculated based on percentages prescribed by the Decision of the Bank of Slovenia on Estimating Credit Risk Losses of Banks and Savings Banks.

Core capital deduction items include intangible assets and additional impairments and provisions prescribed by the law (applies to 07). Tier II capital includes revaluation adjustment in connection with available-for-sale financial assets (debt securities). The deduction item of core and tier II capital includes the investment in the insurance company PKZ.

In line with the regulations of the Bank of Slovenia, the minimum amount of the Bank’s core capital is EUR 5,000 thousand, while the prescribed capital adequacy ratio is 8%.

Credit Risk

Credit risk is the risk of loss owing to the failure of a debtor to discharge its liabilities. Credit risk management starts prior to entering into a contractual relationship by determining a client’s creditworthiness and establishing appropriate collateral. The establishment of exposure is approved by the credit committee. During the term of a transaction, credit risk is managed by monitoring and managing the credit portfolio, limiting credit risk concentration to a specific client, group, sector or country, classifying and creating impairments for expected losses and providing sufficient capital for cases when losses exceed expectations.

The following are included in credit risk:

- risk of losses arising from credit operations,
- risk arising from the geographic location of the debtor’s country,

- risks arising from a securities issuer,
- counterparty credit risk in settlement and derivative financial instruments.

• Total credit exposure – loans given

In EUR million	31.12.2008	31.12.2007
Gross exposure	2,179.2	1,352.8
Individual impairments	(14.5)	(8.7)
Other impairments	(15.0)	(9.3)
Delimited commissions and interest	(4.9)	(3.5)
Net exposure	2.144,8	1,331.3

Notwithstanding the introduction of individual assessment of losses and the calculation of impairments according to the IFRS due to which there was no need for monitoring the classification of the Bank of Slovenia into classes A to E for individually impaired financial assets, the SID Bank Group continued maintaining such classification. Top-quality clients are rated A, while the worst rating is E. The quality of the credit portfolio can thus change continuously by means of three credit rating classes and can be compared with other banks.

• Portfolio of SID Bank Group by credit rating categories

	2008		2007	
Group	In EUR million	Interest	In EUR million	Interest
A	1,737.0	81.0%	1,000.7	75.2%
B	339.8	15.8%	279.5	21.0%
C	53.0	2.5%	44.0	3.3%
D	14.0	0.6%	7.1	0.5%
E	1.0	0.1%	0.0	0.0%
Total	**2.144,8**	**100.0%**	**1,331.3**	**100.0%**

Total value of collateral for loans granted by the SID Bank Group as at 31 December 2008 was EUR 410,235 thousand.

In terms of the type of collateral, the assignment of receivables as collateral represents the largest proportion, followed by other guarantees by companies without a credit rating or with a rating below A-, pledged commercial real property at market value, pledged receivables as collateral with value assessment, insurance policy of SID Bank on behalf of the Republic of Slovenia and other valued collateral.

The risk of securities issuers arises from the portfolio which is managed by the SID Bank Group with the aim of ensuring liquidity and managing assets and liabilities. The SID Bank Group does not perform trading operations. The SID Bank Group manages credit risks chiefly by imposing limits regarding the credit rating of the issuers and by monitoring securities market prices.

• Credit portfolio by debtor country

	2008		2007	
Country	In EUR million	Interest	In EUR million	Interest
Slovenia	1,863.0	86.9%	1,064.7	80.0%
Croatia	128.0	6.0%	125.1	9.4%
Serbia	71.8	3.3%	59.6	4.5%
Bosnia and Herzegovina	22.4	1.0%	19.8	1.5%
Montenegro	0	0	10.2	0.7%
Russia	14.5	0.7%	15.0	1.1%
Other countries	45.1	2.1%	36.9	2.8%
Total	**2.144,8**	**100.0%**	**1,331.3**	**100.0%**

• Portfolio of securities by credit rating of the issuer

	2008		2007	
Rating according to S&P	In EUR million	Interest	In EUR million	Interest
AA or higher	31.2	50.9%	16.0	39.3%
BBB- to AA-	14.0	22.9%	11.8	29.0%
No rating	16.1	26.2%	12.9	31.7%
Total	**61.3**	**100.0%**	**40.7**	**100.0%**

Liquidity Risk

• Balance sheet by maturity as at 31 December 2008

	Assets		Liabilities		Gap
Maturity class	In EUR million	% of total assets	In EUR million	% of total assets	In EUR million
Sight	28.2	1.3%	0.0	0.0%	28.2
Up to 1 month	141.4	6.3%	47.0	2.1%	94.4
1 - 3 months	124.4	5.5%	272.8	12.1%	(148.4)
3 months - 1 year	214.8	9.5%	683.7	30.3%	(468.9)
1 - 5 years	1,112.5	49.4%	1,054.5	46.8%	58.0
Over 5 years	633.0	28.0%	196.3	8.7%	436.7
Total	**2,254.3**	**100.0%**	**2,254.3**	**100.0%**	**0.0**

• Balance sheet by maturity as at 31 December 2007

	Assets		Liabilities		Gap
Maturity class	In EUR million	% of total assets	In EUR million	% of total assets	In EUR million
Sight	6.7	0.5%	0.1	0.0%	6.6
Up to 1 month	10.2	0.7%	83.3	6.0%	(73.1)
1 - 3 months	48.4	3.5%	8.3	0.6%	40.1
3 months - 1 year	229.7	16.4%	95.3	6.8%	134.4
1 - 5 years	392.5	28.1%	389.0	27.8%	3.5
Over 5 years	711.6	50.8%	823.1	58.8%	(111.5)
Total	**1,399.1**	**100.0%**	**1,399.1**	**100.0%**	**0.0**

Currency risk

• Balance sheet by currency structure as at 31 December 2008

	Assets		Liabilities		Gap	
	In EUR million	% of total assets	In EUR million	% of total assets	In EUR million	% of capital*
EUR	2,221.7	98.6%	2,238.8	99.3%	(17.1)	(18.9%)
USD	15.4	0.7%	14.2	0.6%	1.2	1.3%
Other currencies	17.2	0.7%	1.3	0.1%	15.9	17.6%
Total	**2,254.3**	**100.0%**	**2,254.3**	**100.0%**	**0.0**	**0.0%**

*Note: Capital pursuant to the Bank of Slovenia Regulation on the Calculation of Capital Adequacy of Banks and Savings Banks.

