ANNUAL REPORT OF SID BANK AND THE SID BANK GROUP 2014

Contents

BUSINESS REPORT

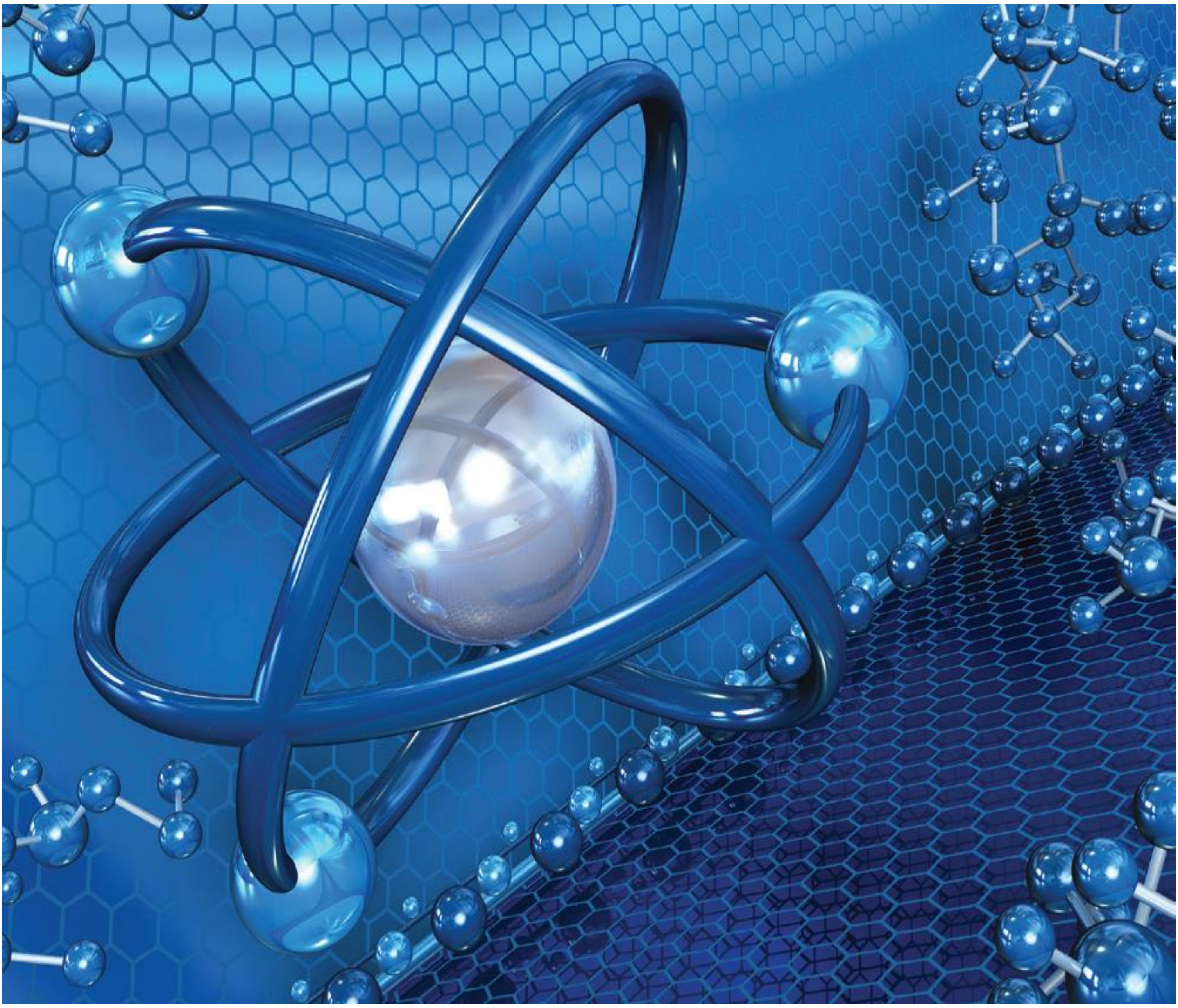
President's Statement....7
Report of the Supervisory Board....10
1 Major Financial Data and Performance Indicators of SID Bank and the SID Bank Group....12
2 About SID Bank and the SID Bank Group....14
2.1 About SID Bank....14
2.2 About the SID Bank Group....19
3 Corporate Governance Statement....22
3.1 Corporate Governance Code....22
3.2 Governing Bodies....23
3.3 Main Features of Internal Controls Systems and Risk Management in Relation to the Financial Reporting Procedure....25
4 Management Body Declaration on the Adequacy of Risk Management Arrangements....27
5 Risk Management....28
6 Strategy of SID Bank....30
7 Corporate Social Responsibility....33
8 Performance in 2014....37
8.1 Macroeconomic Environment in 2014....37
8.2 SID Bank's Performance....40
8.2.1 Funding and Liquidity....40
8.2.2 Financing....41
8.2.3 Operations under the Republic of Slovenia's Authorisation....44
8.3 Performance of the SID Bank Group....50
8.3.1 SID – Prva kreditna zavarovalnica, d. d., Ljubljana....50
8.3.2 Prvi faktor Group....51
8.3.3 Pro Kolekt Group....52
8.3.4 Centre for International Cooperation and Development....53
8.4 Operations Reflected in the Statement of Financial Position....53
8.5 Operations Reflected in the Income Statement....55
8.6 Important Events in 2014....57

FINANCIAL REPORT

Declaration by the Management Board on the Financial Statements of SID Bank and the SID Bank Group 60
Independent Auditor's Report about the Financial Statements of SID Bank and the SID Bank Group 61
1 Financial statements of SID Bank and SID Bank Group 63
1.1 Statement of financial position 63
1.2 Statement of profit or loss 64
1.3 Statement of comprehensive income 65
1.4 Statement of changes in equity 66
1.5 Cash flow statement 68
2 Notes to the financial statements 70
2.1 Basic information 70
2.2 Statement of Compliance 70
2.3 Significant accounting policies 70
2.3.1 Basic premises for the preparation of financial statements 71
2.3.2 Use of estimates, judgements and material uncertainty 71
2.3.3 Consolidation 71
2.3.4 Functional and presentation currency 72
2.3.5 Translation of transactions and items in foreign currency 72
2.3.6 Cash equivalents 72
2.3.7 Interest income and expense 73
2.3.8 Dividend income 73
2.3.9 Fee and commission 73
2.3.10 Other net operating gains or losses 73
2.3.11 Financial instruments 73
2.3.12 Derivatives held for hedging 77
2.3.13 Property, plant and equipment and intangible assets 77
2.3.14 Investment property 78
2.3.15 Long-term interests in subsidiaries and joint ventures 78
2.3.16 Other assets 79
2.3.17 Provisions for liabilities and costs 79
2.3.18 Other liabilities 79
2.3.19 Equity 79
2.3.20 Contingent liabilities and financial liabilities 80
2.3.21 Operations on behalf of and for the account of the Republic of Slovenia 80
2.3.22 Taxes 80
2.3.23 Employee benefits 80
2.3.24 Calculation of earnings per share 81
2.3.25 Segment reporting 81
2.3.26 New standards and interpretations in the reporting period and issued/ approved standards and interpretations not yet effective and applied 81
2.3.27 Changes in the financial statements 82
2.4 Notes to the statement of financial position 84
2.4.1 Cash 84

2.4.2 Available-for-sale financial assets 84
2.4.3 Loans 85
2.4.4 Derivatives held for hedging 86
2.4.5 Property, plant and equipment and intangible assets 87
2.4.6 Long-term interests in subsidiaries and joint ventures 88
2.4.7 Corporate income tax assets and liabilities 89
2.4.8 Other assets 89
2.4.9 Financial liabilities measured at amortised cost 90
2.4.10 Provisions 90
2.4.11 Other liabilities 91
2.4.12 Equity 92
2.4.13 Distributable profit 92
2.5 Notes to the statement of profit or loss 93
2.5.1 Net interest 93
2.5.2 Dividend income 93
2.5.3 Net fees 93
2.5.4 Gains/(losses) realised on financial assets and liabilities not measured at fair value through profit or loss 94
2.5.5 Gains or losses on financial assets and liabilities measured at fair value through the statement of profit or loss 94
2.5.6 Changes in fair value in hedge accounting 94
2.5.7 Net exchange differences gain or loss 95
2.5.8 Other net operating gains or losses 95
2.5.9 Administrative costs 95
2.5.10 Depreciation and amortisation 96
2.5.11 Provisions 96
2.5.12 Impairments 96
2.5.13 Corporate income tax on ordinary operations 96
2.5.14 Net earnings per share 97
2.6 Other notes to the financial statements 97
2.6.1 Contingent liabilities and commitments 97
2.6.2 Related party disclosures 98
2.6.3 Remuneration system 100
2.6.4 Total amount spent on the auditor 101
2.6.5 Events after the reporting period 101
3 Risk management 102
3.1 Credit Risk 102
3.2 Liquidity Risk 113
3.3 Interest Rate Risk 116
3.4 Currency risk 119
3.5 Operational risk 121
3.6 Capital management 121
3.7 Fair value of financial assets and liabilities 124
4 Segment reporting 128

5 Other disclosures ... 131
5.1 Operations on behalf of and for the account of the Republic of Slovenia ... 131
5.2 Disclosures in accordance with the EU Regulation 575/2013 ... 132
5.2.1 Objectives and policies of risk management ... 132
5.2.2 Total exposure amount by accounting offsets, without notice of effects of credit insurance and average amount of exposure broken down by all exposure classes ... 133
5.2.3 Breakdown of exposures by major geographical region itemised into exposure classes ... 133
5.2.4 Breakdown of exposures by economic sector or type of client itemised into major exposure classes ... 134
5.2.5 Itemisation of all exposure classes in terms of residual maturity ... 135
5.2.6 Past-due exposures, impaired past-due exposures and value adjustments due to impairments and provisions for major economic sectors ... 136
5.2.7 Past-due exposures, impaired past-due exposures and value adjustments due to impairments and provisions for major geographical regions ... 136
5.2.8 Change in impairments and provisions ... 136
5.2.9 Investments in equity securities not included in the trading book ... 137
5.2.10 Encumbered and unencumbered assets ... 137
5.2.11 Credit protection ... 137
5.3 Disclosure in accordance with Article 89 of the Directive 2013/66/EU (CRD IV) ... 139



BUSINESS REPORT

President's Statement

This past year, the Slovenian economy has experienced notably changed conditions that exceeded expectations and proved to be the most favourable in the last five years. Having struggled against the headwinds during the crisis, it was a significant turn also for the operations of SID Bank.

Despite the signs of the economic recovery with Slovenia's economy growing 2.6 per cent, a record-high surplus in trade balance (merchandise) of 3.6 per cent of GDP thanks above all to foreign demand, i.e. fast-growing nominal merchandise exports of 6.6 per cent, the falling euro and more EU-funded public investment, most Slovenian companies were still facing uncertainty and the banks continued to hold back.

The beneficial effects of the recapitalisation of some Slovenian banks and of the ECB's monetary and banking supervision policy have stabilised the situation and released negative tensions, even though a measure of uncertainty remained, particularly in relation to corporate lending.

New geopolitical and consequently economic tensions and further slowing down of economic growth in Slovenia's same trading partners have resulted in low demand for new lending arrangements provided by bank. Moreover, against the backdrop of sluggish corporate investment dynamics, i.e. with companies providing funding for capital expenditure from their own sources, sound companies became net creditors resulting in weak demand for corporate loans and yet another drop in lending to corporate of 7 per cent year-on-year.

In response, SID Bank continued to pursue its active stance in the entrepreneurial sector geared towards direct lending to businesses, primarily to small and medium-sized enterprises (SMEs). In line with its commitment, the Bank provided financing in 2014 mostly within the framework of a special loan fund for SMEs set up together with the Ministry of Economic Development and Technology and through other programmes, and directly financed 325 customers in the total amount of 240 million euro. Consequently, lending to non-bank customers increased by 6 per cent to 637 million euro and its share in the Bank's credit portfolio rose to 30 per cent.

At the same time, SID Bank embarked on the programme designed to cut back on indirect financing extended through commercial banks after they hurried to repay the loans taken during the crisis due to the aforementioned ECB policies, i.e. liquidity surplus and falling interest rates, and it dampened demand for loans made available by SID Bank.

Since the core business of SID Bank is to extend loans through commercial banks, its total assets and its credit portfolio shrank by 6 per cent and 17 per cent to EUR 3,577 million and EUR 2,810 million respectively. It reflects the countercyclical modus operandi of SID Bank in its role of a promotional and development bank, i.e. withdrawing its operations from market as the economic cycles change and the economy undergoes structural changes. Given the fact that those structural changes and the fast pace at which the conditions for doing business were improving in 2014 meant a significant change for the operations carried out by SID Bank, it moved fast and fine-tuned its lending activity to reflect the market conditions and redesigned its transformative role, i.e. generating new value for different groups of companies with focus on providing long-term financing under favourable terms for micro, small and medium-sized enterprises. By offering new products, we have improved the opportunities and the position of SMEs in the first place to cope with international competition and mitigated risks in SMEs exposure. To that end, the cooperation and refinancing with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), as well as with other national development and promotional banks, i.e. institutions, has been particularly valuable.

With the aim to keep abreast of the structural changes taking place in the domestic and international markets, SID Bank started to redesign its strategy and its business model and adjust its products. Guided by that aim, we presented to the commercial banks as our main customers, as well as to companies, some new financial promotional measures.

At SID Bank, we continued with the informatization of our operations and, in addition, we carried out a change to the bank's organisational structure by introducing a new management and decision-making level inserted between the Management Board and the Department Managers – executive directors – with the aim to boost efficiency and reduce the administrative burden on the commercial banks and companies. There have been some changes associated with the introduction of new IFRS standards, primarily referring to the consolidation of the SID Bank Group. As in previous years, we continued to improve our business processes and increase operational efficiency as reflected in the 18 per cent cost to income ratio (CIR). It also reflects efficiency in managing the assets entrusted to us.

As regards the Bank's treasury operations, we continued in 2014 to work on the optimisation of refinancing risk. In the spring, we successfully launched a cash tender and exchange offer in relation to one billion euro bonds maturing in 2015 to redeem part of those bonds offering to pay cash or to replace the existing bond with the Bank's new bond. To this purpose, we issued on the international market a three-year bond with the volume of the offering of EUR 97 million. At SID Bank, we continued to borrow on the international banking market and from the ECB and also prepaid a portion of its LTRO borrowing of EUR 110 million.

Given the improved economic situation in Slovenia, the ratings awarded to SID Bank followed suit: A- issued by Standars & Poor's and Ba1 with a positive outlook issued by Moody's. During the year under review, our attitude towards risk management and risk profile remained unchanged. In the light of the new situation, we revised our strategy and risk-taking and risk management policy, amended the classification methodology and adjusted our risk profile in accordance with the new EBA rules. As a result of these measures, the Bank's equity has increased to EUR 353 million and its capital adequacy ratio is in excess of 25 per cent. Furthermore, by adjusting its internal processes, the Bank is in a position to take on various kinds of risks, particularly credit risk; hence adequate impairments were made also in 2014 but not so high as a year earlier by taking into consideration the improved economic environment.

SID Bank has delivered a good result for 2014 despite the fact that its interest income declined by 17 per cent (EUR 43 million) being adversely affected by the developments described above, its operating profit before tax is significantly above the 2013 figure and amounts to EUR 12.2 million, whereas with EUR 4.5 million, its operating profit after tax is slightly lower year-on-year. The high tax charge is attributable to the tax treatment of the surety issued to the Bank's subsidiary Prvi Faktor.

The ECB's new system of banking supervision Single Supervisory Mechanism (SSM) and Comprehensive Assessment launched late in 2013 was very important for us since SID Bank 2014 performed along with over 120 European banks in-depth asset quality reviews and stress tests. The test results have substantiated and confirmed once again the soundness and robustness of the Bank's business model and its risk profile, as well as its good capital adequacy to sustain its current business operation. The capital adequacy ratio of SID Bank has achieved 14 per cent even under an adverse stress-test scenario. It demonstrates the quality of the Bank's assets and, by taking into account its business model in place, the Bank does not require any additional capital over a short-term and a long-term horizon. The ECB's review has been the heaviest supervisory burden so far for a small bank such as SID Bank calling for the engagement of its staff throughout the supervisory review and also having a major impact on the operations of SID Bank in the past year. After SID Bank fared well in the ECB Comprehensive Assessment, the ECB decided that since the Bank engages in a specific kind of operations and the Capital requirements regulation and directive provides for exceptions in case of certain credit institutions, it will not be encompassed in the ECB's Single Supervisory Mechanism in the future.

During the year under review, the structural changes initiated in the past in the field of the insurance covering non-marketable risk provided by SID Bank in the name and for the account of the Republic of Slovenia remained on track despite the good conditions for doing business, given the fact that most Slovenian companies are no longer in a position to perform major capital investment projects abroad. On the other hand, the number of contracts awarded to Slovenian companies in the international markets started to rise fast pushing up the number of insurance policies issued by 24 per cent. Needless to say that their total value did not match the value of the big contracts the Slovenian companies had won in the past, resulting in a drop by 14 per cent in the aggregate amount of the insurance cover for non-marketable risks to EUR 798 million and exposure to EUR 550 million. The technical result for 2014 was in the red as a consequence of the claims paid for the loss events incurred during the years of the crisis. With EUR 38 million, the claims were record-high but expected. Consequently, the Bank's contingency reserves serving as a shield against direct claim settlement from the government budget fell below EUR 100 million, i.e. under the minimum, according to the law.

As regards the capacity to provide insurance cover for marketable risks, the Bank has its insurance subsidiary SID – Prva kreditna zavarovalnica (PKZ) that operates in a highly competitive environment encountered in all most important markets and such high density and penetration have affected the volume of insurance contracts sold and premium rates. It was reflected also in the operating result PKZ for 2014 which was worse than in the previous year but still satisfactory.

Against the backdrop of the ongoing crisis and high economic tensions in the countries of South-eastern Europe in which the Bank's subsidiary Prvi Faktor operates and particularly in Serbia where two large enterprises collapsed, the company has suffered a huge loss and, consequently, has recorded a high loss in its books. The loss has been covered by both shareholders by issuing adequate sureties.

Also the debt collection company Pro Kolekt and the Centre for International Cooperation and Development (CMSR) which operate in those markets, have been affected by the consequences of a weak economic position of the countries in south-eastern Europe, namely delinquency in making payments or defaults and liquidity woes of businesses. The Pro Kolekt Group had a lower number of cases and, in particular, lower total value of the cases closed. CMSR had to scale down its operations after government funding earmarked for official development aid was reduced. Nevertheless, both entities ended the year on a positive note.

In line with the principles of sustainable development that form the platform for our work and mission, we decided in 2014 to renovate the building in which the headquarters of SID Bank are located. The renovation investment increases energy and material efficiency and reduces the environmental impact on the one hand and respects the cultural heritage at the heart of Ljubljana on the other. It has significantly improved the working conditions for the employees and classifying the premises among environment-friendly and energy-efficient buildings that also contribute to sustainable development.

On behalf of the Management Board, I wish to thank all stakeholders, shareholders, members of the Supervisory Board and, above all, all the employees, who have contributed to all the efforts, achievements and other results accomplished in 2014.

Set against a background of significant and fast changes in the economic environment and geopolitical risks, especially the ECB's non-standard measures and, consequently, a surge in liquidity and very low or even negative interest rates, uncertainty has increased and some new risks have emerged. It will call for new forms of risk management, as well as a modification to the development model of the Slovenian economy and a need to redesign the Bank's business model, particularly regarding its income position in relation to its future activities and integration of Slovenian banks.

However, we still have to learn to manage certain new development challenges if we are to continue the successful implementation of the Bank's mission in the Slovenian economy. The principal task of the promotional and development banks in the future is to identify financial and insurance stimulation measures in the newly created situation of „central bank economies", so that companies invest again, achieve the desired growth and create new jobs. In accordance with this commitment, at SID Bank, in addition to redesigning our business model and products, we will work on further strengthening of the role of SID Bank in the new development model for the Slovenian economy, especially by fostering new financing and insurance products as the building blocks of sustainable development. We are confident that we can rise to the challenge and that we will take our role a step further to provide added value for companies and sharpen their competitive edge in the international environment and thus add to new employment and the sustainable development of the Slovenian economy.

Sibil Svilan, MSc

Report of the Supervisory Board

In 2014 the operations of SID Bank were monitored by the Supervisory Board in the following composition: Ms Monika Pintar Mesarič, President, Mr Janez Tomšič, Deputy-President, Mr Marjan Divjak, M.Sc., Mr Štefan Grosar, Mr Martin Jakše, Mr Leo Knez, M.Sc., and Mr Anton Rop, M.Sc.

The Supervisory Board regularly monitored and supervised the Bank's operations in terms of the implementation of the set strategic, business and financial objectives, in accordance with its own Rules of Procedure and the Bank's Articles of Association, and in line with powers and responsibilities of the Supervisory Board, stipulated by the law.

Expert support for the Supervisory Board was provided by two committees. The Audit Committee addressed the relevant issues and drew up positions in the areas of accounting and financial information, risk management and the Bank's risk profile assessment, internal and external auditing, and the functioning of internal controls. The Remuneration and HR Committee provided support in matters relating to the Bank's remuneration policy, particularly in determining the adequacy of the general principles of the remuneration policies and their implementation, and in the annual evaluation of the performance of the Management Board.

In 2014 the Supervisory Board held nine regular and seven correspondence meetings, at which it discussed the annual and interim reports on the performance of the Bank and the subsidiaries of the SID Bank Group, internal audit reports, reports by the compliance department and other departments at the Bank, the assessment of the Bank's risk profile, and other general and specific matters relating to the Bank's operations, and also made decisions on transactions, subject to its authority.

The major issues discussed and/or decided on by the Supervisory Board in 2014 were:

- the annual report for 2013 with the auditor's report, and the proposal for the allocation of profit for 2013;
- the Bank's action strategy for 2015-2017 and the implementation of the strategic objectives in 2014;
- the annual operational plan with elements of business and risk policy and financial plan for 2015;
- the internal audit department's work plan for 2015 and strategic plan for 2015 and 2016, the annual internal audit report for 2013 and quarterly internal audit reports;
- the revision of the financial plan for 2014
- the compliance department's reports and its work programme;
- amendments to the Code of Ethical Values and Professional Standards and report on the implementation and execution of the Code;
- risk management bylaws and the assessment of the Bank's risk profile for 2014;
- the execution of the Bank's credit and borrowing transactions;
- development of new financial products and services;
- the regular reports on the status of the rescheduled/refinanced loans and the restructuring of companies in financial distress.

Throughout the year the Supervisory Board closely monitored the course of the ECB's comprehensive assessment of SID Bank, as one of 120 European banks included in the preparation for the Single Supervisory Mechanism (SSM), and examined the final results of the asset quality review and the stress tests.

In its monitoring and supervision of the Bank's management and operations, the Supervisory Board obtained all the required information, based on which it was able to regularly assess the Bank's performance and the work of the Management Board and to make decisions subject to its authority.

Approval of the 2014 Annual Report

The Audit Committee reviewed the unaudited Annual Report of SID Bank and the SID Bank Group for 2014 at its meeting of 5 March 2015. The audited Annual Report for 2014 was submitted to the Audit Committee's meeting of 2 April 2015, at which the certified auditor KPMG Slovenija, podjetje za revidiranje, d.o.o. reported on the 2014 audit procedures. The Audit Committee assessed the compilation of the Annual Report for 2014 as appropriate and submitted it to the Supervisory Board for approval.

At its meeting of 2 April 2015 the Supervisory Board discussed and reviewed the Annual Report of SID Bank and the SID Bank Group for 2014, along with the proposal for the allocation of profit for 2014 submitted by the Management Board, and had no reservations or comments.

The Supervisory Board also discussed the Independent Auditor's Report, in which KPMG Slovenija, podjetje za revidiranje, d.o.o. issued an unqualified opinion of the financial statements of SID Bank and the SID Bank Group for 2014. In the opinion of the auditor, the financial statements present fairly, in all material respects, the financial position of SID Bank and the SID Bank Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by EU, while the information in the management report is in conformity with the audited financial statements. The Supervisory Board had no reservations or comments with regard to the Report by KPMG Slovenija, podjetje za revidiranje, d.o.o.

After reviewing the Annual Report of SID Bank and the SID Bank Group for 2014, the Supervisory Board unanimously approved it.

Ms Monika Pintar Mesarič

President of the Supervisory Board

1 Major Financial Data and Performance Indicators of SID Bank and the SID Bank Group

Major Financial Data[1]

	SID Bank			SID Bank Group		
in EUR thousand	2014	2013	2012	2014	2013	2012
Statement of financial position						
Total assets	3,577,036	3,787,565	4,088,662	3,631,383	3,844,997	4,258,813
Borrowings from banks	1,841,494	1,782,721	2,131,211	1,841,494	1,783,667	2,236,824
Deposits from non-banking clients	6	6	5	6	6	5
Total equity	355,275	345,793	340,224	372,666	362,790	363,175
Loans to banks	2,180,886	2,614,462	3,031,156	2,186,274	2,624,659	3,057,451
Loans to clients other than banks	637,327	601,136	649,294	637,327	601,135	738,831
Impairments of financial assets measured at amortised cost and provisions for off-balance-sheet liabilities	261,860	237,135	194,944	261,860	237,135	212,008
Off-balance-sheet items	811,180	815,021	1,185,531	811,180	815,021	1,186,046
Income statement						
Net interest income	43,247	52,544	63,142	43,716	53,242	67,074
Net non-interest income	12,890	24,067	30,358	17,299	28,223	37,986
Labour costs, general and administrative expenses	(9,806)	(8,781)	(7,585)	(13,484)	(12,429)	(14,116)
Amortisation and depreciation	(613)	(589)	(575)	(984)	(945)	(1,009)
Impairments and provisions	(33,568)	(61,541)	(79,478)	(34,331)	(62,145)	(80,877)
Pre-tax profit	12,150	5,700	5,862	12,216	5,946	9,058
Corporate income tax	(7,606)	(834)	(821)	(7,824)	(1,538)	(2,235)
Net profit for the financial year	4,544	4,866	5,041	4,392	4,408	6,823
Statement of comprehensive income						
Other comprehensive income before tax	5,949	877	3,176	6,607	931	3,915
Corporate income tax in connection to items which may be subsequently reclassified to profit or loss	(1,011)	(174)	(719)	(1,126)	(180)	(763)
Number of employees as at 31 December	147	139	124	356	369	351
Shares						
Number of shareholders	1	1	1			
Number of shares	3,121,741	3,121,741	3,121,741			
Nominal value of share (in EUR)	96.10	96.10	96.10			
Book value of share (in EUR)	114.48	111.43	109.63			
International credit rating as at 31 December						
Moody's	Ba1	Ba1	Baa2			
Standard & Poor's	A-					

[1] In accordance with the changes to IFRSs, the Prvi faktor Group is included in the consolidated financial statements of the SID Bank Group for 2014 and 2013 under the equity method. The data for 2012 are not adjusted to such changes, and they include the Prvi faktor Group under the proportionate consolidation method.

Key Performance indicators[2]

	SID Bank			SID Bank Group		
In %	2014	2013	2012	2014	2013	2012
Capital						
Capital adequacy	26.15	16.49	14.23	25.82	16.12	13.83
Quality of assets in the statement of financial position and assumed commitments						
Impairments of financial assets measured at amortised cost and provisions for assumed commitments/rated on-balance-sheet and off-balance-sheet items	8.57	6.45	4.91	9.20	6.92	5.23
Profitability						
Interest margin	1.17	1.31	1.53	1.17	1.32	1.55
Financial intermediation margin	1.52	1.90	2.27	1.45	1.80	2.43
After-tax return on assets	0.12	0.12	0.12	0.12	0.11	0.21
Pre-tax return on equity	3.42	1.66	1.72	3.29	1.65	2.51
After-tax return on equity	1.28	1.41	1.48	1.18	1.22	1.89
Operating costs						
Operating costs/average assets	0.28	0.23	0.20	0.39	0.33	0.35
Operating costs/net income	18.56	12.23	8.73	23.71	16.42	14.40

---

2 Notes:
(1) The indicators are calculated using the Bank of Slovenia methodology.
(2) Due to the transition to a new capital requirements regulation, the data referring to capital adequacy for the year 2014 are not comparable with the previous two years.
(3) The calculation of the capital adequacy and the ratio of impairments to rated items for the SID Bank Group takes into account 50% of the assets of the Prvi faktor Group (the SID banking group) in addition to SID Bank itself.
(4) The calculation of the financial intermediation margin for the SID Bank Group does not take into account PKZ’s income from insurance operations.
(5) In accordance with the changes to IFRSs, the Prvi faktor Group is included in the consolidated financial statements of the SID Bank Group for 2014 and 2013 under the equity method. The data for 2012 are not adjusted to such changes, and they include the Prvi faktor Group under the proportionate consolidation method.

2 About SID Bank and the SID Bank Group

2.1 About SID Bank

SID Bank is a specialist promotional export and development bank with the authority to carry out long-term financial services to complement the financial market in various areas in accordance with the Slovene Export and Development Bank Act (hereinafter: the ZSIRB), which are relevant for the sustainable development of the Republic of Slovenia.

The operations of SID Bank are founded on long-term development documents of the European Union and the Republic of Slovenia. In order to perform business activities and all the activities of SID Bank with the purpose of pursuing long-term development guidelines of the Republic of Slovenia and the European Union, the Republic of Slovenia ensures the long-term, stable operation of SID Bank. The Republic of Slovenia as the single shareholder shall, irrevocably and without limitation, be responsible for the liabilities incurred by SID Bank out of transactions entered into in the performance of activities determined in Articles 11 and 12 of the ZSIRB. If SID Bank fails to settle its due liability to a creditor at the latter's written request, the Republic of Slovenia shall be obliged to settle such liability promptly at the request of the creditor. This allows SID Bank to borrow on financial markets without the need to obtain a guarantee from the Republic of Slovenia for each transaction.

SID Bank performs all services with the purpose of creating direct or indirect added value for the users of the services according to the purpose and goals of individual transactions, projects, investments or other such activities and first and foremost to maintain or increase the value of the equity without the objective of maximising profit. In performing its activities it does not compete with other financial institutions on the market. To achieve the goal of non-competition with financial institutions, SID Bank also follows the principle of equal access or non-discrimination for all users of SID Bank's financial services and transparency for the services it offers, as well as for business operations and business results.

In the course of performing its business services SID Bank may use any applicable and available financial instruments permitted in the European Union and Slovene legislation, such as loans and other forms of guarantees, factoring, financial leasing, concession credits and other instruments for international development cooperation, as well as other means of assuming risks, and include them in the promotional-development financing programmes.

Development and Status

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

2004 The Act Governing Insurance and Financing of International Commercial Transactions (hereinafter: the ZZFMGP)[3] entered into force. It required SID to harmonise its activities in terms of the insurance operations it carried out on its own behalf and for its own account to be in line with regulations on the activities of insurance companies by no later than the end of 2004 and on the business activities that are unrelated to insurance operations and not under ZZFMGP with regulations that applied to bank activities by the end of 2006.

Based on this legal foundation, SID established an insurance company and transferred to it the marketable insurance portfolio, which it carried out on its own behalf and for its own account before the end of 2004.

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

[3] ZZFMGP regulates the foundation of the insurance system and the financing of international economic transactions as instruments of trade policy of the Republic of Slovenia.

2006 At the end of the year SEC transformed into a bank after having obtained the license from the Bank of Slovenia to perform banking and other financial services. It then changed its name to SID – Slovenska izvozna in razvojna banka, d. d., Ljubljana (abbreviated name: SID banka, d. d., Ljubljana)[4].

2007 SID Bank began to operate as a specialist bank.

2008 The ZSIRB entered into force and granted the Bank the following two powers:

- SID Bank became Slovenia's authorised specialist promotional, export and development bank in the pursuit of activities under the ZSIRB;
- SID Bank was regarded as an authorised institution to carry out all transactions under the ZZFMGP.

2010 The amendments to the Banking Act expressly determined that SID Bank was a specialist Slovene promotional export and development bank, which could not accept public deposits.

With the adoption of the Commission Directive 2010/16/EU amending the Directive 2006/48/EC of the European Parliament and of the Council, in line with the opinion of the European Banking Board, the European Commission confirmed that SID Bank was an institution involved in specific activities in the public interest and was therefore eligible for inclusion on the list of institutions excluded from the scope of application of Directive 2006/48/EC, pursuant to Article 2 of the Directive.

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

2014 SID Bank was one of the three Slovenian banks that performed along with other EU banks asset quality review and stress tests conducted by the European Central Bank. The Bank successfully concluded the assessment as there was no capital shortfall ascertained. This applied to the core Tier 1 capital ratio and to the thresholds after baseline and adverse scenario. In connection to risk management, SID Bank's business model proved to be robust enough to ensure that a capital increase by the owner was not necessary in the short and medium term, provided that the business model and other assumptions did not change.

[4] Henceforth, in the Annual Report any use of SID Bank or the Bank refers to SID banka, d. d., Ljubljana, irrespective of the time and the change in business name, while the SID Bank Group is referred to as the SID Bank Group or the Group.

Banking Services

In accordance with its role, purpose and tasks, SID Bank primarily provides financial services in the framework of authorisations issued by the Bank of Slovenia. The main service is the provision of loans, largely via banks, in certain instances in cooperation with other commercial banks in bank syndicates, and to a lesser extent also directly to final beneficiaries.

SID Bank's financial services are categorised based on four main purposes:
- the development of a society of knowledge and innovative entrepreneurship;
- the development of an environmentally-friendly society and production;
- the development of a competitive economy;
- regional and social development.

The Bank provides its financial services with regard to identified market gaps, carrying out developmental and promotional tasks of a finance nature and meeting the objectives of a long-term development policy primarily in the following areas (according to the ZSIRB):
- the development of small and medium-size enterprises (SMEs) and entrepreneurship;
- research, development and innovation (RDI);
- environmental protection, energy efficiency and climate change;
- international business transactions and international economic cooperation;
- regional development;
- the economic and public infrastructure.

As at 31 December 2014, SID Bank held a Bank of Slovenia authorisation to provide the following mutually recognised financial services under Article 10 of the Banking Act:
- the acceptance of deposits from informed persons;
- the provision of loans, including:
  - mortgage loans,
  - the purchase of receivables with or without recourse (factoring),
  - the financing of commercial transactions, including export financing based on the purchase at a discount without recourse of non-current non-past-due receivables collateralised with a financial instrument (forfaiting);
- the issue of guarantees and other sureties;
- trading on own account or for the account of clients:
  - in foreign legal tender, including currency-exchange transactions,
  - in standardised futures and options,
  - in currency and interest rate financial instruments;
- trading on own account:
  - in money-market instruments;
- credit rating services: the collection, analysis and dissemination of information about creditworthiness.

SID Bank's Activities under the Republic of Slovenia's Authorisation

SID bank provides **insurance** for international business transactions against non-marketable risks, and carries out an **interest equalisation programme** on behalf of and for the account of the Republic of Slovenia, as an agent of the state. The requisite funding for the effective provision of insurance operations under the ZZFMGP is provided to SID Bank by the Republic of Slovenia in the form of contingency reserves, which are used to settle liabilities to the insured (claims payouts) and to cover losses on these operations. Contingency reserves are created primarily from premium, fees and commissions, recourse from paid claims and other income generated by SID Bank from insurance and reinsurance against non-marketable risks. If the claims cannot be settled from the aforementioned reserves, the funding for payouts is provided by the Republic of Slovenia.

Under the Republic of Slovenia Guarantee Scheme Act, SID Bank was authorised to provide a **guarantee scheme for corporates** on behalf of and for the account of the state. The act was adopted as part of the European Union stimulus package, and was not renewed after its expiry at the end of 2010. SID Bank's activities now focus on the processing of applications for approvals of changes, claims for the payout of guarantees, the exercise of recourse claims, and continuous monitoring of the compliance of loans with the law and other determined requirements.

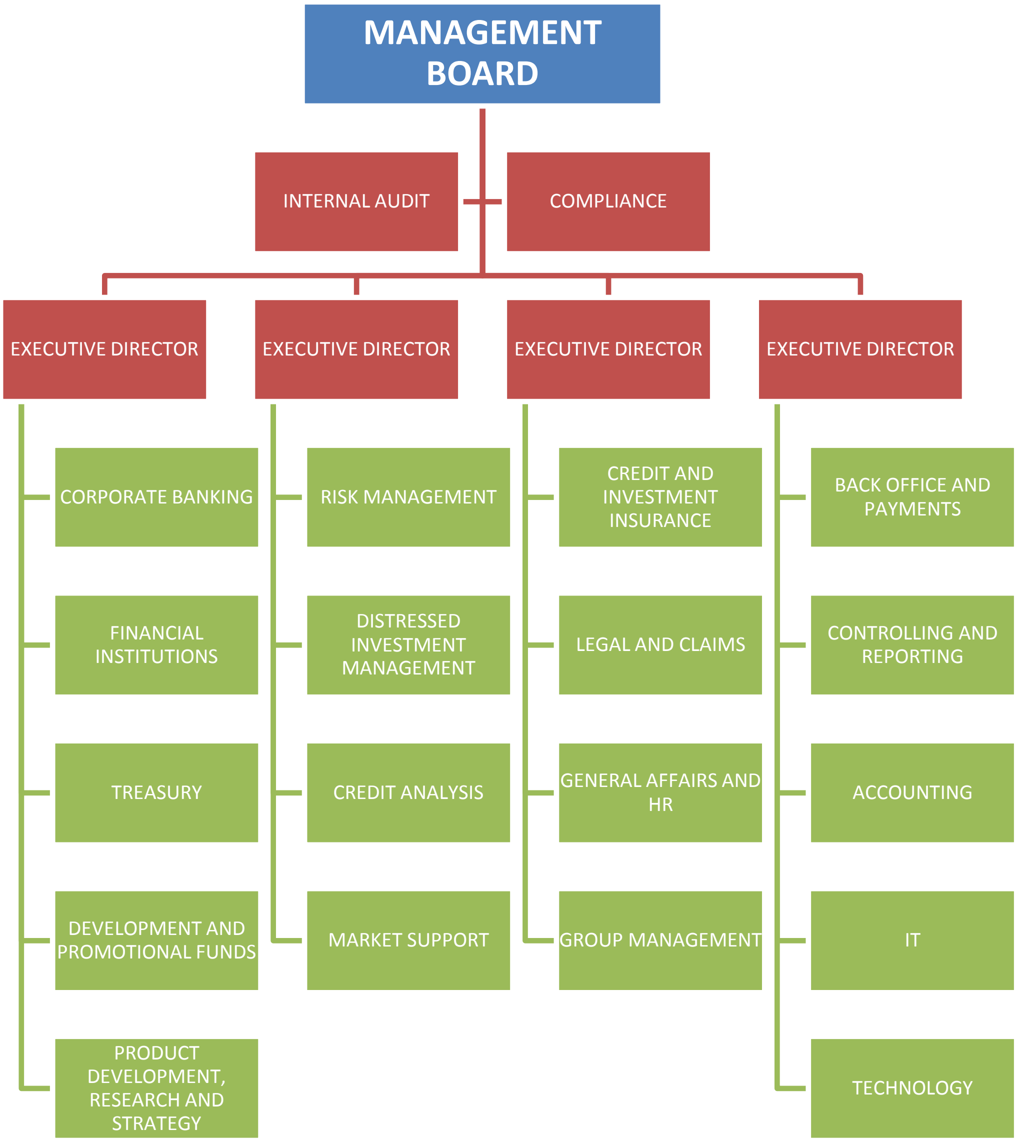
Under the Act on the Natural Persons Guarantee Scheme of the Republic of Slovenia, in 2009 SID Bank was authorised to provide a **guarantee scheme for private individuals** on behalf of and for the account of the state. The legal deadline for the issue of government guarantees under this act was the end of 2010. SID Bank's activities are now focused on the processing of applications for approvals of changes, claims for the payout of guarantees, the exercise of recourse claims, and continuous monitoring of the compliance of loans with the act and other determined requirements.

Under the Guarantees for Financial Investments by Companies Act, SID Bank is authorised to conclude contracts in connection with the issue of **guarantees** on behalf of and for the account of the state, and to carry out other technical operations under this act.

With amendments to the Environmental Protection Act in 2010 SID Bank was authorised to act as a state auctioneer at emission allowance auctions and to carry out the **Kyoto units and emission allowances** programme on behalf of and for the account of the state, as well as any other related transactions.

SID Bank's activities for the account of the state are described in detail in Section 8.2.3.

Organisational Structure of SID Bank as at 31 December 2014



SID Bank changed its internal organisational structure on 1 December 2014 to adjust the structure and processes to align with the international good practice and development bank standards and to more effectively manage the Bank in light of the increase in transactions and employees. In this framework, the competencies of the organisational units, which are directly involved in the credit process, were newly determined, two new organisational units were established (Market Support and Technology), and product development was transferred to the Product Development, Research and Strategy Department. A new management and decision-making level was introduced between the Management Board and the Directors of organisational units – Executive Directors. The Internal Audit and Compliance Departments continue to report directly to the Management Board.

Share Capital

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

There were no changes to the share capital in 2014, which stood at EUR 300 million as at 31 December 2014.

On 3 July 2014, the SID Bank's General Meeting passed a resolution allocating the 2013 distributable profit of EUR 2,311,149.37 to other profit reserves.

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

Shareholders as at 31 December 2014	Number of shares	Holding of share capital (%)
Republic of Slovenia	3,103,296	99.4
SID Bank - own shares	18,445	0.6
Total	**3,121,741**	**100**

Total equity amounted to EUR 355.3 million as at 31 December 2014. As at 31 December 2014, the audited book value of one share stood at EUR 114.48 compared with EUR 111.43 as at 31 December 2013.