• Balance sheet by currency structure as at 31 December 2007

	Assets		Liabilities		Gap	
	In EUR million	% of total assets	In EUR million	% of total assets	In EUR million	% of capital*
EUR	1,367.9	97.8%	1,374.1	98.2%	(6.2)	(7.5%)
USD	22.7	1.6%	21.3	1.5%	1.3	1.6%
Other currencies	8.5	0.6%	3.7	0.3%	4.9	5.9%
Total	**1,399.1**	**100.0%**	**1,399.1**	**100.0%**	**0.0**	**0.0%**

*Note: Capital pursuant to the Bank of Slovenia Regulation on the Calculation of Capital Adequacy of Banks and Savings Banks.

Interest Rate Risk

• Sources and investments by the remaining period until re-determination of interest rate as at 31 December 2008

	Assets		Liabilities		Gap
Maturity class	In EUR million	% of total assets	In EUR million	% of total assets	In EUR million
Interest free	42.4	1.9	193.0	8.6	(150.6)
Sight	11.8	0.5	0.0	0.0	11.8
Up to 1 month	260.4	11.6	202.8	9.0	57.6
1 - 3 months	700.3	31.1	521.6	23.1	178.7
3 months - 1 year	1,221.7	54.2	1,336.9	59.3	(115.2)
1 - 5 years	12.7	0.6	0	0.0	12.7
Over 5 years	5.0	0.2	0	0.0	5.0
Total	**2,254.3**	**100.0**	**2,254.3**	**100.0**	**0**

• Sources and investments by the remaining period until re-determination of interest rate as at 31 December 2007

	Assets		Liabilities		Gap
Maturity class	In EUR million	% of total assets	In EUR million	% of total assets	In EUR million
Interest free	33.3	2.4%	134.2	9.6%	(100.9)
Sight	5.2	0.4%	0.0	0.0%	5.2
Up to 1 month	52.4	3.7%	124.8	8.9%	(72.4)
1 - 3 months	73.2	5.2%	60.2	4.3%	13.0
3 months - 1 year	153.9	11.0%	17.8	1.3%	136.1
1 - 5 years	394.0	28.2%	312.8	22.4%	81.2
Over 5 years	687.1	49.1%	749.3	53.6%	(62.2)
Total	**1,399.1**	**100.0%**	**1,399.1**	**100.0%**	**0.0**

The sensitivity analysis for loans and deposits is based on the assumption that the market interest rates would change by 100 basis points (1% p.a.) which, according to the management's estimate, represents the changes in the interest rates that were reasonably possible at that date. 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, the net interest income of the SID Bank Group would increase by EUR 1,148 thousand in 2009 (by EUR 540 thousand in 2008). 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 sensitivity analysis of the securities portfolio made by the SID Bank Group was based on the change in the interest rate. The results are the same as for SID Bank since the Prvi Faktor Group has no securities. The analysis shows how the fair values of securities or future cash flows of financial instruments would fluctuate due to the changes in the market interest rates on the reporting date. The analysis does not include 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.

The analysis separately calculates the responsiveness of bonds with variable and those with fixed interest rates given a change in the market interest rate. The calculation takes into account the average maturity of the portfolio which was 1.86 years in 2008 (3.31 years in 2007). The analysis is based on the assumption of a change in the market interest rate by 100 basis points (1% p.a.).

In bonds with a variable interest rate the change in the market interest rate by 100 basis points is reflected in the change in the coupon of such bonds in an equal amount. If the market interest rates increased by 100 basis points, the portfolio of SID Bank would increase by EUR 61 thousand in 2008 (by EUR 95 thousand in 2007), which represents an increase of 1% of the portfolio in relative terms. The change would be reflected as a gain 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.

In bonds with a fixed interest rate, the increase in the market interest rate by 100 basis points would mean a reduction of the portfolio by 190 basis points or 1.9 % in 2008. For 2008, this means a reduction by EUR 1,047 thousand (2007: EUR 844 thousand). The total difference would be reflected as reduction directly in equity. 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.

For the total portfolio of bonds, the increase in the market interest rate by 100 basis points in 2008 would result in the reduction in the value of portfolio by EUR 985 thousand, of which EUR 1,047 thousand would be reflected directly in equity and as a gain in the amount of EUR 61 thousand in the income statement (for 2007: the change totalled EUR 749 thousand, of which EUR 844 thousand as a decrease in equity and as a gain totalling EUR 945 thousand in the income statement). For the total portfolio of bonds, the decrease in the market interest rate by 100 basis points in 2008 would result in the increase of the value of portfolio by EUR 985 thousand, of which EUR 1,047 thousand would be reflected directly in equity and as a loss in the amount of EUR 61 thousand in the income statement (for 2007: the change totalled EUR 749 thousand, of which EUR 844 thousand as an increase directly in equity and as a loss totalling EUR 95 thousand in the income statement).

Operational risk

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