Identity card

Business name	SID – Slovenska izvozna in razvojna banka, d. d., Ljubljana
Headquarter	Ulica Josipine Turnograjske 6, 1000 Ljubljana
Registration number	5665493
Tax number	82155135
VAT identification number	SI82155135
Settlement account	0100 0000 3800 058
SWIFT	SIDRSI22
LEI code	549300BZ3GKOJ13V6F87
Website	http://www.sid.si
E-mail	info@sid.si
Telephone	+386 (0)1 200 75 00
Telefax	+386 (0)1 200 75 75

2.2 About the SID Bank Group

SID Bank Group

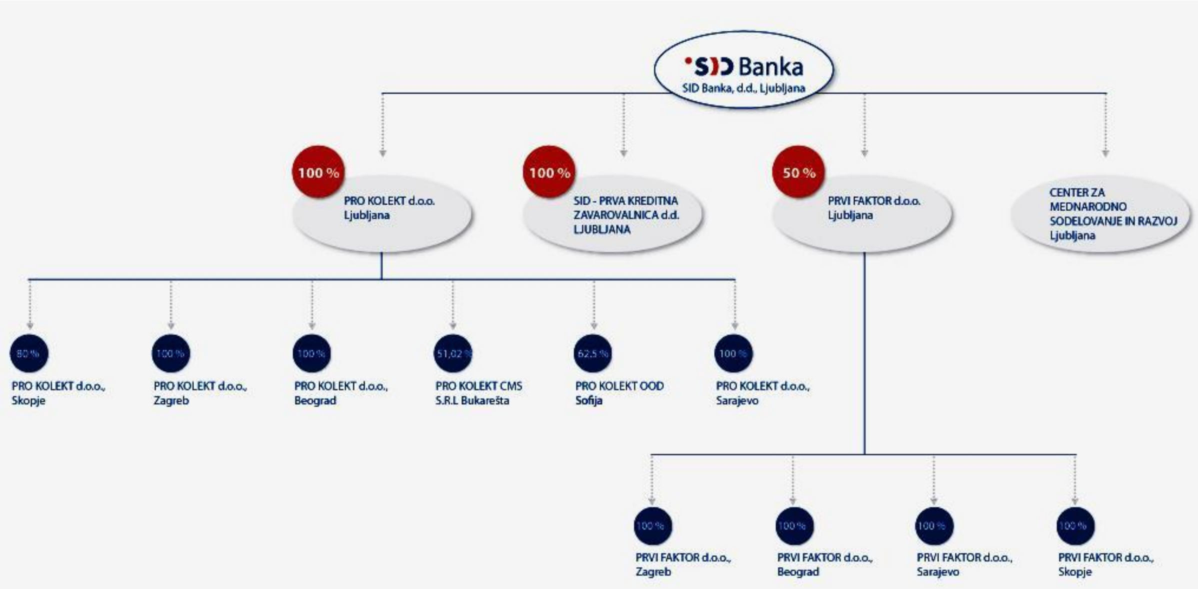
As at 31 December 2014, the SID Bank Group comprised:

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

SID Bank and SID – Prva kreditna zavarovalnica, d. d., Ljubljana, are included in the SID Bank Group's consolidated financial statements under the full consolidation method; the Prvi faktor Group is included under the equity method.

Given their insignificant impact on the financial position and profit or loss of the SID Bank Group, the Pro Kolekt Group and the Centre for International Cooperation and Development are not included in consolidation.

Organisational Structure of the SID Bank Group as at 31 December 2014



About the Companies

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

The harmonisation with the EU regulation and subsequently adopted laws, particularly the ZZFMGP, resulted in the organisational restructuring of SID and the expansion of the SID Bank Group. SID established SID – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter: PKZ) as the sole owner in 2004; SID thus harmonised its status and insurance-related activities for its own account with the regulations governing the operation of insurance companies.

PKZ was entered in the companies register on 31 December 2004, and commenced its insurance operations on 1 January 2005. On this date short-term insurance contracts that had been concluded by SID for its own account by the end of 2004 were transferred to PKZ.

PKZ provides insurance for current operating receivables, usually with a maturity of up to 180 days, or exceptionally also up to one year when required by the nature of transaction or a type of goods. The company provides insurance against commercial and, optionally, also non-commercial (political) risks. Insurance contracts are generally concluded for annual or biannual periods and cover the policyholder's whole turnover, on an open account. In addition to the insurance of the full sales, individual parts of sales can also be insured (e.g. only exports, only domestic sales or only the claims financed by the bank), provided that PKZ assesses that the criteria used to decide whether a certain offered segment will be insured or not are objective and that there is no evidence of this being, for example, an attempt of negative selection. In the framework of insurance contracts, pre-supply risks (production risks) can be insured separately. Furthermore, PKZ insures individual projects and engineering deals under tailored conditions, provided that payment deadlines do not exceed two years.

In 2014, the company was headed by a three-person Management Board. On 1 January 2014, the President of the Management Board, Mr Ladislav Artnik, started his third successive term of office. Ms Barbara Kunc and Mr Igor Pirnat (MSc) were the Members. The Supervisory Board is comprised of three members. In 2014, Mr Jožef Bradeško was the President of the Supervisory Board, Mr Bojan Pecher was Deputy-President (both representatives of SID Bank) and Mr Andraž Tinta was the workers' representative. The Supervisory Board appointed a three-member Audit Committee, which comprises two Members of the Supervisory Board and an independent expert, Ms Blanka Vezjak (MSc).

The nominal value of SID Bank's interest in PKZ stood at EUR 8.4 million as at 31 December 2014.

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

Prvi faktor, faktoring družba d. o. o., Ljubljana (hereinafter: Prvi faktor, Ljubljana) is one of the leading factoring companies in Slovenia.

The company's principal line of business is factoring and it primarily provides the following services:

- the purchase, or takeover in return for consideration, of receivables from the sale of goods and services with or without payment risk;
- the financing of assumed receivables;
- the administrative management of assumed receivables;
- the realisation and recovery of assumed receivables;
- trading in assumed receivables;
- intermediation and brokerage of factoring transactions in Slovenia and abroad.

SID acquired a 50% interest in the nominal capital and half of the voting rights of Prvi faktor, Ljubljana in 2002. The other partner is Nova Ljubljanska banka d. d., Ljubljana. The nominal value of SID Bank's interest in the company stood at EUR 1.6 million as at 31 December 2014.

The company's governance bodies are the General Meeting and the Director. In 2014, SID Bank was represented at the General Meeting by Ms Barbara Bračko and Mr Leon Lebar. Until 28 May 2014, the company Directors were Mr Ernest Ribič and Mr Matej Špragar; on 29 May 2014, Mr Tomaž Kačar took over the position as Director.

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

Prvi faktor, faktoring društvo, d. o. o., Zagreb, Croatia, was established on 17 December 2003. Its principal line of business is factoring. The nominal capital of the company is EUR 2.6 million. Until 28 May 2014, the company Director was Mr Tomaž Kačar, and from 29 May 2014 onwards, the Director was Mr Hrvoje Turkalj. The General Meeting of the company is comprised of representatives of Prvi faktor, Ljubljana. Until 28 May 2014, the General Meeting was made up of Mr Ernest Ribič, Mr Matej Špragar, Mr Aleš Sever and Mr Uroš Vidović; on 29 May 2014 the General Meeting was represented by Mr Tomaž Kačar, and from 30 May 2014 onwards, by Mr Tomaž Kačar, Mr Aleš Sever and Mr Uroš Vidović.

Prvi faktor, faktoring d. o. o., Belgrade, Serbia, was established on 24 February 2005. Its core activity is factoring. The nominal capital of the company is EUR 2.5 million. Until 6 July 2014, the company Director was Ms Jelena Tanasković; between 7 July 2014 and 24 November 2014, the Director was Mr Matjaž Južnič, and from 25 November 2014 onwards, Mr Željko Atanasković. The General Meeting of the company is comprised of representatives of Prvi faktor, Ljubljana; until 28 May 2014, it was represented by Mr Ernest Ribič, Mr Matej Špragar, Mr Aleš Sever and Mr Uroš Vidovič, and from 29 May 2014 onwards, by Mr Tomaž Kačar, Mr Aleš Sever and Mr Uroš Vidović.

Prvi faktor d. o. o., financijski inženiring, Sarajevo, Bosnia and Herzegovina, is engaged in other financial intermediation. The company was established on 27 February 2006. The nominal capital of the company is EUR 1.5 million. The Director is Mr Đenan Bogdanić. The General Meeting of the company is made up of representatives of Prvi faktor, Ljubljana; until 28 May 2014, it was represented by Mr Ernest Ribič, Mr Matej Špragar, Mr Aleš Sever and Mr Uroš Vidovič, and from 29 May 2014 onwards, by Mr Tomaž Kačar, Mr Aleš Sever and Mr Uroš Vidović.

Prvi faktor d. o. o., Skopje, was entered in the court register on 22 September 2006. The company's nominal capital is EUR 5 thousand. The company is not operating.

As at 31 December 2014 the nominal value of the participating interests of Prvi faktor, Ljubljana in the companies Prvi faktor, faktoring društvo, d. o. o., Zagreb, and Prvi faktor d. o. o., Skopje, was equal to the nominal capital of the individual companies on that date. The investment in Prvi faktor d. o. o., Sarajevo was partly impaired. Its carrying amount as at 31 December 2014 was EUR 1 million.

Pro Kolekt d. o. o.

Pro Kolekt, družba za izterjavo, d. o. o., (hereinafter: Pro Kolekt, Ljubljana) was established by SID in 2004 and is under its 100% ownership. The company's nominal capital amounted to EUR 418.8 thousand as at 31 December 2014. The nominal value of SID Bank's equity holding in Pro Kolekt, Ljubljana was EUR 418.8 thousand.

Pro Kolekt, Ljubljana specialises in extra-judicial recovery. The company was established primarily for the extra-judicial recovery of cases for the needs of the SID Bank Group. Today the company accepts cases of Slovenian and foreign creditors. Foreign export credit agencies and recovery agencies are increasingly acting as agents for Pro Kolekt, Ljubljana. Pro Kolekt, Ljubljana also represents creditors in judicial recovery, composition and bankruptcy proceedings, and it provides credit rating information.

The company's Director is Mr Leon Zalar. SID Bank's Management Board acts as the members of the company's General Meeting.

The Pro Kolekt Group consists of the parent company Pro Kolekt, Ljubljana and a network of the following subsidiaries in south-eastern Europe:

- Pro Kolekt d. o. o., Zagreb;
- Pro Kolekt d. o. o., Skopje;
- Pro Kolekt, društvo za naplato duga d. o. o., Belgrade;
- Pro Kolekt Credit Management Services Bucuresti S.R.L., Bucharest;
- Pro Kolekt Sofia OOD, Sofia;
- Pro Kolekt d. o. o., društvo za financijsko posredovanje, Sarajevo.

Centre for International Cooperation and Development

In 2006 SID Bank officially became the joint holder, alongside the state, of the Centre for International Cooperation and Development (hereinafter: the CMSR), with which it had previously worked closely. The institute's core activities are macroeconomic, political and other-purposed analyses of countries, assessments of country risk and publicity activities. In recent years, on the basis of government authorisation, the CMSR has become Slovenia's main institute for technical and operational work in the field of international development cooperation.

The CMSR's governance bodies are the Director and the Council. The institute is represented by its Director, Mr Gašper Jež. The Council has six members. SID Bank's representatives on the Council are Mr Sibil Svilan (MSc), who is also the Chairman of the Council, and Mr Bojan Pecher.

3 Corporate Governance Statement

3.1 Corporate Governance Code

As a public company, SID Bank applied the Management Code for Publicly Traded Companies (hereinafter: the Code) in the 2014 financial year. The Code was drafted and adopted in its updated form on 8 December 2009 by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia. It is available at http://www.ljse.si/.

The following recommendations of the Code are not applied in the corporate governance of SID Bank:

- Items 1 and 2 – Corporate governance framework: In contrast to commercial banks and other joint-stock companies, SID Bank's basic objective is not to maximise the company's value but to provide promotional and developmental financial services and to carry out tasks aimed at creating indirect or direct added value for the users of these services and to increase or keep the value of the equity without the objective of maximising profit (c.f. Article 9 of the ZSIRB and the Articles of Association).

- Items 4 and 5 – Relations between the company and the shareholders: The recommendations are applied *mutatis mutandis*, as this matter is regulated by the ZSIRB. The sole shareholder is the Republic of Slovenia (c.f. Article 4 of the ZSIRB), and the appointment of Members of the Supervisory Board is regulated by law (Article 18 of the ZSIRB).

- Item 7 – Supervisory Board: The procedure for appointing Members of the Supervisory Board is carried out in accordance with the ZSIRB and other legal acts governing the appointment of persons to the supervisory bodies of companies under majority government ownership.

In 2014 SID Bank also applied the Corporate Governance Code for Capital Assets of the Republic of Slovenia, which was adopted by Slovenska odškodninska družba in May 2013 and prior to this by the Capital Assets Management Agency.

With regard to information about governance that exceeds the requirements of the Companies Act, the main focus is on regulations governing corporate governance at banks. The Banking Act (Chapter 2) and the Regulation on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks both contain provisions summarising the recommendations of the Code *mutatis mutandis*. Of further relevance is the ZSIRB, which contains special provisions on corporate governance, e.g. the make-up of the Supervisory Board. All the aforementioned regulations have been published in the Official Gazette of the Republic of Slovenia.

Corporate governance also takes account of the Articles of Association (available at http://www.sid.si), the strategy and various policies adopted by the management and supervisory bodies.

3.2 Governing Bodies

Functioning and Key Powers of the General Meeting

The Republic of Slovenia has been the sole shareholder in SID Bank since September 2008.

The Bank's General Meeting convenes at least once a year after the end of the financial year, in accordance with the Companies Act.

The powers of the General Meeting were exercised in 2014 by Slovenski državni holding, d. d. or its representative with the relevant written authorisation in accordance with the Slovenian Sovereign Holding Act.

Composition and Functioning of Management and Supervisory Bodies and Their Committees

The management and supervisory bodies are appointed according to regulations, although additional conditions and procedures set out in Article 18 of the ZSIRB need to be taken into account. The Bank has a two-tier system of governance: it is managed by the Management Board, while the Supervisory Board oversees its operations.

SID Bank's Supervisory Board

In accordance with the ZSIRB, the Supervisory Board has seven members who are appointed by the Slovenian government. Members of the Supervisory Board are appointed for a term of office of five years. As at 31 December 2014, the Supervisory Board consisted of Ms Monika Pintar Mesarič (President), Mr Janez Tomšič (Deputy-President), and Mr Marjan Divjak (MSc), Mr Štefan Grosar, Mr Martin Jakše, Mr Leo Knez (MSc) and Mr Anton Rop (MSc) as Members.

The Supervisory Board monitors and oversees the management and operations of the Bank. It operates on the basis of its Rules of Procedure, which set out in detail the principles, procedures and work methods while its principal powers and responsibilities are set out by the Bank's Articles of Association and laws governing the Bank's operations, most notably the Companies Act, the Banking Act and the ZSIRB.

The Supervisory Board's role includes adopting the Bank's strategic policy, reviewing and approving the Bank's Annual Reports, explaining to the General Meeting its opinion of the Internal Audit Annual Report and verifying the Management Board's proposal for the allocation of profit, and discussing any findings from supervisory procedures by the Bank of Slovenia, tax inspectors and other supervisory authorities. In addition, the Supervisory Board gives its consent to the Bank's annual business andfinancial plan, the remuneration policy, the system of internal controls and the Internal Audit Department's annual programme of work. The Supervisory Board also provides guidance and consent to the Bank's business policy in accordance with development guidelines based on EU and Slovenian long-term development documents.

The Supervisory Board has established an Audit Committee and a Remuneration and HR Committee as consultative bodies. Each Committee's duties and responsibilities are set out by its own Rules of Procedure.

Audit Committee of the Supervisory Board

The Audit Committee is appointed by the Supervisory Board. As at 31 December 2014, the Audit Committee consisted of Mr Martin Jakše (Chairman), Mr Marjan Divjak (MSc) (Deputy-Chairman), and Ms Blanka Vezjak (MSc) and Mr Leo Knez (MSc) as Members. In connection with its powers of monitoring and supervision, the Committee primarily discusses mattersrelating to the Bank's interim and annual financial statements, the activities of the Internal Audit Department, the system of internal controls, risk management, and any findings by supervisory authorities in procedures of supervision. The Committee also participates in procedures to select the independent auditor and reviews and monitors the auditor's work and impartiality.

Remuneration and HR Committee

The Remuneration and HR Committee is a working and consultative body of the Supervisory Board. As at 31 December 2014, the Committee consisted of Ms Monika Pintar Mesarič (Chairman), Mr Janez Tomšič (Deputy-Chairman), and Dr Alenka Stanič (Member). The Committee's duties and responsibilities relate to the remuneration policy and matters concerning the Management Board. Its main tasks are assessing whether the methodologies put in place as the basis for a remuneration system encourage proper management of risks, capital and liquidity, reviewing the relevance of general principles of remuneration policy and the level to which the remuneration policy complies with the Bank's business policy over the long term, assessing and evaluating the work of the Management Board, reviewing the remuneration policy applicable to the Management Board, and drawing up recommendations for the Supervisory Board in respect of the implementation of remuneration policy.

Management Board

The Bank's operations are directed by the Management Board, which represents it in public and legal matters. The Management Board is appointed by the Supervisory Board for a term of office of five years and may be reappointed. It shall consist of maximum three members. The number of members is determined by the Supervisory Board. The present Management Board of SID Bank consists of two members, Mr Sibil Svilan (MSc), President and Mr Jožef Bradeško, Member.

The Management Board conducts the Bank's operations independently and at its own liability. The actions of the Management Board are regulated by its Rules of Procedure. The Management Board meets regularly, on a weekly basis, discussing deciding of matters concerning the Bank's operations. The Management Board regularly briefs the Supervisory Board of the most important issues in the Bank's operations, its business policy, financial position, and other significant issues relating to its performance and activity.

The Management Board may transfer certain decision-making rights to other decision-making bodies such as the Credit Committee, the Liquidity Committee, the Asset/Liability Committee, and the Committee for Operations on Behalf of the State. The Distressed Investment Management Committee was established at the end of 2014.

Credit Committee

The Credit Committee's principal powers and responsibilities and its methods of work are set out in its Rules of Procedure. At its sessions, the Credit Committee decides on approvals of investments in line with SID Bank's business policy, on the classification of individual investments, on the raising of funds with a maturity of more than one year, on the treasury investment policy, and on exposure limits for individual clients. For transactions that SID Bank is concluding for the account of the Republic of Slovenia under the ZZFMGP, the Committee makes decisions on matters including financing for international business transactions from the contingency reserves and approves the policy for contingency reserve investments and the exposure limits for individual clients. The Committee also discusses credit risk related reports drawn up by the Back Office and Payments Department, the Risk Management Department, and the Distressed Investment Management Department. As at the end of 2014, the Credit Committee had six members.

Liquidity Committee

The work of the Liquidity Committee is regulated by its Rules of Procedure, which set out its powers and methods of work. The Committee monitors the Bank's liquidity position, the fulfilment of liquidity-related regulations and puts forward principles and guidelines in relation to funds raising and placement on money and capital markets, the utilisation of the monetary policy instruments, the management of exchange rate and interest rate policies and the management of the portfolio of securities and other financial instruments. The Liquidity Committee had seven members at the end of 2014.

Asset/Liability Committee

The Asset/Liability Committee analyses changes and trends in the Bank's on-balance-sheet items, and it takes decisions to achieve a balance sheet structure in keeping with the Bank's business policy and that facilitates normal operations and the implementation of the Bank's adopted plans. The Committee's powers and responsibilities include discussing the Bank's performance from the point of view of its commercial objectives, discussing the Bank's balance sheet structure with a view to credit risk and market risks, defining the content of the indicators used to monitor balance sheet structure, discussing reports on capital adequacy and the Bank's exposure to risks, discussing the Bank's draft business plan, and proposing changes to the plan in the event of a significant change of business indicators. The Committee's work is regulated by its Rules of Procedure. The Committee meets in monthly sessions and had 11 members at the end of 2014.

Committee for Operations on Behalf of the State

The main powers and method of the Committee's operation are determined in the Rules of Procedure. The Committee was established with the aim to discuss and decide about operations performed on behalf of the state and to ensure an even more consistent separation of operations of SID Bank from the operations on behalf of the Republic of Slovenia.

At its weekly sessions, the Committee decides on (re)insurance operations on behalf of the state, limits of exposure to an individual client, the policy of contingency reserve investments, transactions and other issues concerning guarantee schemes, provided these are not discussed by the Credit Committee, and other issues connected with operations on behalf of the state. The Committee had four members at the end of 2014.

Committee for the Assessment of Suitability of Members of the Management Board and the Supervisory Boards

In accordance with the Bank of Slovenia's regulation, the policy for the assessment of the suitability of the Members of the Management Board and the Supervisory Boards as well as key function holders was adopted in 2013. Accordingly, the Committee for the Assessment of Suitability of Members of the Management and Supervisory Boards was established. The Committee's task is to assess the suitability of members of the Management and Supervisory Boards in the event of appointments of new members or the occurrence of new facts or circumstances. In addition to the Member employed at SID Bank, the other two Members of the Committee are external Members to ensureindependence of the Committee.

International Trade Promotion Commission

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

The Commission decides on the Bank's proposals to conclude insurance transactions in excess of EUR 5 million, and when SID Bank is involved in a transaction, it has the power to rule on other matters related to risk management, such as approvals for:

- policies of insurance operations in individual countries or groups of countries, which together with the limits on insurance already set out in the ZZFMGP act to limit the volume of potential claims;
- the formulation and conclusion of special insurance terms for individual insurance policies and other transactions;
- the management of the contingency reserves and the risks taken up in insurance operations;
- agreements and relations with financial institutions and other institutions;
- the reprogramming, recovery and liquidation of claims, and other transactions under government authorisation, including an opinion thereon.

The International Trade Promotion Commission regularly monitors the Bank's operations in areas regulated by the ZZFMGP, discussing performance reports and providing an opinion of the Bank's exercise of authorisations report under the ZZFMGP for the Ministry of Finance of the Republic of Slovenia.

As at 31 December 2014, the Commission consisted of Mr Marjan Hribar (MSc) as Chairman, Ms Sabina Koleša (MSc) as Deputy-Chairman, and Mr Matej Čepeljnik, Mr Janez Krevs, Dr Stanislav Raščan and Mr Jože Renar (MSc), as Members.

3.3 Main Features of Internal Controls Systems and Risk Management in Relation to the Financial Reporting Procedure

Via bylaws the Bank has put in place various internal controls in relation to the financial reporting which are primarily implemented by the organisational units responsible for risk management, accounting, and controlling and reporting. The functioning of internal controls and risk management at the Bank is subject to internal auditing, which is carried out by a dedicated organisational unit.

In addition, in order to more effectively exercise its functions, the Supervisory Board has established an Audit Committee, whose work is specifically focused on financial reporting and risk management. Part of the system of internal controls at the Bank consists of legal compliance management, which is the responsibility of a dedicated organisational unit.

Compliance Management

The purpose of the compliance function is to identify and assess the compliance risks to which the Bank is or could be exposed, i.e. the risk of legal or regulatory sanctions, significant financial losses or a loss of reputation as a result of the Bank's operations failing to comply with the relevant regulations and standards of good practice.

The Compliance Department exercises its supervisory role by means of regular and extraordinary audits of operations from the point of view of compliance, focusing on those areas where the analysis of risk profile suggests that the risk of non-compliance is the highest. In conducting its audits the Compliance Department co-operates with the Internal Audit Department by exchanging information and findings to ensure that the two departments complement each other's activities instead of duplicating them.

The compliance function includes monitoring and reporting on compliance risk, and providing advice and training on the management of compliance risk. It also encompasses a supervisory role, particularly in the sense of regular reviews of the implementation of the internal control mechanisms introduced by the Bank to ensure compliance. As part of the Bank's system of internal controls, the compliance function is one of the interconnected elements of a comprehensive, robust, and reliable risk management system at the Bank.

Irrespective of the establishment and implementation of the compliance function, the Bank's Management Board remains primarily responsible for managing compliance risk and for ensuring that the Bank's operations comply with regulations. By putting independent compliance management in place, the Management Board has largely met the required standards of diligence in accordance with banking regulations. In accordance with its bylaws all the Bank's employees are responsible for ensuring compliance, with regard to their role and level of responsibility, for which reason they are obliged to train themselves to identify and manage compliance risk. The heads of organisational units are also responsible for monitoring compliance risks in their areas, and to report accordingly to the Compliance Department and the Management Board.

The Compliance Department compiles a written report for every half-year and submits it to the Management Board who then submits it to the Supervisory Board for discussion. The report encompasses a report of the work during the half-year just ended, the findings regarding the current state of compliance relative to the required state, and recommendations for the Management Board, including a follow-up of recommendations from previous periods.

Internal Audit

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

The work of the Internal Audit Department is performed in accordance with the Banking Act, the International Standards for the Professional Practice of Internal Auditing, the Internal Audit Code of Ethics, and the Code of Internal Audit Principles. The operation of the Internal Audit Department is based on the Internal Audit Charter, while a more detailed description of internal audit procedures is given in the Internal Audit Department's Rules of Procedure and the Internal Auditing Manual.

In 2014, an external quality audit was conducted to assess whether the work of the Internal Audit Department conformed to the International Standards for the Professional Practice of Internal Auditing. The external auditor concluded that the Internal Audit Department's work was performed in accordance with the International Standards for the Professional Practice of Internal Auditing.

The Internal Audit Department carries out individual audit activities based on the annual operational plan and the outlined strategic operational plan. The annual and strategic plans are drawn up primarily on the basis of the Bank's risk profile and regulator's requirements for mandatory auditing of individual areas of the Bank's operations with the aim to cover, in terms of audit, the riskiest areas of the Bank's operation, and periodically also the less risky or the yet unaudited areas. Both plans are adopted by the Bank's Management Board with approval given by the Supervisory Board.

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

In 2014, the Internal Audit Department was staffed by two internal auditors with current licensing from the Slovenian Institute of Auditors as a certified internal auditor. Because of a lengthy absence, the internal audit work was conducted by one employee with the help of outsourcing throughout most of the year.

In addition to extraordinary and regular audits and audits of the implementation of recommendations, the Internal Audit Department also provides consulting services, coordinates the work of the external auditor, actively cooperates in the selection of an external auditor and coordinates the reporting to regulator's inquiries.

4 Management Body Declaration on the Adequacy of Risk Management Arrangements

In accordance with Article 435 (point 1.e) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, the management body, i.e. the

MANAGEMENT BOARD:

Mr Sibil Svilan (MSc), President, and Mr Jožef Bradeško, Member, and

SUPERVISORY BOARD:

Ms Monika Pintar Mesarič, President,

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

Ljubljana, March 2, 2015

The Management Board of SID banka d.d.

Jožef Bradeško
Member

Sibil Svilan (MSc)
President

The Supervisory Board of SID banka d.d.

Monika Pintar Mesarič
President

5 Risk Management

SID Bank's risk management system is based on an effective risk management process, which includes procedures of identifying, measuring or assessing, managing, and monitoring risks, as well as internal and external risk reporting.

The main risks faced by SID Bank are credit risk, interest rate risk, liquidity risk, currency risk, and operational risk. SID Bank's attitude to taking up risks is defined such that the Bank focuses on credit and operational risks, while minimising other risks (interest rate risk, currency risk, liquidity risk). Risk management at SID Bank additionally needs to take account of the specific attributes of the implementation of promotional and development tasks and services of importance to Slovenia's development and the segmentation of operations into those involving the Bank's own resources and those on behalf of and for the account of the Republic of Slovenia, including the management of the contingency reserves and the reserves in the IREP[5].

The main purpose of risk management is to reduce the probability of risk occurrence and to reduce losses in the event an individual risk occurs. Risk management includes identifying, measuring or assessing, managing and monitoring risks, and internal and external reporting of risks. In risk management SID Bank prioritises the security and stability of its operations which help to increase the value of its equity in the long term, the maintenance of the Bank's reputation, and the maximisation of benefits for users of its services and other stakeholders.

Risk management begins with the establishment of an appropriate organisational structure and work processes, allowing for business targets to be met while operations remain secure and compliant with regulations. In the implementation of risk management measures the key objective is to achieve proper awareness of risks at all levels of the Bank's activities.

Risk management begins in commercial organisational units, continues in organisational units separate from the commercial organisational units, and proceeds all the way up to the Management Board, thereby ensuring its independence.

The following bodies and organisational units are responsible for the direct implementation of risk management:
- Credit Committee: the management and monitoring of credit risk and large exposures;
- Liquidity Committee: liquidity risk, interest rate risk, and currency risk;
- Distressed Investment Management Committee: the management of distressed investments;
- Asset/Liability Committee: the balance sheet structure, capital adequacy, aggregate risks;
- Risk Management Department: the preparation of risk management strategy and policies, risk monitoring;
- Credit Analyses Department: the assessment and monitoring of clients' financial positions and projections of their performance, the assessment of investment acceptability, the assessment of soft factors, and the selection of appropriate indicators for determining financial commitments;
- Back Office and Payments Department: daily monitoring of currency risk and liquidity risk in accordance with internal limits.

SID Bank has prepared a strategy and six policies of risk assumption and management, specifying the procedures of risk identification, measurement or assessment, management and monitoring. The documents are updated on an annual basis.

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

In accordance with the risk management strategy and the capital risk and capital management policy, SID Bank has put in place an internal capital adequacy assessment process, which:
- is based on the identification, measurement or assessment of risks, the formulation of an aggregate assessment of risks, and monitoring significant risks that the Bank takes up in its operations;
- ensures adequate internal capital in relation to the Bank's risk profile;
- is properly incorporated into the governance system.

---

[5] IREP – Interest Rate Equalisation Programme

A comprehensive internal capital adequacy assessment process tailored to the risks taken up ensures that such risks remain within the limits of SID Bank's risk absorption capacity.

SID Bank also conducts stress tests on the basis of its own scenarios and scenarios suggested by the supervisor. On the basis of the results of these tests SID Bank is able to identify in advance and relatively quickly those areas where it is most vulnerable, and to then mitigate the risks and improve its performance by means of appropriate measures.

SID Bank also provides credit and investment insurance against non-marketable risks of commercial and non-commercial nature on behalf of and for the account of the Republic of Slovenia. Claims payouts are covered from the contingency reserves, and policyholders are paid via the contingency reserves. Due to major claims, the contingency reserves were depleted to a level that under the ZZFMGP requires funding to be provided from the state budget.

To prevent conflicts of interest and to maximise efficiency, credit and investment insurance operations are provided in a special department that is organisationally separate from banking operations all the way to the level of the Executive Director or the Management Board, while the operations are decided and discussed by the separate Committee for Operations on Behalf of the State. The right to conclude insurance operations is defined similarly to banking operations, whereby all transactions of EUR 5 million or more are decided on by the International Trade Promotion Commission. The Commission has the power to make decisions in other areas related to risk management, such as approvals for the policy of insurance operations in individual countries or groups of countries, which together with the limits on insurance already set out in the ZZFMGP act to limit potential claims. In addition, SID Bank uses a risk management model (a value-at-risk technique) to calculate potential claims on the basis of data on insurance concluded on behalf of and for the account of the Republic of Slovenia in order to assess whether the contingency reserves are adequate to cover these claims and to estimate the maximum potential claim and the impact of new insurance operations on potential claims.

For more on risk management, see Section 3 of the Financial Report.

6 Strategy of SID Bank

In accordance with the established strategic planning process, which envisages a “sliding” strategy (the strategic period is each year prolonged for another year), SID Bank’s strategic plans were reviewed at the end of 2014; on this basis SID Bank adopted its action strategy for 2015-2017.

The key external circumstances taken into account by SID Bank when revising its strategy were primarily the changes in the operation of financial markets on the one side, and the problems in the real sector and the operation of the banking system due to bank recovery on the other. The key internal factors encouraging the revision of the action strategy were the adaptations of the business model or the implementation of lending to the “new reality” and consequently, the adaptation of the Bank’s organisational structure. Another integral part of the action strategy is the risk profile via which SID Bank also manages risks at the strategic level.

Mission, Vision and Values

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

By supporting companies in various phases of their operations and offering tailored financial services, particularly long-term ones, SID Bank ensures suitable funding conditions where the existing market offer is insufficient. This way the Bank promotes the realisation of opportunities for the Slovenian economy, especially for SMEs that show a high development potential.

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

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

Key Strategic Policies

Market Aspect

From the market point of view it is important that SID Bank continuously adapts its business model to the economic situation. The Bank is developing a new generation of financial services, which are adapted to the environment and current challenges, in order to increase the financial value for final beneficiaries.

In this context, the Bank will continue focusing on the active adaptation of the existing and the development of new products over the entire enterprise lifecycle. The Bank is developing new products primarily in the areas of SMEs, infrastructure financing, the introduction of quasi-equity and equity products to improve the capital position of companies, and the eco-programme. Moreover, the Bank will endeavour to expand its product-based cooperation with other public promotional institutions in Slovenia and improve the effectiveness of the allocation of refundable budget funds and European cohesion policy funds.

SID Bank will in particular increase its turnover and share of business where market gaps are significant and where support from commercial banks has withered. Moreover, the Bank will focus on SMEs with a high potential for developing or growing into medium-size or large enterprises, which will result in new job creation.

In light of the lower competitiveness of the Slovenian financial market, SID Bank’s new strategic perspective will particularly develop programmes with elements of state aids on account of the decline in financing at market conditions. By applying the concept of financial engineering SID Bank will use its own funds in combination with fiscal and private funds to create favourable conditions for final beneficiaries, which will ensure a suitable financial value of its services. One of the important objectives is also inclusion in the provision of 2014-2020 European cohesion policy funds to the economy.

SID Bank will continue to act primarily in the segment of indirect financing via commercial banks on the basis of specially designed promotional development programmes and, in market gaps where banks are particularly not active, it will increase its share of direct financing. SID Bank will also develop products with commercial banks based on the sharing of final risk.

Due to the economy back on the growth path, the Bank will in the future focus on the development segment of operations. The implementation of the intervention/systemic role will be decreased or adjusted to cyclical conditions determined, as enabled by favourable macro-financial conditions. Progressive focusing on the development segment of operations will enable SID Bank to direct its role into becoming the key financial pillar of the new Slovenian development model.

Financial Aspect

SID Bank will implement the risk policy in the classical meaning of the operation of development banks (higher risk, longer maturity, lower return), and at the same time it will ensure a financially sustainable business model. In addition, the Bank will ensure that all risks are managed to a degree that ensures the required level of risk-taking while achieving adequate performance.

The Bank will continue working to diversify and use its new favourable instruments to provide long-term funding. If funding is also provided from the state budget or European cohesion policy, the Bank will combine it with non-refundable funds to offer final beneficiaries more favourable financing terms. In accordance with the decrease/increase in the need for European Commission interventions and decisions, SID Bank will cyclically adjust the volume of its activities.

SID Bank will remain committed to increasing the value of its capital and maintaining capital adequacy, also due to its important role as a systematically important bank. Cost-effectiveness is also vital in the sense of increasing capital, and the Bank will try to keep it in the next period, although additional operating costs will be unavoidable due to the changed types of lending.

Internal Aspect

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

The organisational culture at the Bank will continue to be developed in line with the established ethical values and high professional standards, and the optimisation of the organisational structure will be completed. The quality management system is also vital, as it enables an effective management of internal growth and mitigates operational risks.

The development of the IT system will be balanced between efficiency, flexibility and stability, and the process of designing an effective data model will continue. SID Bank will further endeavour to ensure data integrity and the availability of quality data to ensure suitable services and support even after an increase in turnover.

Another of the Bank’s strategic guidelines is the effective governance of the SID Bank Group and the exploitation of process synergies in the Group toward improvements in organisational structure or possible additional changes.

Learning and Development Aspect

One of the key strategic guidelines from the point of view of learning and development is primarily the use and strengthening of the important connection role SID Bank plays in relation to the economy, the financial sector, the public sector, and the development and promotional system. Also, maintaining the network of expertise that SID Bank has built in the past in financial, technical, technological, and institutional areas, primarily with a goal to transfer good practice, will be important. SID Bank will endeavour to obtain competences in the area of drawing cohesion funds and implementing the advisory function and project financing.

SID Bank will continue to apply advanced concepts of responsible lending and try to exercise its strategy outwards while using its power to have an impact on wider society in the sense of sustainable development.

Financial Plan for 2015

The adopted strategic guidelines and objectives form the basis for drawing up the Bank's annual operational and financial plans, which provide support for the pursuit of the strategic objectives at an operational level. The financial plan observes the assumptions of SID Bank's Strategy for 2015-2017, prepared on the basis of a selected scenario.

In accordance with the Bank's adopted strategy, the activities of the Bank in 2015 will be focused on keeping cost effectiveness, ensuring capital stability, maintaining proper liquidity, effective management of distressed investments, and proactive risk management.

According to the plan for 2015, the total assets as at the end of the year will stand at EUR 3,304 million. In 2015, the Bank plans to increase loans to non-banking clients and to decrease the loan portfolio of banks. The reason for the latter is the favourable liquidity situation of banks which is reflected in lower demand for loans from SID Bank. Loans to non-banking clients will focus on loans within the financial engineering measures, which will ensure clients with favourable funding for operation and development. Due to the still unfavourable situation prevailing in many Slovenian companies, impairments are expected to further increase because of increased credit risk, both nominally as well as with gross loans.

The Bank plans to generate a positive result in 2015 despite the expected lower interest income, increased impairments and provisioning, and slightly higher operating costs due to planned new recruitments.

7 Corporate Social Responsibility

SID Bank's Mission

Corporate social responsibility is theorganisation's responsibility for the impacts of its decisions and operations on society and environment.

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

The primary role of SID Bank is to promote the sustainable development of the Republic of Slovenia in accordance with its long-term development policies, with the aim of ensuring long-term and stable economic growth, and improving the development financing system.

In line with the applicable legislation and international standards, SID Bank contributes to sustainable development, including the health and welfare of the social community and meeting the expectations of stakeholders through transparent and ethical conduct of its activities. Corporate social responsibility is integrated in the entire business of SID Bank, and implemented in all its relationships.

SID Bank's role is intermediationof financing and insurance in areas of market gaps, thus creating wider social benefits in terms of:

- sustainable and balanced economic development in Slovenia;
- research and innovation, and other forms of economic development;
- environment-friendly development with a high degree of protection for the environment and habitat, public infrastructure and utilities, and energy efficiency in particular;
- social progress, education and employment;
- other activities contributing to economic growth, development and prosperity.

The Bank sees its role and activities from two points of view. While the external activity focused on the environment is pitched at the national level and in the direction of support for sustainable projects by individual investors, its internal socially responsible actions by all employees help it in its pursuit of its core business activities and mission. The end objective of the Bank's work is to ensure equal opportunities for future generations.

Outward Effects of Socially Responsible Activities

Effects of the Bank's Activities

The expansion of operations to all four major areas of activities, the active implementation of assigned tasks and the resulting rapid growth of the Bank during the first years of the crisis were also reflected in the socio-economic effects of SID Bank's activities. Using the methodology from an independent evaluation of SID Bank's activities in the 2007–2010[6] period, the SID Bank Group's services, excluding the guarantee schemes, facilitated EUR 7.5 billion in sales by Slovenian companies, EUR 3 billion in GDP, EUR 3.5 billion in exports and around 18 thousand new jobs in 2014.

Primarily due to its enhanced role during the crisis, when SID Bank became the third largest bank in terms of total assets and capital and second largest bank in terms of corporate lending, SID Bank was recognised, in accordance with a decision from the Bank of Slovenia, as a systematically important bank that could have an impact on the refinancing of commercial banks, and maintaining the financial market and its liquidity.

Responsible Lending

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

In practice, SID Bank has integrated the responsible lending concept into its internal decision-making

[6] Evaluation of activities of SID Bank in the 2007–2010 period with an assessment of the impact of the crisis on the future development of market gaps, done by the Faculty of Economics of the University of Ljubljana.

process. As a development bank, it above all pursues the principles of sustainability and self-sufficiency but not profitability, which enables it to ensure favourable financial conditions of its incentive programmes. In accordance with the ZSIRB, SID Bank reinvests and earmarks all profits for the additional financing of the economy.

SID Bank's role is thus not to support all transactions, but only those that are economically and financially justifiable, and that include a component of sustainable development and bringing users higher added value. SID Bank's role in these areas is only complementary to other market participants.

The concept of responsible lending is also seen in ensuring the added value of the Bank's services using the following levers:
- the diversity of financial resources;
- longer maturity programmes;
- lower prices of services and other more favourable terms and conditions;
- more efficient use and allocation of funds;
- the promotion of the functioning of the private sector in the direction of sustainable development and an increase in its capacities;
- the transfer of financial benefits to final beneficiaries;
- achieving positive external effects (social benefits);
- links with other public-promotional institutions;
- the development of new financial instruments tailored to the needs of the Slovenian economy;
- advisory services.

Accessibility to Services

With the aim of facilitating access by final beneficiaries to financial services for sustainable development projects, SID Bank in 2014 continued developing products and programmes by pursuing the concept of covering the entire production chain, where market gaps are present – from working capital, research and development, investments, and all the way to sales on domestic and foreign markets, even up to the final repayment of related claims.

In 2014, the Bank implemented new and existing credit and other lines for the following purposes:
- finance SMEs, taking into account the Act addressing small businesses and the national reform programme;
- finance technological and development projects;
- finance renewable energy sources and efficient energy use, with a special emphasis on SMEs;
- finance the infrastructure and environment projects of municipalities;
- insure pre-export credits;
- insure export credits in accordance with the OECD's sustainable lending policy.

Professional Commitments and Cooperation

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

Being member of the Bank Association of Slovenia, and other domestic and foreign associations is of particular importance for SID Bank. The Bank is a member of several international associations of financial institutions, including the EAPB, ELTI, NEFI[7], and the Berne Union. Together with more than 50 other members of the Berne Union, the Bank signed a special declaration by which it undertakes to strive to achieve the high ethical standards and values of association, and to perform its activities professionally and in a financially responsible manner, while respecting the environment. On the initiative of the Government office for Climate Change, the Bank also participates in the LOCSEE (Low Carbon South East Europe) project as an observer.

The Republic of Slovenia included SID Bank – as a provider – to the indicative list of national projects for financing from the European Fund for Strategic Investments (EFSI) in the area of promoting the energy renovation of state and other buildings and financing SMEs via quasi-equity.

Communication with External Audiences

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

The Bank's primary focus is the business public, in particular, business partners. SID Bank provided comprehensive information about its programmes and possibilities of financing. In addition to press releases and information its website, SID Bank organised presentations of its range of products to companies and local authorities and enhanced business relationships with institutionsand banks that provide SID Bank's funds to companies.

Representatives of SID Bank actively participated and cooperated in various events, seminars,

---

[7] EAPB – European Association of Public Banks;
ELTI – European Long-Term Investors;
NEFI – Network of European Financial Institutions for SMEs.

conferences, round tables, etc., where they discussed topics that are important for the areas SID Bank is engaged in, such as export, development, energy, environment, competitive entrepreneurship, etc.

Inward Effects of Socially Responsible Activities

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

This is also taken into account in SID Bank's policy of corporate responsibility, which was adopted in the broadest and most comprehensive sense. The formally binding document emphasises the role of the entire collective in the implementation of the policy, while the bases for the systematic management of the policy's content have also been laid down. The Bank constantly updates measures in the area of social responsibility through the strategic-operational planning process (Action strategy, Annual operations plan).

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

Business Ethics

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

Special attention is given to preventing corruption in interactions with clients and to the environmental protection policy of the OECD. The Bank is also aware of its special position with respect to the potential distortion of free competition, and therefore does not typically compete with other financial institutions on the market in the performance of its activities, but attempts to complement the existing market to the greatest extent possible.

Owing to its public functions, the Bank pursues the principle of equal access and the equal treatment of all users of its services, meaning the same services under the same conditions for all equally entitled entities (the principle of non-discrimination). Special attention is also given to the appropriate regional allocation of development funds.

Environment-Friendly Company

SID Bank also upholds internal social responsibility in terms of environmental protection and energy efficiency. In 2014, it continued its socially responsible practices by compiling its energy-environmental balance sheet, calculating its carbon footprint, and keeping track of the index of corporate responsibility. Using the aforementioned index, the Bank monitors the implementation of measures and the achievement of objectives in fulfilling corporate responsibility.

	unit	2014	plan 2014	2013
Energy consumption for heating	kWh	371,568		574,500
per employee	kWh/emp.	2,663.6	4,471.9	4,517.1
Electricity consumption	kWh	254,208		517,732
per employee	kWh/emp.	1,822.3	3,943.2	3,983.0
Water consumption	m^3	1,284		1,100
per employee	m^3/emp.	9.2	8.5	8.5
Carbon footprint/CO_2 emissions	t	457		612
per employee	t/emp.	3.3	4.7	4.8
Office paper consumption	t	4.7		3.1
per employee	kg/emp.	34.0	23.4	23.6
Expenses for other office supplies	€	25,591		16,916
per employee	€/emp.	183.4	128.8	130.1
Size of premises				
per employee	m^2/emp.	16.4	16.7	16.9

SID social responsibility Index$_{(2014/2013)}$= 117,2

An established system of separate collection and disposal of waste, measures to reduce electricity consumption in offices, the introduction of paperless operations, the replacement of certain printed copies with electronically accessible versions are just a few of the measures the Bank has employed with the aim of functioning as an environment-friendly company.

A special challenge in 2014 was the necessary renovation of the corporate building in which headquarters of SID Bank are located. The renovation was implemented in line with sustainable development principles, reconstructing the existing building instead of occupying land with a new one, and respecting the cultural heritage. The renovation considered the energy efficiency principles, the impact on the environment and the optimal working environment. The renovation will significantly decrease the cost of energy and building maintenance. In terms of the energy efficiency improvement, transmission losses are expected to drop by 55%, ventilation losses by 73%, and solar gains by 21%.

SID Bank ceased the practice of giving business gifts, and in 2014 redirected the funds to four volunteer firemen brigades from the areas that were affected by severe floods in November 2014.

Internal Communication

SID Bank performs a highly specialised activity, therefore it is crucial that employees understand and support its operations. Effective and open communication can contribute to that end.

Various forms of informing and communicating with employees are in place at the Bank, among them regular internal departments meetings and meetings with the Management Board, access to electronic data bases, an internal electronic newsletter and the quarterly publication of the in-house newsletter, Cekin.

Concern for Employees

Work and leisure are complementary components of life, which SID Bank takes into account when organising the work environment. The Bank enables its employees flexible working hours, which helps them in coordinating their business and private lives. Special attention is also given to the rights of employees, their safety and health, working conditions, social security, personal and professional development, social dialogue, and mutual relationships.

In the area of employee health and safety SID Bank continued specialist and periodic medical and ophthalmologic examinations in 2014. It also conducted regular training in the area of occupational health and safety and fire safety, which was obligatory for all employees.

The payment of salaries and other employee related expenses is subject to the applicable legislation and the Bank's Collective Agreement, while remuneration for employees' job performance and promotions are governed by the Corporate Collective Agreement. In 2014, the Bank continued its practice of paying the complementary health insurance and supplementary pension insurance premiums for its employees.

SID Bank gives special attention to employee development to keep an education and qualification structure appropriate for the Bank's development and strategic objectives, to ensure employees' effective adaptation to changes and challenges within the organisation and the environment, and to provide employees with a sufficiently stimulating work environment that will offer enough professional challenges in the future.

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

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

The Bank has been creating new jobs and providing new employment opportunities through its growth and development for many years. In 2014, new employees were hired in line with the annual employment plan and the guidelines from the action strategy, which are based primarily on the adjustment of employment to growth of operations and development of new products, on the employment of experts with specific skills and experience and on keeping competent and key employees at the Bank.

SID Bank hired 20 new employees in 2014. The Bank had 147 employees at the end of the year, of which 97 women and 50 men. The average number of employees in 2014 was 141.

	SID Bank		SID Bank Group	
Qualification level	number	proportion, %	number	proportion, %
Level V or lower	14	9.5	54	15.2
Level VI	12	8.2	37	10.4
Level VII	104	70.7	236	66.3
Level VIII	15	10.2	26	7.3
Level IX	2	1.4	3	0.8
Total	**147**	**100.0**	**356**	**100.0**

The objectives of SID Bank's Action strategy include promoting continuous learning, developing and improving knowledge and skills and their transfer into practice. In 2014, a total of 130 employees participated in various forms of training, representing 92% of the average number of employees during the year. A great deal of emphasis is also placed on the internal transfer of newly acquired knowledge and the evaluation of training programmes.

8 Performance in 2014

8.1 Macroeconomic Environment in 2014[8]

International Environment

In 2014, the global economic growth was moderate and lower than expected at the beginning of the year. Available data suggest a growth of slightly over 3%, which is similar to the previous year. The economic recovery in the euro area was slow with close to 1% growth, while the United Kingdom and the United States recorded solid growth, approximately 2.5%, respectively.

Economic activity has slowed significantly in some emerging economies, the highest growth was recorded by India and China, the latter still over 7%. The economic activity in the majority of Slovenia's trade partners was still weak. In Germany, growth increased and reached 1.5% while it was less than half a percent in Austria and France, and negative in Italy. On the other hand, the highest growth in the euro area was recorded in Ireland, approximately 5%.

Weak investment dynamics in many countries and transitory exacerbation of confidence due to the rising geopolitical tensions are among the factors of economic conditions improving only slowly in the euro area. Nevertheless, trust in the economy and of consumers remained high, so that household consumption continued to grow moderately. In line with economic trends, the unemployment rate fell slightly, but remains above 11%. Towards the end of the year an exceptionally sharp decline in oil prices had a beneficial impact on the activity, but it also deepened deflationary pressures on price dynamics.

In 2014, the most important central banks maintained a very accommodative monetary policy stance. Uneven economic recovery and the different dynamics of inflation between countries represent a growing divergence in the stance of monetary policy.

Thus, a gradual withdrawal of accommodative monetary policy is expected for the USA, while the expansionary stance increased in the euro area. This has led to a strong depreciation of the euro, which relative to the dollar reached a ratio of 1.2 at the end of the year, and continued to depreciate.

To stabilise the situation in the banking system of the euro area, stress tests of systemically important euro area banks were conducted by the ECB in 2014. Despite the stress tests and moderate economic growth over the year, corporate lending continued to decline, with some signs of improvement only at the end of the year.

Financial market conditions were in 2014 largely more favourable than in the previous years. Mark-ups on the required yields on government bonds of peripheral euro area countries have been greatly reduced and largely ensured high access to international financial markets. The decrease is partially associated with the impact of the measures which were in 2014 adopted by the ECB in order to stimulate economic recovery and strengthen the functioning of the transmission mechanism. However, at the same time the basis for a reduction in mark-ups is in an effort towards consolidation of public finance in most euro area countries and the implementation of stress tests in banks, which reduced the uncertainty regarding potential additional needs of solving the balance sheet issues for the banks.

Despite the above-mentioned favourable conditions, further growth of gross government debt is expected in the Euro area in 2015. The deficit in public finances is narrowing and dropped below 3% of GDP in average. At the same time general gross government debt of countries increased to 94% of GDP.

---

[8] Unless stated otherwise, the figures are taken from the following sources:
- IMAD – Economic Mirror (January 2015);
- Bank of Slovenia – Economic and Financial Developments, January 2015; Macroeconomic Trends and Projections, October 2014; Performance of Banks in the Current Year, Developments on the Capital Market, and Interest Rates, February 2014.
- ECB – Monthly Bulletin, March 2015 ECB staff Macroeconomic Projections for the Euro Area
- Eurostat – database.
- Statistical Office of the Republic of Slovenia (SORS) – database.

Slovenian economy in 2014

After GDP dropped by 1% in 2013, it went up by a considerable 2.6 percent in 2014. Quarterly GDP growth rates have been positive already since the beginning of 2013 and from mid-2013 they were already significantly higher than the euro area average. Growth in Slovenia was unlike the euro area significantly more favourable than expected.

Economic growth was based on strong growth in exports and high, although less sustained, investment growth. These were primarily related to investments in infrastructure, which was financed by utilising funds from past financial perspective of the European cohesion policy. As a result, the construction output growth exceeded 10%.

In 2014, total real exports of goods and services increased year on year by 6.3%, while the surplus of the balance of payments was high, around 6% of GDP. This was mainly due to a higher trade balance results and slightly lower deficit in the current transfers balance. Exports of goods grew quickest due to exports to Croatia, Poland, Austria, Italy, and Germany. However, among non-EU countries, export growth to Switzerland and the USA has stood out. At the same time, export of goods to the Russian Federation fell by almost 10%. Year-on-year growth in total surplus balance of payments were constrained by a higher deficit in factor income and a lower surplus in trade in services.

Favourable economic results contributed to the beginning of the decline in unemployment, which fell below 10%, and moderate employment growth. After a sharp contraction in 2013, the household consumption started to rise, but only by less than one percent. The proportion of the working population in 2014 grew and was year-on-year higher by 0.8%.

At the end of 2014, the year-on-year inflation rate was the lowest since Slovenia gained independence. Due to lower energy prices and weak domestic demand, the prices of consumer goods went up by just 0.4% in 2014, while year-on-year inflation rates recorded at the end of the year were negative. Significantly lower food prices and a further fall in prices of durable goods also contributed to low inflation. Furthermore, core inflation remained low, less than a cent on a year-on-year basis by the end of the year, which is comparable to the level in the Euro area.

The general government deficit has declined year on year and in 2014 reached slightly over 5% of GDP. One-off effects, which were mainly related to the rehabilitation of banks contributed about 1.5 percent of GDP, the structural deficit was also last year under 3% of GDP. The reduction in the fiscal deficit prompted the strengthening of economic activity and one-off events on the revenue side. Despite progress in the area of deficit, government debt exceeded 80% of GDP, and compared with 2013, increased last year by around more than ten percentage points, mainly due to the impact of funds to bail out banks at the end of 2013.

The banking environment in 2014

The year 2014 was marked by the financial rehabilitation of the Slovenian banking system at the end of 2013 and the gradual improvement in the banking environment on coming out from the economic recession. A comprehensive recapitalisation of banks and a more favourable business environment for companies stabilised the conditions in the banks.

Nevertheless, credit activity continued to decline rapidly, especially in the corporate sector. The low corporate lending is often influenced by low creditworthiness of enterprises due to high indebtedness, lack of profitability, and lack of appropriate collateral. An important reversal occurred in 2013 on the side of demand for loans, with companies becoming net savers returning loans to other sectors to a greater extent than entering into new ones.

The volume of loans to domestic non-banking sectors, without taking into account the transfer of claims to The Bank Assets Management Company (BAMC) that occurred in October in the amount of EUR 1.1 billion, has in 2014 decreased by EUR 1.6 billion, of which EUR 1.2 billion in corporate sector. Domestic bank lending to companies decreased by more than 20% or by more than 10% if transfers to BAMC were not considered. Lending to the government increased, the volume of loans to companies and households has fallen. The only segment where the amount of lending increased was the segment of housing loans to households.

The trends from 2013 largely continued also on the bank's funding side. The deleveraging of banks has eased in 2014 and with the volume of close to EUR 1 billion repaid foreign liabilities almost halved compared to the previous year. Banks' foreign liabilities, which in October 2008 amounted to almost EUR 18 billion, at the end of 2014 amounted to a good EUR 6 billion. The volume of deposits of households and the country has increased in 2014, however, banks have continued to reduce external liabilities, as well as to the ECB. This decreased total assets by 3.9% in 2014.

Regardless of the financial rehabilitation of the banks, the quality of banks' assets still slightly deteriorated in 2014. The proportion of claims that are more than 90 days in arrears has fallen after the transfer of claims to BAMC to a good 13%, and then increased to almost 16% in the autumn. New transfer of claims to BAMC at year-end decreased the volume of doubtful claims below 12%. In 2014, banks formed around EUR 600 million of additional impairments and provisions, the lowest amount since 2009.

Prior to assuming full responsibility for the supervision of credit institutions from the ECB in the context of a single supervisory mechanism (SSM), a Comprehensive Assessment of performance of important credit institutions took place, which consists of an Assets Quality Review and Stress Tests. Three Slovenian banks, NLB d.d., Nova KBM d.d., and SID banka d.d., were included in the review based on the criteria of the three largest banks of a Member State. SID Bank successfully completed the comprehensive assessment, whereby appropriate funding requirements of the Bank were determined, even in the event of the occurrence of a scenario of extremely unfavourable macro-financial conditions.

The impact of the external environment on the performance of SID Bank and the SID Bank Group

The slow recovery of the Slovenian economy and the conditions in the Slovenian banking sector, as well as in the wider European area also affected the performance of SID Bank and the SID Bank Group in 2014.

SID Bank has responded to the situation by adjusting both products in the segment of indirect financing through banks in the direction of activities to improve the conditions of the funds available for financing the final beneficiaries, price adjustments and new substantive-technical adjustments, as well as in the segment of direct financing of companies, directed mainly towards the realisation of placements from the loan fund that SID Bank developed in 2013 in cooperation with the Ministry of Economic Development and Technology. In this way, two programmes were provided for companies for financing working capital and other programmes for R&D activities and the environment. In total, SID Bank realised a higher volume of placements for direct financing of companies in 2014 than in the previous year. Consequently, the balance of loans granted to companies increased at the end of 2014 in comparison with the previous year, whereas due to large repayments of bank loans the total balance of loans is lower.

Due to the characteristics of credit insurance, economic trends in Slovenia and other countries on the markets of which the insured persons of the Prva kreditna zavarovalnica d.d. (PKZ) are selling have a decisive impact on the operations of the PKZ. For its performance, the most important economic situation is in the countries, which according to the premium, insured turnover and exposure represent the largest share in the PKZ portfolio. Here, in addition to Slovenia, which represents the most important market for PKZ, Russia, Germany, Croatia and Italy take a share. The economic situation in the major markets in the year 2014 improved for PKZ, except in Russia. Late-payment culture continued to be a major problem in most markets, which PKZ took into account when approving limits. In 2014, there was an intensification of the political situation in Ukraine and Russia which also affected PKZ's decision when approving limits related to this on the volume of turnover and accounted insured premiums.

In 2014, a very competitive environment was once again established due to increased activity of both domestic and foreign competition as well as insurance brokers. All this had a significant impact on the level of premium rates and the extent of the insured turnover as well as premiums accounted for in 2014 (lower premium rates, transfers to the competition). On the other hand, the changed environment yielded increased activity and the search for new approaches by PKZ in insurance sales and monitoring which resulted in an increase in the cost of acquiring and implementing insurance.

In countries where the Prvi faktor Group operates the situation in 2014 was also very uncertain. The continuation of the modest recovery in the Euro area is also reflected in the countries of South-East Europe, where Prvi faktor Ljubljana has its subsidiaries, and most of all where the overall economic situation is at a low level. The worst conditions are in Bosnia and Herzegovina and in Serbia. Both countries also suffered considerable damage in the floods at the end of May, which strongly affected vital economic sectors, such as energy and agriculture.

In Serbia, the illiquidity of enterprises is still present and has deepened, so that many enterprises have frozen accounts. Despite the reduction in interest rates the credit activity is at a low level. Growth in Bosnia and Herzegovina is forecast at only 0.2 percent compared with the forecasts in May when it was 1.8 percent. The current GDP growth is driven by infrastructure projects (particularly the construction of Corridor 5C), which is mostly financed by the EIB, EBRD, etc. The decline in economic growth was also registered in Croatia, although according to the most recent data, the tourist season was better than last year but was not good enough to reverse overall GDP growth in a positive direction.

Besides the situation in the Slovenian economy, the performance of Pro Kolekt Group was mostly affected by the above mentioned events in the countries of South-East Europe where the Group operates. In 2014, the Pro Kolekt Group recorded fewer recoveries but with a higher total value compared to the previous year. Because of delays or even defaults in payment, many companies are faced with liquidity problems, and the duration of recovery procedures are therefore prolonged and require increased effort.

The difficult situation for recovery in terms of collectability of debts has been shown with a smaller number of successfully completed cases and lower total value of successfully completed recoveries. Because of the dwindling interest of foreign suppliers in conducting business with enterprises in the South-East region against deferred payment, the potential of recovery portfolios has decreased.

The effect of changes in the external environment on the functioning of CMSR is mainly reflected in the fact that the Republic of Slovenia has significantly reduced the volume of the budget funds, which are allocated for official developmental aid, while the financial institutions led the policy of cost reduction in the areas of risk assessment and management, reflected in a smaller volume of services rendered.

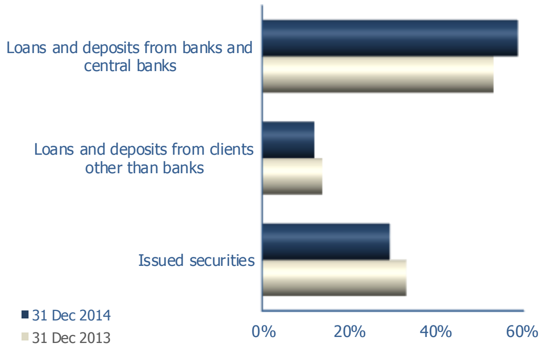
8.2 SID Bank's Performance

8.2.1 Funding and Liquidity

As a specialist banking institution with a government guarantee, SID Bank obtains long term funding, primarily on the international financial markets and the related banking institutions. The Bank endeavours to obtain long-term funding that is comparable in price terms to government funding, offering minimum mark-ups over sovereign borrowing.

In raising its funding the Bank chooses debt instruments that allow for adaptability to the needs of financing. Therefore, its borrowing is diversified in terms of maturity, size and disbursement dynamics. In order to be able to offer firms and commercial banks long-term financing at the most favourable terms, SID Bank borrowed via various financial instruments in 2014, raising the vast majority of its funding on the international financial markets.

Structure of financial liabilities



For the purpose of providing favourable financing conditions for the economy, SID Bank in 2014 intensively disbursed funds from long-term loans that were concluded with the European Investment Bank (EIB) in 2013, at the same time it was also involved in other project structures of allocating EIB funds. Thus, the total volume of utilisation of EIB funds last year amounted to EUR 261.2 million, whereby multi-annual cooperation exceeded 1 EUR billion.

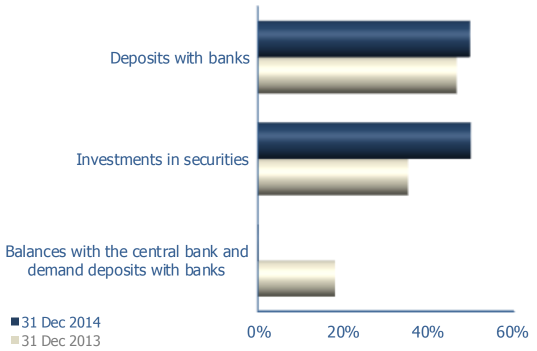
In April 2014, SID Bank through a public invitation to tender partially redeemed an existing bond early that matures in April 2015. Investors were offered an option to purchase for cash or swap for a new bond. With the money, the bank purchased EUR 53 million worth of bonds, whereby the remainder of a little more than 70 bondholders who accepted the offer decided to swap it. For them, SID Bank issued a new three-year bond with a fixed interest rate in the amount of EUR 96.8 million. The bond is listed on the Vienna Stock Exchange. With both above mentioned operations the Bank has further decreased the risk of refinancing in 2015. In accordance with the hedge accounting principles the buyback of bonds coincided with the termination of interest rate swaps, which had been used for interest rate risk hedging. The Bank generated positive economic impact from all the aforementioned transactions.

SID Bank raised favourable funding with the issued bond and redirected it into long-term loans made for the purposes set out in the ZSIRB while maintaining its own profile among foreign investors.

Therefore, despite the improvement in market conditions for borrowing in 2014, the Bank due to sufficient liquidity did not perform any additional borrowing in the financial markets until the end of the year. In 2014, the Bank to a lesser extent, in the short term and at a fixed interest rate, occasionally borrowed on the interbank money market in commercial banks in Slovenia.

SID Bank also devotes much attention to managing its liabilities, in particular to mitigate refinancing risk. In addition to the above-mentioned public partial redemption of long-term bonds, the Bank in December also prepaid EUR 110 million in long-term funds from the European Central Bank, raised through longer-term refinancing operations (LTROs). This early repayment was partially compensated by the Bank by contracting new long-term funding from the ECB in the amount of EUR 39.9 million, as in December it participated in targeted LTRO (TLTRO).

Structure of liquid assets



Due to volatile market conditions in 2014, SID Bank primarily invested, for liquidity management reasons, in short-term deposits at domestic and foreign commercial banks and in other short-term and medium-term debt instruments of issuers with high credit ratings. Securities transactions were concluded as an alternative investment to complement the bank's core line of business, i.e. lending, and for the needs of liquidity management, and not for trading purposes.

Investments of SID Bank for the purpose of liquidity management totalled EUR 1,422.2 million at the end of 2014, or 39.7 percent of total assets. Half of these investments comprised the securities portfolio in the amount of EUR 711 million, and the other half of the investments, EUR 708.2 million, was invested in deposits with domestic and foreign commercial banks, and the central bank. Investments in securities mostly consist of Slovenian and foreign government bonds and marketable bonds of other issuers. Investments are almost entirely euro-denominated. In its investing activities the Bank gives priority to investments, which can be used as collateral for entering repo transactions, and investments, which are considered in the first-bucket liquidity ratio on the basis of the Bank of Slovenia regulations or allow access to the European Central Bank's liquidity, and investments considered at least investment-grade assets. As at 31 December 2014, more than 76 percent of investments had a rating of at least A-. The deposits are placed with foreign commercial banks with a relevant international credit rating and with Slovenian banks. As at 31 December 2014, investments with a fixed interest rate accounted for almost 81 percent of all investments for liquidity management purposes.

8.2.2 Financing

In 2014, SID Bank continued with the planned adjustment of its business model to the new circumstances while developing and introducing systemic solutions and adjusting its lending activities to the market conditions.

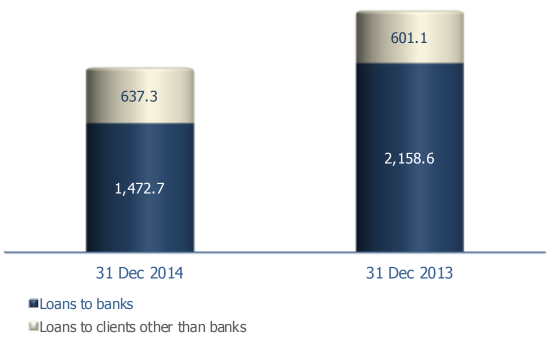
In accordance with the statutory purposes, the Bank provided funds to target groups of final beneficiaries either directly or indirectly via commercial banks and has designed the method and size of all its financing services to complement the market needs and the activities of other financial institutions. The complementary financing services were based on established financing instruments, such as dedicated loans to commercial banks, loans with or without the status of state aid, loans and grants, factoring, debt and risk sharing, project financing, and export credits, etc.

Via long-term dedicated funding arrangements with the European Investment Bank, the Council of Europe Development Bank, Germany's development bank (KfW) and the Ministry of Economic Development and Technology with regard to specific economic needs and market circumstances, SID Bank realised its transformational role, thereby creating value for target groups of final beneficiaries also in 2014. Accordingly, the Bank has contributed towards ensuring favourable long-term funding for corporates, particularly SMEs, effective transfer of funds to final beneficiaries, and indirectly to a faster transformation of enterprises in adopting changes and introduction of new business models.

Activities, documentary and information processing enhancements designed to facilitate user access to SID Bank's funds were in cooperation with banks adapted in line with the changes in the business environment and the banking system.

The structure and dynamics of financing of the economy out of SID Bank funds was significantly influenced by the continuation of structural adjustments in the banking system, particularly the implementation of the controlled liquidation of two banks, both of which used to be solid intermediators of SID Bank's funds, and the impact of the transfer of portfolios of four banks (partially funded from SID Bank's funds) to the Bank Asset Management Company (BAMC), the availability of recapitalisation funds with those banks and credit activity of the European Central Bank.

Loan portfolio (in EUR million)



Total net credits amounted to EUR 2,110 million (2013: EUR 2,759.8 million) as at the end of 2014 and, compared with the balance as at the end 2013, decreased by 23.5 percent.

The reasons for these developments in the credit portfolio are directly linked to macroeconomic conditions, the economic and financial position of the corporate sector, the performance of the Slovenian banking system, and the lending activity of the commercial banks. Thus, in 2014 the absorption capacity of the commercial banks and final beneficiaries for SID Bank's earmarked funds revealed the following:

- activities within the rehabilitation of the banking system (controlled liquidation of the two banks, the initiation of consolidation);
- conditions of operation of the banking system (funds, liquidity, ECB's credit activity);
- large repayments of loans to banks;
- a decline in investment in development, higher energy efficiency, environmental protection, etc., and thus reduced demand for dedicated loans that can be provided by SID Bank under its assigned mandates;
- overlap with state support instruments in certain areas;
- extension and delays in project implementation and corresponding deferrals in disbursement;
- high exposure to individual sectors and segments on the part of the banks;
- high corporate indebtedness and a lack of internal capital for (co-)financing investment in the corporate sector;
- a lack of eligible collateral for corporate loans;
- a shortfall of capital at certain banks as a result of negative results and new Basel III regulations raising capital requirements.

Commercial banks in their intermediary role remained SID Bank's most important partners in the provision of financing in 2014, accounting for 70% of its loan portfolio. Thus, the absolute as well as relative reduction of loans to banks is a consequence of the aforementioned events in the banking sector.

Direct financing still represents a small part of the loan portfolio; however, depending on market developments, its share has been increasing. Lending to non-banks, as at 31 December 2014, represents 30 percent of the loan portfolio, which is 8 percentage points more than in 2013. In 2014, the direct financing was carried out mainly in the form of specialized credit lines to promote technological development projects, with an emphasis on funding research, development and innovation, energy efficiency, development of SMEs and environmentally friendly public investment at the local level.

The structure of SID Bank's loan portfolio by maturity reflects the orientation of SID Bank into activities that are consistent with the ZSIRB and ZZFMGP, since almost all the loans are long-term. The loan portfolio as at 31 December 2014 had only a 0.3 percent share of short-term loans.

Irrespective of the deterioration on the financial markets, in 2014, SID Bank maintained the quality of its products measured as a combination of maturity, amounts, cost terms, and the effective logistics of the loan approval process, and it provided dedicated funds in accordance with its role, mission and mandates. Despite the still low assessment of credit rating or too high indebtedness of the Slovenian economy and the capital crunch, SID Bank also introduced new products and upheld the concept of responsible lending, thereby improving the quality of financial solutions for greater economic competitiveness.

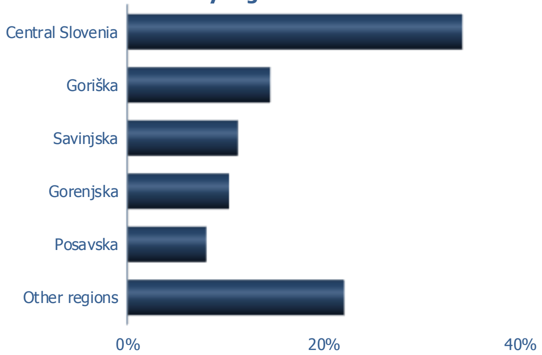
In the case of indirect financing SID Bank in 2014 started with some upgrades that will be fully implemented in 2015 and relate to the optimized utilisation of dedicated resources by involving new intermediaries, segmentation, creation of additionally specialized lines of credit, and strengthening of technical support for intermediary banks.

Target Group of Final Beneficiaries

In 2014, SID Bank financed a total of 523 legal entities established in the Republic of Slovenia, either directly or indirectly via banks, in the total amount of EUR 338 million. The eligible cost of the investments and projects financed by SID Bank (indirectly via banks) totalled EUR 226.2 million, its funds accounting for 43.4% of the total. The funds were earmarked primarily for job preservation and job creation, corporate growth, reduction of pollution, and greater environmental protection.

In terms of the primary purpose, development of competitive economy accounted for 56.4% of new loans in total value terms. In terms of corporate size, a total of 467 SMEs established in the Republic of Slovenia (89.3% of all borrowers) received support in the amount of EUR 154.4 million (45.7% of total new loans), of which 32 were sole proprietors (6.9% of all SMEs) who received EUR 4.6 million (3% of total new loans for SMEs).

Breakdown of loans by regions in Slovenia



In the regional breakdown of loans approved for borrowers established in the Republic of Slovenia, borrowers from Central Slovenia accounted for the largest proportion (34%), followed by Goriška (14.5%), Savinjska (11.2%), Gorenjska (10.3%), Posavska (8%) and other regions (22%).

Firms in the manufacturing sector were prevalent among borrowers (30.6% of total new loans in value terms), followed by the electricity, gas, steam and hot water supply sector (22.8% of total new loans in value terms), wholesale and retail trade (22.1% of total new loans in value terms), and other sectors. In the manufacturing sector 16.6% of all new loans went to firms involved in the manufacture of electrical equipment, followed by the manufacture of fabricated metal products, with the exception of machinery and equipment (14.3%), manufacture of non-metallic materials (11%), manufacture of motor vehicles, trailers and semi-trailers (15%), manufacture of rubber and plastic products (6.8%), manufacture of basic metals (6.1%), and manufacture of furniture (5.7%).

Promotional-Development Platform

The Promotional-Development platform is a method of financing developed by SID Bank to carry out financial measures and instruments under national and European public policies based on basic and derivative refundable forms of promotion (e.g. loans with or without elements of state aid).

In 2014, the Bank continued with implementation of the Promotional-Development Platform and within it implemented three financial engineering measures (three specialized lines of credit) totalling EUR 650 million. In addition to the active credit line for direct financing of technological development projects, SID Bank in 2014 also created access to funds through credit lines for financing SMEs' working capital needs which can be obtained directly from SID Bank - the first one for loans up to EUR 100,000 and the second one for loans from EUR 100,001 to EUR 1 million. The purpose of the loan whose maturity is limited to three years is funding the purchase of materials, merchandise, services, and expenditure on wages and salaries. Both credit lines include elements of state aid, which are reflected in the favourable interest rates. With all three aforementioned credit lines, SID Bank in 2014 also showed support for SMEs and development-oriented enterprises through direct financing.

Within the framework of the Promotional-Development Platform a total of EUR 79.6 million in new loans were granted in 2014 (in 2013: EUR 17.4 million). Total net loans at year-end 2014 amounted to EUR 116.2 million (in 2013: EUR 67.2 million), an increase of 72.8% year on year. Weighted average maturity of the loans was 5.8 years, whilst weighted average interest rate margin totalled 2 percentage points. Funding from the Ministry and European Investment Bank (EIB) played a key part in reducing borrowing costs to final beneficiaries. Every euro of funding from the Ministry of Economic Development and Technology yielded 3.8 euros of primary lending potential.

With the introduction of the aforementioned financing measures, the Ministry of Economic Development and Technology and SID Bank contributed to improved access to long-term financing of SMEs and R&D projects, which are based on in-house research and development activities aimed at increasing their competitiveness and entry into new markets.

Furthermore, with the introduction of refundable financing and a combination of funds SID Bank ensures credit accessible conditions for the Slovenian economy under which Slovenian borrowers can access financing under more favourable terms (i.e. longer maturity, lower interest rates, and collateral) and which, on the other hand, delivers a multiplier and revolving credit effect on state budget funds.

8.2.3 Operations under the Republic of Slovenia's Authorisation

Insurance against Non-Marketable Risks

As an authorised institution, on behalf of and for the account of the Republic of Slovenia, SID Bank insures against commercial and non-commercial or political (non-marketable) risks that given their nature and the level of risk the private reinsurance sector is either unwilling or has limited capacity insure. Consistent with EU regulations, commercial and political risks with a maturity of more than 2 years in OECD countries and all risks in non-OECD countries are classed as non-marketable. Due to the specific situation on the insurance service market in Slovenia, SID Bank is further involved in this area regardless of their maturity or geographical scope. The role of the Republic of Slovenia is crucial in the area of non-marketable risks, as the majority of export transactions, particularly medium-term, would not be undertaken without such insurance. Exporters and investors can also mitigate their operational risks in higher-risk countries by means of appropriate insurance, thereby creating economic security.

Since 2011, SID Bank has consistently disclosed growth in the volume of insurance operations. This showed a reversal of trends declining in the following years, which was mainly due to the economic crisis and the reduction in international demand, and thereby a decline in demand for investment and reduction of the volume of international trade. Reduced demand in major export markets of Slovenian companies had such an impact on the Slovenian economy that it failed to compensate for it when in 2012 the international demand began to strengthen again. Such a shortfall in demand seriously affected Slovenian exporters of capital goods. Many had restructured in terms of size, some entered insolvency proceedings, some of the larger companies still have not overcome these setbacks. Many companies were no longer able to realise export projects of greater value and focused on small operations or are involved in chains of multinational companies as their suppliers. Therefore, many companies no longer offer products that require higher levels of investment and capital and capital products, which resulted in the lower volume of operations in 2014.

In comparison with 2013 the volume of insurance operations in 2014 fell by 13.2%, which mainly reflects the above structural changes in the Slovenian economy as well as the following:

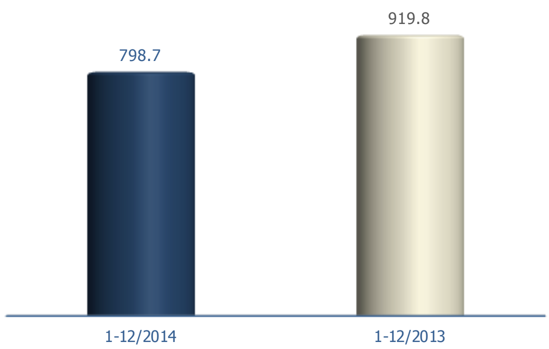
- early termination of some of the major insurance contracts in the field of outward investment;
- convergence of the key countries to the European Union and thereby decreasing the risk;
- lower absorption capacity of the economy and weaknesses of the banking system;
- repayment of secured loans for investment;
- reduced investment cycles of enterprises;
- changed corporate structure of the Slovenian economy which is a result of recent aggravated circumstances on the capital market (lack of manufacturers of various high-tech equipment and contractors of major capital investment works).

Despite the fact that SID Bank recorded a lower volume of insurance and larger number of payments of damage claims, the number of insurance policies increased because the bank secured its highest number of transactions. However, in terms of value they were lower than in previous years.

Volume of Insurance Operations

The volume of insurance against non-marketable risks stood at EUR 798.7 million in 2014, down 13.2% compared to the previous year. This was 8.7% of the limit on potential new annual liabilities defined in the ZZFMGP.[9]

Volume of Insurance Operations (in EUR million)



Reinsurance of short-term export receivables (renewable insurance of short-term non-marketable risks), credits, guarantees and pre-shipment credits (49.9%) and insurance of outward investments (44.9%) accounted for the largest proportion of the volume of realised insurance operations, while the medium-term insurance operations (5.2%)

[9] In accordance with the limit prescribed with the ZZFMGP in relation to the volume of new obligations (new secured transactions) acquired in a calendar year, they must not exceed 1/3 of the latest officially established value of annual exports of goods and services of the Slovenian economy (in 2013 exports totalled EUR 27,392 million, Source: IMAD 2014).

accounted for a minor share. In 2014, Russia accounted for the largest proportion of insurance of short-term export credits (receivables), investments, and insured medium-term credits, followed by Bosnia and Herzegovina, Croatia, Serbia, Ukraine, Belarus, Kazakhstan, Germany, Montenegro, the USA, and other countries.

Volume of Insurance Operations in 2014 (in EUR million)	
Russia	244.2
BiH	170.7
Croatia	100.0
Serbia	85.2
Ukraine	60.3
Belarus	21.7
Kazakhstan	16.3
Germany	15.9
Montenegro	10.0
USA	9.1
Other countries	65.3
Total	**798.7**

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

In the insurance and reinsurance of export credit (receivables), guarantees and pre-shipment credits, the volume of 2014 short-term insurance (EUR 398.4 million) was down 12.3% on 2013.

Despite some encouraging data on the growth of Slovenian exports, most important customers of renewable insurance recorded declines in turnover.

The withdrawal of the private reinsurers t the beginning of the crisis meant that their place was taken by SID Bank as the authorised institution, which brought an increase in the volume of reinsurance of short-term credits against non-marketable risks. Reinsurance of non-marketable short-term credits, where SID Bank acts as the reinsurer of such credits for Slovenian insurance companies when they are unable to obtain reinsurance coverage on the private market, frees up reinsurers' capacities. With improvement of economic conditions in 2014 the private reinsurers are once again returning to the market.

The majority of short-term insurance relates to insurance of short-term revolving export credits on the basis of reinsurance contracts between SID Bank and the SID-PKZ subsidiary insurance company, as well as between SID Bank and Zavarovalnica Triglav. On the basis of these contracts SID Bank only covers those risks that private reinsurers are unable to accept for reinsurance because of a shortfall in available capacity (non-marketable risks). A small proportion relates to insurance of individual export transactions. The largest share of realised volume of such insurance in 2014 relates to the support of export transactions in Russia, Ukraine, Serbia, Kazakhstan, etc.

Exposure from these insurance markets totalled EUR 214.2 million at the end of 2014, representing a 1.1% decrease in the balance compared to the same period in 2013 (EUR 216.6 million). Lower exposure is in addition to lower volume of insured and reinsured short-term export transactions the result of the reduction in valid limits and termination of insurance contracts between exporters and the primary insurer.

Despite the lower volume of secured claims, some other goals have been achieved, such as diversification of assumed risks in terms of collateral to a greater number of foreign debtors, increased number of supported exporters (over 100 companies), and lower assumed risks in terms of maturities of claims, assumed through insurance. Consistent with the trend of recent years, in addition to the coverage of non-commercial risks that the private market is not willing to take (e.g. Russia, Iran, Uzbekistan, Argentina, Turkmenistan, Tajikistan, etc.), primarily commercial insurance risks were carried out in the Russian (distributors of pharmaceutical products) and other markets in 2014.

Insurance of Medium-Term Export Credits

In 2014, the largest portion of the secured medium-term credits, secured guarantees and pre-shipment credits relate to the export of communications equipment, wood and metal processing machines and equipment, industrial machinery and technological equipment, engineering activities and related technical consultancy, the export of hydro turbines and construction. The countries to which it was mostly exported mainly include the following: Belarus, Turkey, Germany, Sweden, United Kingdom, China and Canada.

The scope of the secured medium-term export credits vary each year due to a small number of oscillations and the size of individual projects, while the number of realised projects steadily increases. The volume of insurance of medium-term export transactions (credits and guarantees) amounted to EUR 41.4 million in 2014, down 14% on the previous year.

In recent years, the volume of secured transactions varies widely and has no specific trend, which is mainly related to increased activity of SMEs in foreign markets and greater visibility of SID Bank's services. The relatively small average value of each project that requires a medium-term insurance and usually also financing is a result of the aforementioned change in the structure of the Slovenian economy, which is reflected in the small number of such export operations.

Exposure from insuring medium-term export credits, guarantees and pre-shipment credits (underwritten insurance policies and commitments) totalled EUR 76.7 million as at 31 December 2014, with Belarus as the prevailing among countries in terms of exposure with a 39.3% share.

Insurance of Outward Investments

The volume of insured outward investments amounted to EUR 385.8 million in 2014; this amount comprises renewals of previously insured investments, which actually entail newly insured investments, and newly insured outward investments. Volume was down 11.7% on the previous year, primarily as a result of the downturn in corporate investment cycles, certain key countries' convergence with the EU, the consequent reduced risk of servicing insured loans and, above all, the premature cancellation of certain major insurance policies.

Among Slovenia's traditional markets are the markets of former Yugoslavia. As these countries approach the European Union they become less risky. In 2014, Croatia became a full member of the EU. Some Slovenian companies estimate that political risks are no longer worthy of such protection against the risks of their investments and waive the insurance policy.

On the one hand, the decline in the volume of insured investments in 2014 was the result of regular expiries of insurance policies, both insurance of equity and non-shareholder loans, and in particular the lack of demand for insurance of investments.

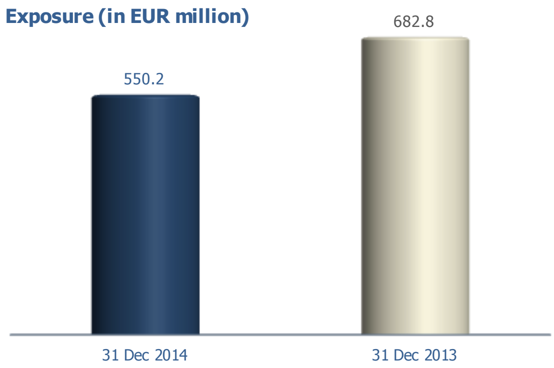
Insurance on investment was in the period from 2010 to 2012 a very successful insurance instrument with which it was possible to provide financial support for the spread of economic activities of Slovenian companies abroad. Some insurance arrangements for investments in a period of crisis did not develop in line with expectations. As a result, the largest total maximum amount of damages so far was paid from the insurance investments category in 2014.

Exposure from insured investments as at the end of 2014 totalled EUR 245.1 million, down 33.1% from the end of the previous year. Reduced exposure from outward investment in 2014 was a result of the above-mentioned reasons.

In the structure of insured investments, investments in Croatia account for the largest share, followed by Bosnia and Herzegovina, Serbia, Montenegro, Former Yugoslav Republic of Macedonia, Italy, and Turkey.

Exposure

Exposure from current insurance policies amounted to EUR 535.9 million at the end of 2014. Exposure from firm insurance commitments which under the ZZFMGP is included in the total net exposure amounted to EUR 14.3 million.



Total exposure from insurance operations for the account of the state and from issued firm insurance commitments amounted to EUR 550.2 million at the end of 2014, down 13.2% on the end of 2013. The decline in exposure is the result of regular expiries of insurance policies (secured medium-term credits, equity holdings and non-shareholder loans), regular payments for damage claims and also from premature cancellations. The main reasons for premature cancellations lie in the diminishing risk of the target countries, which reduces the demand for insurance of equity holdings. There is also a cost impact, as loan insurance is at a disadvantage in relation to cost-effectiveness of enterprises. From this perspective, many risks in the enterprise are undervalued.

The exposure amount represents 26.2 percent of the limit defined in the Implementation of the Republic of Slovenia Budget for 2014 Act and 2% of the limit as defined in the ZZFMGP.[10]

---

[10] In accordance with the limit defined in the ZIPRS of the maximum possible volume of liabilities arising from insurance against non-commercial and medium-term commercial and short-term commercial risks, which are not marketed, or exposure from current insurance and commitments, it amounts to EUR 2,100 million.

In accordance with the prescribed limit in the ZZFMGP in relation to the volume of all assumed and current liabilities arising from insurance, active reinsurance and retrocession, other transactions, guarantees and other pledges, it must not exceed the officially established value of annual exports of goods and services of the Slovenian economy (in 2013, the export totalled EUR 27,392 million, Source: IMAD 2014).

The largest exposures in the insurance portfolio in 2014 were disclosed against Russia (34.3%) and Bosnia and Herzegovina (15.9%), which required additional monitoring of the political and economic situation in these countries; these were followed by exposure against Croatia, Serbia, Belarus, Germany, Turkey, Montenegro, Greece and other countries.

Insurance Technical Provisions and Operating Results

in EUR thousand	31 Dec 2014 or 1-12/2014	31 Dec 2013 or 1-12/2013	Index 2014/2013
Premiums	5,371	9,075	59.2
Potential claims	9,825	6,004	163.6
Claims under consideration	592	1,794	33.0
Claims paid	(38,044)	(9,792)	388.5
Recourse	266	1,074	24.8
Surplus of income	(33,214)	640	-

Premium from insurance against non-marketable risks amounted to EUR 5.3 million in 2014, down 40.9% on 2013. The decrease in insurance premium was a result of reduced volume of insurance operations and the structure of insurance products. The structure of paid premiums consisted of (re)insurance of short-term export credits and the insurance of outward investments; the rest are other products. Income from processing fees is negligible due to SID Bank's practice of refunding fees or including them in the premium in the case of realisation of individual export transactions or investments.

Claims paid in 2014 stood at EUR 38 million, which is 3.9-times higher than in the previous year and the highest so far. The majority of claims paid related to insurance of a non-shareholder loan in the total amount of EUR 35.6 million (Serbia, Bosnia and Herzegovina), insurance of a buyer of medium-term credit (bank to bank) (Kazakhstan), claims from reinsurance of short-term receivables (Azerbaijan, Iran, Greece, Romania, Serbia, and Ukraine), while a lesser proportion related to claims from reinsurance of short-term buyer credit (Iran) and two claims for pre-shipment credit (Slovenia, Croatia and Russia).

Claims under consideration (claims filed) stood at EUR 0.6 million as at 31 December 2014. A majority of claims under consideration comprises short-term pre-shipment credit and reinsured short-term export receivables in the total amount of EUR 0.5 million, while a small figure of EUR 0.1 million comprises claims from medium-term pre-shipment credits and medium-term credit to foreign buyers.

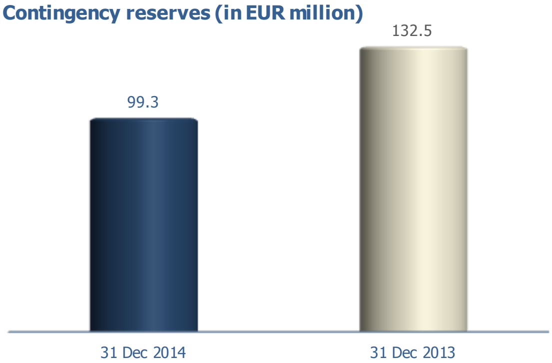
In 2014, the **volume of potential claims** (EUR 9.8 million) increased 1.6-times compared to 2013 (EUR 6 million). A majority of potential claims is related to reinsurance and insurance of short-term receivables and insurance of investments.

In 2014, the **result of operations** for the account of the Republic of Slovenia was negative, in line with high claims payouts. The surplus of income over expenses amounted to negative EUR 33.2 million, which means a 51.9-fold increase on the previous year.

Contingency Reserves

The contingency reserves constitute an important capacity for SID Bank and for the Republic of Slovenia in insurance against non-marketable risks, before claims from insurance for the account of the Republic of Slovenia are paid out from the state budget. In line with the negative results of operations, they have decreased by EUR 33.2 million to EUR 99.3 million.

Contingency reserves (in EUR million)



The aim of the investment policy for the contingency reserves is to maintain the ability to settle insurance claims. The contingency reserves are held in liquid assets equivalent to the sum of potential claims and claims under consideration from non-marketable insurance, or at least 20% of the invested funds. The amount of liquid assets varies and in particular depends on estimated insurance payments and consequent liquidity position of contingency reserves.[11] Liquid assets comprise debt securities quoted on a regulated market, and all other forms of debt investment whose residual maturity is less than one year. Because contingency reserves decreased by more than 20% in 2014 as compared to year-end 2013, in accordance with the act (ZZFMGP) they ought to be complemented from the budget.

11 Contingency reserve operations are regulated in Article 4 of the ZZFMGP

Interest Rate Equalisation Programme

In accordance with the ZZFMGP and on behalf of and for the account of the Republic of Slovenia, SID Bank as an authorised institution provides the Interest Rate Equalisation Programme (IREP) for export credits that comply with the OECD arrangements. SID Bank holds a contract with the Ministry of Finance for the provision of the IREP and the management of its assets.

The IREP facilitates the provision of export credits at fixed interest rates that are lower than the market rates. SID Bank concludes interest rate swaps with the participating banks, thereby providing them with funding at fixed interest rates. SID Bank covers the interest rate risk arising in the IREP by means of reverse interest rate swaps concluded with banks whose international credit rating at the S&P credit rating agency is no lower than BBB-.

The purpose of the interest rate swap is to protect the participating bank's exposure to interest rate risk arising from the approval of an export credit at a fixed interest rate. Because of the fixed interest rate, the participating bank is entitled to an equalisation factor of up to 1% (expressed as an annual interest rate and dependent on the maturity of the credit), which the lending bank transfers in full to the final borrower. The interest rate for the final borrower (a foreign customer of Slovenian goods or services) is no lower than the OECD's reference interest rate, the CIRR (Commercial Reference Rates).

Based on market conditions the instrument is no longer appealing to customers, so the status of outstanding transactions has consequently decreased.

Guarantee scheme for Corporates

The Republic of Slovenia Guarantee Scheme Act (hereinafter: the ZJShemRS) set up a system in 2009 for issuing government guarantees for the liabilities of companies rated A, B or C from long-term loans made at commercial banks. The purpose of the law was to relieve the credit crunch resulting from the global financial crisis, which reduced access to commercial banks' resources, thereby reducing the inflow of cash into the Slovenian economy. Of the total guarantee quota of EUR 1.2 billion, a total of EUR 809.4 million had been assigned to banks in 15 auctions by 31 December 2010, when the legal deadline for issuing guarantees under the scheme passed. Twelve banks ranked 581 loan agreements of 428 borrowers under this scheme.

In line with its legal authorisations SID Bank again actively managed the portfolio deriving from the ZJShemRS in 2014. As a result of the deterioration in business conditions, which meant that companies were unable to consolidate their performance as expected when the measure was introduced, the vast majority of companies embarked on a restructuring of the credit portfolio. The commercial banks therefore discussed the restructuring of loans with government guarantees, and verified and coordinated their proposals with SID Bank in line with the legal requirements. When the companies failed to consolidate their performance, the commercial banks made use of their legal possibilities and exercised the credit protection, i.e. the government guarantee. In line with its authorisations SID Bank obtained, reviewed and coordinated the documentation for modifying the terms of government-guaranteed loans and processed the claims for calling guarantees. Where it identified breaches resulting in a loan agreement being declared null and void, the repayment of a called guarantee or the payment of a contractual penalty, SID Bank filed motions with the State Attorney's Office for a voiding suit, a suit for the repayment of a called guarantee or a suit for the payment of a contractual penalty.

SID Bank in 2014 received 77 applications for approval. After diligent review it issued 53 approvals for modifying the terms of government-guaranteed loans. It rejected 18 applications where breaches of law were identified, while 11 applications were still being processed at the end of 2014 because of requests for extra documentation. On account of established violations of statutory provisions or business decisions of banks, 7 negative annexes were concluded with which banks renounced the state guarantee.

SID Bank received 38 requests for issued guarantees to be called in 2014. A total of 36 requests for calling were granted to commercial banks by the Ministry of Finance in 2014 having met the conditions under the ZJShemRS, based on which a total of EUR 3.9 million was paid out. A total of EUR 73.2 million was paid out to banks by the Ministry of Finance between 2009 and 2014 on the basis of 272 requests for calling.

At the end of 2014, there were 113 loan agreements secured by government guarantee still active at the commercial banks with a stock of principal amounting to EUR 95.5 million as at 31 December 2014.

.

Guarantee Scheme for Private Individuals

The Act on the Natural Persons Guarantee Scheme of the Republic of Slovenia (hereinafter: the ZJShemFO) allowed private individuals to obtain a government guarantee for loans of up to EUR 100,000 or up to EUR 10,000 depending on the category of borrower. As a government anti-crisis measure the guarantee scheme for private individuals covered four categories of borrower: temporary employees, first-time home buyers, young families and the unemployed. The total guarantee quota to be allocated under the ZJShemFO between 2009 and the end of 2010 was EUR 350 million, of which EUR 50 million was earmarked for unemployed borrowers. The legal deadline for issuing government guarantees under this law was 31 December 2010. There were 230 loans outstanding as at 31 December 2014, and the total stock of principal was EUR 5.6 million.

SID Bank received 11 requests for guarantees to be called in 2014 (bringing the total between 2010 and 2014 to 89). Ten requests for calling were granted by the Ministry of Finance in 2014 to commercial banks having met the conditions under the ZJShemFO, based on which a total of EUR 28.9 thousand was paid out. All the guarantees paid out related to the category of unemployed borrowers. SID Bank initiates a recovery procedure for the guarantees paid out, provided that the conditions have been met. In the event that the borrower within 8 days of receipt of the call fails to fulfil its obligations, SID Bank refers the matter for enforcement at the Financial Administration of the Republic of Slovenia (FURS).

Guarantees for Investments

The aim of the Republic of Slovenia Guarantees for Financial Investments by Companies Act (ZPFIGD) is to ease corporate access to working capital and to funds for investment, which will strengthen the development and competitiveness of Slovenian companies. As prime credit protection, a government guarantee is an instrument for improving access to financing corporate development projects.

The total stock of loans supported by government guarantee was EUR 27.1 million at the end of 2014, within the framework of which the government guarantee amounted to EUR 20.4 million.

A new, fifth tender was announced in the beginning of November 2014; the deadline for applications is 30 October 2015.

Management of Emission Allowances and Kyoto Units

Pursuant to Article 127 of the Environmental Protection Act (ZV0-1) SID Bank continued acting as the official auctioneer of greenhouse gas emission allowances in 2014, in accordance with the Commission Regulation No. 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances, pursuant to Directive 2003/87/EC of the European Parliament and the Council establishing a scheme for greenhouse gas emission allowances trading with the Community, amended by Commission Regulation No. 1210/2011.

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

Under Article 142 of the ZVO-1, SID Bank is also authorised to carry out the Kyoto units and emission allowances programme on behalf of and for the account of the state. The authorisation is not yet being exercised, as the government has not yet approved this programme.

As an official auctioneer of emission allowances (code: EUA), SID Bank participated in 143 auctions in 2014. There were 2,774,500 allowances sold at the auction, the amount of the purchase price amounted to EUR 16,416,090.

In September, the first auction of emission allowances for airlines was also carried out (coupon code: EUAA), where SID Bank acted as the official auctioneer. In 2014, there were 4 auctions of emission allowances for airlines (EUAA) scheduled. In addition, there were 8,000 rights or emission allowances sold, the amount of the purchase price amounted to EUR 48,040.

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

To ensure the separate recording of the individual activities pursued by SID Bank under Republic of Slovenia authorisation, the Bank has put in place a system of cost centres and cost drivers, against which transactions occurring in the pursuit of individual business activities are recorded. This is also the basis for determining the direct expenses of an individual activity.

For insurance against non-marketable risks and the Interest Rate Equalisation Programme, in which the Bank also manages assets allocated for management, financial statements are compiled.

Activity EUR thousand	Income	Expenses
Insurance against non-marketable risks	1,620	(1,847)
Interest Rate Equalisation Programme	54	(58)
Guarantee scheme for Corporates	144	(488)
Guarantee scheme for Private Individuals	7	(35)
Guarantees for Investments	11	(70)
Auctions of Emission Allowances	22	(22)

The table discloses the total (direct and indirect) revenues and expenses for individual activities generated in 2014. The revenues for an individual activity represent the fees that SID Bank receives for pursuing the activity on the basis of contracts or provisions of law. The indirect expenses for an individual activity are determined on the basis of criteria set out in a by-law, the Criteria for allocating indirect costs of activities under Republic of Slovenia authorisation.

8.3 Performance of the SID Bank Group

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

In 2014, the business environment was also demanding for PKZ. This was highlighted by the economic situation (which irrespective of improvements remained difficult in the most important markets for PKZ (Slovenia, Russia, Germany, Croatia, Italy)), tense political situations (mainly due to the developments in Ukraine and Russia), and especially on the credit insurance market due to the tightening competition from other insurance companies that seek to acquire policy holders on the Slovenian market and the increasingly active role of insurance brokers. The above-mentioned was reflected most strongly in a severe drop of premium rates, as well as in the loss of certain policy holders and more difficult acquisition of new ones. Therefore, PKZ increased marketing activities which increased the costs of acquisition. Besides the more competitive environment the lower premium was also affected by more favourable results for claims of individual PKZ policy holders in the recent years, which PKZ considered in setting premium rates.

EUR thousand	31 Dec 2014 or 1-12/2014	31 Dec 2013 or 1-12/2013	Index 2014/2013
Total assets	62,768	65,852	95.3
Total equity	25,804	25,410	101.6
Gross claims paid	7,397	11,958	61.9
Loss ratio	44%	62%	
Net profit	757	2,727	27.8

Because of the above mentioned reasons, PKZ in 2014 accounted for a 14% lower premium than in the previous year (gross effective premiums in 2014: EUR 16.7 million) and did not achieve the set goal for this category. When drawing up plans for the year 2014, PKZ accounted for a slightly lower drop in premiums than was actually realised.

In terms of claims the year was in general steady; the situation deteriorated in the last quarter. This did not materialise in a large volume of accounted claims but in an increase of provisions for outstanding claims. The claims ratio remained stable, which PKZ managed to achieve mainly with a good risk assessment system on the customer side and the proper implementation of measures it introduced during the economic crisis. The development of past claim provisions was favourable, therefore the estimates of provisions for outstanding claims improved, resulting in a positive impact on the final profit and loss in the year 2014.

The proportion of claims paid in relation to effective premiums fell from 62% in 2013 to 44% in 2014. The number of claims is also lower, as previously mentioned effects were also disclosed through favourable claims frequency, but in comparison it should be noted that the year 2013 was marked with a significant claims case (which was also highly reinsured, and a recourse agreement was quickly made that is also implemented). There were no such major cases in 2014, and that is mainly why claims in 2014 are 38% lower than in 2013 (amounting to EUR 7.4 million). The development in the past reserved claims was more favourable than expected. Mainly due to developments in the last quarter (some major reported defaults) and taking into account the provision for outstanding claims, recourse and reinsurance, the relationship between premiums and claims in 2014 was less favourable than in 2013, which had a significant impact on lower profit in 2014 with regard to 2013. In 2014, net premiums earned exceeded net claims incurred by EUR 3.1 million, which is 38% less than in 2013 (EUR 4.9 million).

In 2014, the revenues from reinsurance commissions were 0.8 million or 28% lower, which was mainly due to the lower amount of additional recognised commissions for positive results from previous years. Costs have remained at the level of 2013; however, the cost rate increased due to the lower premium. Lower profit and loss in 2014 was also affected by lower interest rates and thereby 32% lower interest income. PKZ otherwise invests exclusively in debt instruments and deposits with Slovenian banks. On 31 December 2014, 73 percent of all investments represented securities of EU Member States or similar and receive the states' guarantee.

Net profit in the accounting period amounted to EUR 0.8 million, which is for the above-mentioned reasons lower than in the previous year (EUR 2.7 million in 2013). Worse conditions for operations were foreseen by PKZ with this outcome but also achieved the set goal.

In 2015, PKZ expects maintenance of the premium at the level from the year 2014. However, PKZ estimates that the calculated claims will be higher than in the year 2014, which is mainly due to claims that were recognised and reserved in 2014. However, it estimates that the claims result for the year 2015 will be more favourable than the one in the year 2014. Because of high claims payouts in the past, the activity in terms of recourse claims will remain intensive, both within PKZ, as well as in cooperation with the companies of the SID Bank Group. PKZ will still employ rigorous conditions for insurance assumption, since these proved successful in the past years, and therefore it expects the claims ratio to remain stable in spite of harsh conditions. However, since credit insurance is cyclical and balancing of claims results does not occur in one year, there exists a possibility that even if the measures adopted in the past are carried out, the claims result may be worse than expected, as all known risks have already been taken into consideration.

In 2015, PKZ will further computerise its internal processes, particularly in the area of assumption of insurance risk. It will continue to supplement information support both for the policyholders (PKZ-Net, website renovation) as well as internally (data warehouse). It will finish preparing for Solvency II with some transitional phasing-in provisions that enters into force on 1 January 2016.

To ensure the rationality of operations some of the features will in the next period remain within SID Bank. It shall co-operated with the Pro Kolekt company and its subsidiaries in recovery services, credit rating information, and insurance sales, as well as with other companies in the SID Bank Group on a commercial basis.

8.3.2 Prvi faktor Group

In 2014, the Prvi faktor Group saw the biggest decrease in transactions so far, in particular due to the problems on the Serbian market. The factoring volume totalled EUR 480.7 million. With regard to the year 2013, the realized volume is lower by 41%, and compared to the planned volume for 2014 by 36%. The subsidiaries generated 68% of the volume of transactions of the Prvi faktor Group. All four companies have achieved less traffic than planned for the year 2014, namely Prvi faktor Beograd by 76%, Prvi faktor Sarajevo by 48%, Prvi faktor Ljubljana by 26% and Prvi faktor Zagreb by 8%. The Prvi faktor Zagreb company still generates the largest share of the Group's turnover. In 2014, its share represents 48% and is 15 percentage points higher compared with the previous year.

Prvi faktor, Ljubljana EUR thousand	31 Dec 2014 or 1-12/2014	31 Dec 2013 or 1-12/2013	Index 2014/2013
Total assets	90,465	101,641	89.0
Total equity	3,660	(20,071)	-
Net profit/loss	13,331	(24,883)	-
Purchased receivables	155,372	217,669	71.4

Prvi Faktor Group EUR thousand	31 Dec 2014 or 1-12/2014	31 Dec 2013 or 1-12/2013	Index 2014/2013
Total assets	204,232	241,101	84.7
Total equity	3,500	(20,301)	-
Net profit/loss	1,059	(29,107)	-
Purchased receivables	480,710	816,634	58.9

The Prvi faktor Group finances the majority of receivables arising from the supply of goods or services between entities in each country. Thus, in the past year domestic factoring accounted for 74% (in 2013: 85%), the export factoring for 16% and import factoring for 10% of the total volume in the structure. The share of export factoring grows mainly in the Prvi faktor Ljubljana company, where it accounted for 42% of all factoring in 2014.

On a consolidated level the total assets as at 31 December 2014 amounted to EUR 204.2 million and was 15.3% lower than at the end of the previous year. In terms of total assets, the largest company of the group is Prvi faktor Ljubljana, whose total assets at the end of 2014 amounted to EUR 90.5 million. The total assets of the Prvi faktor Zagreb company amount to EUR 76.3 million, those of Prvi faktor Beograd EUR 76.4 million, and Prvi faktor Sarajevo EUR 16.5 million.

The profit of Prvi faktor Ljubljana comes from the elimination of the impairment for the Prvi faktor Beograd company, created by the end of 2013. Due to the received guarantees provided to Prvi faktor Beograd by the owners (in the amount of EUR 12.7 million in January 2014 and in December 2014 in the amount of EUR 48 million for exposure to the two largest groups of clients) Prvi faktor Beograd and Prvi faktor Ljubljana, and consequently the entire Group ended the year positively.

The Group is in the process of restructuring its operations and portfolio. The volume of the Group's operations will decline in the coming years in accordance with the possibilities and requirements of the respective owners.

8.3.3 Pro Kolekt Group

Pro Kolekt, Ljubljana accepted 575 new cases for recovery in 2014 with a total value of EUR 10.9 million. The Pro Kolekt Group accepted 3,281 new cases for recovery with a total value of EUR 44 million. Pro Kolekt, Ljubljana ended the year with 304 successfully closed cases, with a total amount of EUR 4.1 million, while the amount actually recovered was EUR 3 million. The Pro Kolekt Group successfully closed 1,286 cases, with a total value of EUR 10.2 million, while the amount actually recovered was EUR 7.9 million.

Pro Kolekt, Ljubljana EUR thousand	31 Dec 2014 or 1-12/2014	31 Dec 2013 or 1-12/2013	Index 2014/2013
Total assets	445	496	89.7
Total equity	262	262	100.0
Net profit/loss	1	9	11.1
Value of debts recovered	4,135	7,174	57.6

Pro Kolekt Group EUR thousand	31 Dec 2014 or 1-12/2014	31 Dec 2013 or 1-12/2013	Index 2014/2013
Total assets	4,051	4,191	96.7
Total equity	203	226	89.8
Net profit/loss	(11)	(19)	57.9
Net profit/loss of majority interest	(20)	(25)	80.0
Value of debts recovered	10,189	15,927	64.0

Although that debt recovery is the main activity of the group, the operations of Pro Kolekt, Ljubljana, and also the Pro Kolekt Group, focused on intensive marketing of other services and products, in particular credit rating information. The Group prepared 10,942 credit ratings in the total amount of EUR 452 thousand. However, this also includes its PK-NET on-line portal where it publishes a debtors' blacklist and offers on-line monitoring of individual recovery procedures.

The operations of Pro Kolekt, Ljubljana as well as the Pro Kolekt Group were in 2014 at about the same level as in 2013, with less revenue generated from recoveries and an increase in income in credit rating reports.

In 2015, the main product of the Pro Kolekt Group remains recovery. Greater emphasis will be placed on comprehensive management of receivables and the creation of a comprehensive concept for managing receivables, which primarily means cooperation of the company with clients at an early stage of recovery (already by slight defaults). Exporters continue to represent key customers in the domestic market, to which the group can provide support in exporting with its well-organized network of partner agencies practically all over the world. The wide distribution of information on defaults will on the one hand provide powerful leverage for increasing the efficiency of recovery while on the other hand it is also an excellent promotion for the recovery service. The most important clients on the foreign market in 2015 remain credit insurance companies and networks of debt recovery agencies which have problems with Slovenian non-payers.

8.3.4 Centre for International Cooperation and Development

In 2014, the CMSR operated in accordance with the financial plan. There are deviations from the ambitious strategic orientation in the field of international development cooperation because of the government's reduction of budgetary expenditures for official development assistance.

EUR thousand	1-12/2014	1-12/2013	Index 2014/2013
Operating revenues	348	308	113.0
Total project value	3,957	2,753	143.7

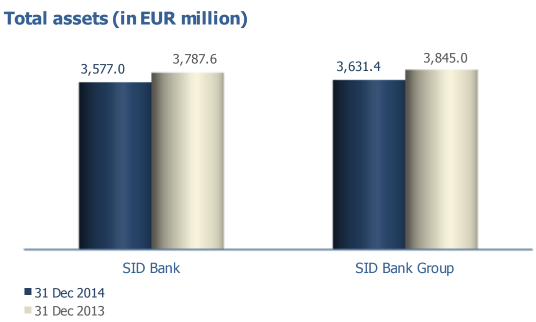
Despite the reduction in funds of Slovenia for international development cooperation, the implementation of bilateral development cooperation was set as priority. The CMSR maintained and expanded its network of contacts with countries receiving development assistance and Slovenian contractors that are potential providers of development assistance. The CMSR proved itself to be an institution capable of wisely investing budget funds, which were reduced last year, in development projects in the rest of the world via the instrument of official development assistance. This helped to secure export deals for Slovenian companies, generating economic growth and employment, and increasing budget revenues.

Its publication Doing Business in Slovenia, available in print form and on-line on the Slovenian Business Portal (Slovenian Business Portal; www.poslovniportal.si), which was in 2014 updated with relevant legislative changes, was the main source of income from sales and advertising. Moreover, the Mednarodno poslovno pravo (International Business Law) magazine continued to be published. CMSR also marketed published content as analysis and information to individual subscribers and thereby increased revenue.

With the acquisition of new deals, successful marketing and cost management, CMSR recorded a net profit in 2014.

8.4 Operations Reflected in the Statement of Financial Position

Total assets

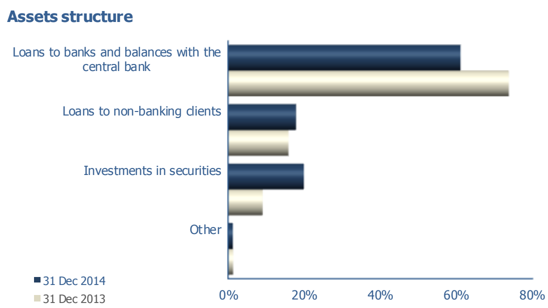


SID Bank's **total assets** amounted to EUR 3,577 million at the end of 2014, accounting for 94.4% of the total assets of 2013.

Considering SID Bank's predominant influence in the SID Bank Group, the specific nature of the Group, and mutual relationships in the Group, the total assets of the SID Bank Group were only 1.5% higher than the total assets of SID Bank, thus the structure of the Group's assets and liabilities is very similar to those of the Bank.

The SID Bank Group's total assets at the end of 2014 totalled EUR 3,631.4 million, down 5.6% on the end of 2013.

SID Bank's assets



Loans to banks accounted for a majority share among all investments in the Bank's total assets in 2014. Loans to banks include loans and deposits at banks; these totalled EUR 2,180.9 million as at the end of 2014, down 16.6% on the end of 2013. Long-term loans account for 68% of loans to banks, and the rest is short-term deposits at banks. Loans to banks account for 61% of the Bank's total assets.

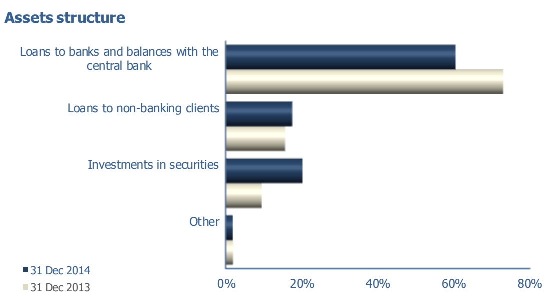
Loans to non-banking clients increased by 6% in 2014 to end the year at EUR 637.3 million. The stock of loans increased by EUR 36.2 million. Loans to non-banking clients accounted for 17.8% of SID Bank's total assets at the end of 2014.

As at the end of 2014, SID Bank had EUR 3.1 million of assets **in accounts at the central bank and commercial banks**.

Investments in **securities** totalled EUR 711 million and were up EUR 366.6 million at the end of 2014 compared to the end of 2013. And their share in the structure of total assets increased from 9.1% to 19.9%.

Other assets comprise:
- the fair value of derivatives held for hedging (EUR 28.4 million), which decreased in 2014, mainly due to the closure of contracts relating to interest rate swaps as a result of the early redemption of securities, by EUR 7.7 million;
- investments in the equity of subsidiaries and joint ventures (EUR 8.8 million), which in 2014 remain the same as at year-end 2013;
- property, plant and equipment and intangible assets in the amount of EUR 6.9 million which is up 2.9 million on year-end 2013, mostly due to renovation of the corporate building in which headquarters of SID Bank are located;
- other assets in the amount of EUR 0.6 million.

Assets of the SID Bank Group



Loans to banks at the end of 2014 totalled EUR 2,186.3 million, down 16.7% on year-end 2013. Regardless of this, they have preserved the largest share in the structure of the Groups total assets, i.e. a 60.2% share.

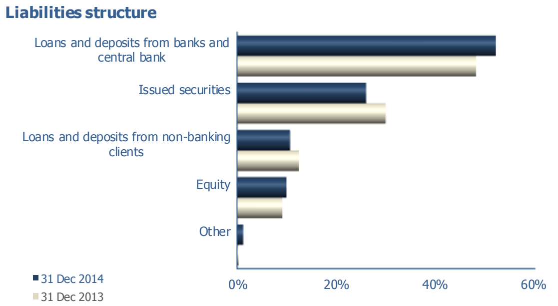
Loans to non-banking clients are in terms of value equivalent to the item in the Bank's balance sheet (EUR 637.3 million). Loans to non-banking clients increased their share in the total assets from 15.6% to 17.6%.

As at the end of 2014, the SID Bank Group had EUR 7.6 million in **assets on hand and in accounts at the central bank and commercial banks**.

Investments in **securities** were up EUR 368.1 million at the end of 2014 as compared to the end of 2013. At the end of 2014 the investments totalled EUR 733.1 million, and their share in the structure of total assets increased from 9.5% to 20.2%.

Other assets include:
- the fair value of derivatives held for hedging in the amount of EUR 28.4 million;
- reinsurers' assets and receivables from insurance operations in the amount of EUR 26.5 million, down 9.2% on year-end 2013;
- property, plant and equipment, and intangible assets in the amount of EUR 10.5 million, up EUR 2.6 million on year-end 2013;
- other assets in the amount of EUR 1.7 million.

Liabilities and equity of SID Bank



SID Bank's liabilities and equity as at the end of 2014 comprised liabilities in the amount of EUR 3,221.8 million accounting for 90.1% share of liabilities and equity, and total equity in the amount of EUR 355.3 million, accounting for 9.9% in the structure of liabilities and equity.

Deposits and borrowings from banks accounted for a majority of liabilities at the end of 2014, including the liabilities to the central bank. This share amounted to 52.1% (in 2013: 48.1%). **Liabilities from banks and the central bank** totalled EUR 1,865.3 million. The liabilities increased by EUR 42.1 million or 2.3%.

Liabilities from non-banking clients stood at EUR 381.5 million at the end of 2014, down EUR 91.5 million or 19.3%. Their share accounted for 10.7% (in 2013: 12.5%).

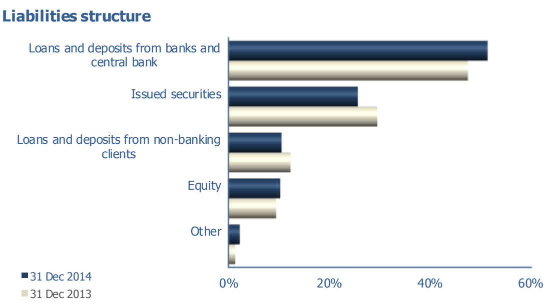
Liabilities from issued securities declined from 30% of total liabilities and equity in 2013 to reach 26% in 2014. The debt securities balance stood at EUR 930.4 million at the end of 2014, down 18% or EUR 204.4 million on the end of 2013.

Provisions in the amount of EUR 35.5 million at the end of 2014 compared to the end of the previous year increased by EUR 27.2 million. Provisions for off-balance sheet commitments amounted to EUR 35.2 million and provisions for liabilities to employees EUR 0.3 million.

Other liabilities in the total amount of EUR 9 million consist of financial liabilities held for trading, derivatives held for hedging, corporate income tax liabilities and other financial and other liabilities.

Total equity of the Bank increased by EUR 9.5 million or 2.7% in 2014, amounting to EUR 355.3 million at the end of 2014. Profit reserves were up EUR 4.7 million at the end of 2014; accumulated other comprehensive income in relation to available for sale financial assets was up by EUR 4.9 million; the net profit for the financial year, including retained earnings, decreased by EUR 0.1 million on the previous year.

Liabilities and equity of the SID Bank Group



Liabilities and equity of the SID Bank Group are similar to liabilities and equity of SID Bank. Liabilities in the amount of EUR 3,258.7 million accounted for 89.7% of the total liabilities and equity, and total equity in the amount of EUR 372.7 million accounted for a 10.3% share of the liabilities and equity.

Borrowings and deposits from banks and the central bank stood at EUR 1,865.3 million at the end of 2014, accounting for 51.4% of the Group's liabilities and equity (in 2013: 47.4%). Liabilities were up EUR 41.2 million compared to the previous year.

The Group's **liabilities from non-banking clients** accounted for a 10.5% share in liabilities and equity (in 2013: 12.3%) and were the same as those of SID Bank.

The Group's **liabilities from issued securities** were also the same as those of the Bank, with their share accounting for 25.6% in the structure as at the end of 2014 (in 2013: 29.5%).

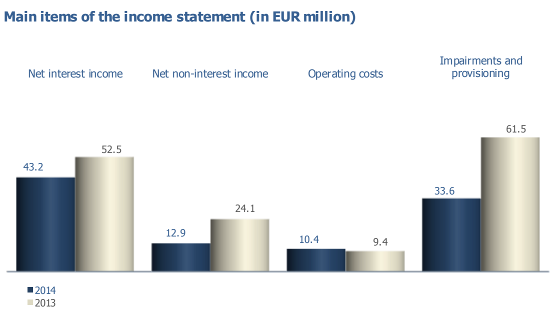
Provisions in the amount of EUR 67.4 million were up EUR 28.6 million compared to the end of 2013. The largest proportion, i.e. EUR 35.2 million, related to provisions for off-balance-sheet liabilities, EUR 31.8 million arises from movement in liabilities from insurance contracts, while provisions for liabilities to employees amounted to EUR 0.4 million.

Other liabilities in the total amount of EUR 14.1 million comprised financial liabilities held for trading, derivatives held for hedging, corporate income tax liabilities, and other financial and other liabilities.

The SID Bank Group's **total equity** increased by 2.7% or EUR 9.9 million in terms of value in 2014. Profit reserves were up EUR 5.1 million; accumulated other comprehensive income in relation to available for sale financial assets was up by EUR 5.5 million; the net profit for the financial year, including retained earnings, decreased in terms of value by EUR 0.7 million.

8.5 Operations Reflected in the Income Statement

Financial results of SID Bank



SID Bank recorded a pre-tax profit of EUR 12.2 million in 2014, up EUR 6.5 million on the year 2013.

Bank's interest income stood at EUR 97.6 million in 2014, down 17.2% on 2013, while interest expenses amounted to EUR 54.4 million, which is 16.7% less than in the previous year. **Net interest income** amounted to EUR 43.2 million, down 17.7% on 2013. Measured to the average assets, the interest margin was 1.2%. Net interest income accounted for 77% of the total net income (in 2013: 68.6%)

Net non-interest income amounted to EUR 12.9 million in 2014, down 46.4% on total net non-interest income in 2013. Gains on financial assets and liabilities measured at fair value through profit or loss in the amount of EUR 8.6 million accounted for a majority part of non-interest income, followed by net fee and commission in the amount of EUR 2.8 million, fee for exercising of operations under authorisation in the amount of EUR 1.9 million, and dividend income in the amount of EUR 0.9 million. The Bank realised EUR 1.1 million of net loss on financial assets and liabilities, not measured at fair value through profit or loss. Other net loss totalled EUR 0.2 million and relates to a change of fair value in hedge accounting, net gains on financial assets and liabilities held for trading, exchange differences losses and other net operating losses.

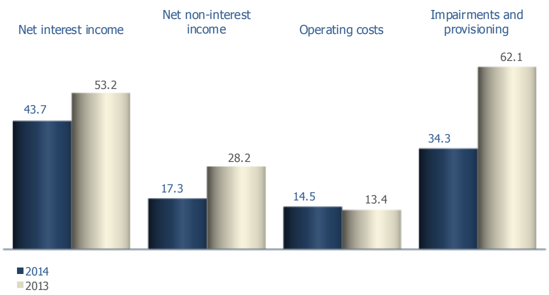
Bank's financial intermediation margin in 2014 stood at 1.5% (in 2013: 1.9%).

Operating costs accounted for EUR 10.4 million in 2014, of which administrative expenses stood at EUR 9.8 million, and amortisation and depreciation totalled EUR 0.6 million. Labour costs amounted to EUR 6.6 million, up 7.5% on 2013. Higher personnel expenses are primarily the result of recruitment of new employees. Costs of material and services together totalled EUR 3.2 million. The cost-to-income ratio remained low in 2014 (18.6%), reflecting the effective cost management, although the ratio is slightly higher than in the previous year (12.2%) as a result of past growth and specific products in the changed business model.

Net **impairment and provisions** amounted to EUR 33.6 million in 2014, which represents 54.5% of net impairments and provisions from 2013. Net impairments totalled EUR 6.3 million, and provisions totalled EUR 27.2 million.

SID Bank Group's financial result

Main items of income statement (in EUR million)



The SID Bank Group recorded a pre-tax profit of EUR 12.2 million in 2014, up EUR 6.3 million on 2013.

Net interest income amounted to EUR 43.7 million in 2014, down 17.9% on 2013. Interest income in the amount of EUR 98.1 million was down 17.3%, and interest expenses in the amount of EUR 54.4 million were down 16.7% on 2013. Net interest income accounted for 71.6% of total net income (in 2013: 64%)

Net non-interest income amounted to EUR 17.3 million, down 38.7% on 2013. Net non-interest income comprised the following:

- gains on financial assets and liabilities measured at fair value through profit or loss in the amount of EUR 8.6 million;
- net income from insurance operations in the amount of EUR 6.9 million;
- net fee and commission in the amount of EUR 2.8 million;
- fee for the performance of operations under authorisation in the amount of EUR 1.9 million;
- net loss on financial assets and liabilities, not measured at fair value through profit or loss in the amount of EUR 1.1 million;
- other net loses in the amount of EUR 1.8 million.

The SID Group's **operating costs** amounted to EUR 14.5 million in 2014, up 8.2% on 2013. Labour costs amounted to EUR 9.4 million, up 6.3% on 2013. Costs of material and services amounted to EUR 4.1 million, up 14% compared to the previous year. Amortisation and depreciation costs were up 4.1%, totalling EUR 1 million.

Net **impairment and provisions** of the SID Bank Group totalled EUR 34.3 million, down 44.8% on 2013.

8.6 Important Events in 2014

SID Bank passes the ECB Comprehensive Assessment with flying colours

Before the ECB assumed responsibility for the supervision of the euro area credit institutions within the framework of the Single Supervisory Mechanism (SSM) formally launched in November 2014, the Comprehensive Assessment made up of the Asset Quality Review and the Stress Test was performed at SID Bank as an important credit institution. The ECB performed the review of SID Bank in cooperation with the Bank of Slovenia and the audit firm PWC.

SID Bank passed the Comprehensive Assessment with flying colours since no capital shortfall was identified. With the Common Equity Tier 1 ratio of 22.83 per cent, SID Bank exceeds a minimum CET 1 ratio of 8% (an adjustment was made for the purpose of the AQR), and with 23.80 per cent the bank meets the threshold of 8 per cent CET 1 ratio under the baseline scenario, and with 14.45 per cent surpasses also the 5.5 per cent CET 1 ratio for the adverse scenario of the stress test.

The business model in place at SID Bank in relation to the management of risks to which the Bank is exposed in the course of its operations has proven its robustness both over a short- and medium-term (with the same business model and other assumptions remaining the same) and no recapitalisation by the Bank's owner would be required. At the end of 2013, the Common Equity Tier I ratio including the retained earnings for 2013 was 24.23 per cent.

The Asset Quality Review identified a negative impact on the Common Equity Tier 1 of EUR 22.02 million, i.e. 1.5 basis points on the Common Equity Tier 1 ratio, of which EUR 3.03 million arising from the bank's exposure to institutions (namely credit institutions and investment companies) and EUR 18.99 million arising from exposures to corporates. SID Bank has already formed adequate impairments and provisions for this segment in accordance with International Financial Reporting Standards.

After SID Bank fared well in the ECB Comprehensive Assessment, the ECB decided that since the Bank engages in a specific kind of operations and the Capital requirements regulation and directive provides for exceptions in case of certain credit institutions, it will not be encompassed in the ECB's Single Supervisory Mechanism in the future. The supervisory roles entrusted by the European legislators to the ECB do note encompass the institutions referred to in Article 2(5) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms to which also SID Bank belongs. Even though SID Bank is not subject to the ECB's supervisory tasks, it continues to be supervised by the Bank of Slovenia in accordance with national law.

The Bank's performance

The bank performed in accordance with the business plan adjusted to the changed conditions, particularly toward the year-end.

SID Bank redeemed in April part of its bonds with maturity in April 2015 by inviting bondholders to take cash or to replace the old bonds with the new, 3-year bond. All offers to sell the bonds were accepted and payments were made in cash to the bondholders in the total nominal value of EUR 53.1 million and the bondholders offered to replace the old bond with the new one for the total nominal amount of EUR 95.2 million. In both types of transactions, the offered purchase price was 101.50 per cent of nominal amount of the bond. Having carried out the transaction, the amount of the existing bond SEDABI 3 04/21/15 fell below EUR 500 million further reducing refinancing risk of SID Bank in 2015.

As regards direct financing to companies by tapping into the funding provided by the European Union, i.e. the Republic of Slovenia, an annex to the Contract concluded with the Ministry of Economic Development and Technology was signed in July serving to extend the time frame for the implementation of the Development and Promotional Programme of SID Bank for micro financing of the operations of small and medium-sized enterprises 2013-2014 and for financing infrastructure and environmental projects of the Slovenian municipalities. SID Bank can grant loans until 30 June 2015. Another annex to the contract concluded with the Ministry of the Economic Development and Technology was signed in July serving to extend for one year the deadline for the first drawing down of financing provided by the loan fund to approve lending under the credit line of the Development and Promotional Programme of SID Bank for financing technology and development projects 2011-2013.

The Group's performance

In January, SID Bank and NLB (the owners of the Prvi faktor Group) signed a shareholders' agreement with FIMBanka that paved the way to FIMBanka to acquire a 40 per cent stake in the Prvi faktor Group with an option to increase its shareholding to 60 per cent. The agreement would enable SID Bank to decrease its shareholding in the Prvi faktor Group to 30 per cent. According to the agreement, FIMBanka was supposed to become a shareholder of Prvi faktor Ljubljana by 30 June 2014 but the deal hit an impasse.

After the Prvi faktor Group faced with financial difficulties, SID Bank assumed the risks associated with part of the Group's portfolio in January 2014 in the total amount of EUR 12.2 million and it led to a loss of EUR 1.7 million in its books.

The Annual General Meeting of Prvi faktor, Ljubljana dismissed the directors of Prvi faktor, Ljubljana Ernest Ribič and Matej Špragar effective 29 May 2014 and appointed Tomaž Kačar, director of Prvi faktor, Zagreb to serve as acting director.

In December, SID Bank issued additional sureties to the Prvi faktor Group in the total amount of EUR 24 million and also formed provisions in the same amount.

Bank's credit ratings

In February 2014, the rating agency Standard & Poor's Rating Services awarded to SID Bank an A- long-term credit rating with stable outlook and a short-term credit rating is A-2. The credit rating of SID Bank is at the same level as the sovereign rating awarded to the Republic of Slovenia. The credit rating of Moody´s Investors Service for SID Bank was also published in February and conformed the Bank's Ba1 with the upgraded outlook from negative to stabile.

After the outlook for the sovereign rating of the Republic of Slovenia changed from stable to negative on 27 June 2014, the rating agency Standard & Poor´s revised with effect on 1 July 2014 the outlook for the credit rating of SID Bank, d.d., Ljubljana from stable to negative.

FINANCIAL REPORT

Declaration by the Management Board on the Financial Statements of SID Bank and the SID Bank Group

On 2 March 2015 the Management Board hereby approves the financial statements of SID Bank and the SID Bank Group, and the annual report for the year ending 31 December 2014. The financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU.

The Management Board believes that SID Bank and the Sid Bank Group have sufficient resources to operate as going concerns.

The Management's responsibilities are:
- To employ relevant accounting policies, and to ensure that they are consistently applied,
- To make use of reasonable and prudent accounting estimates and judgments,
- To ensure that the financial statements are compiled on a going-concern basis for SID Bank and the SID Bank Group.

The Management Board is responsible for maintaining accounting documents and records to disclose the financial position of SID Bank and the SID Bank Group with reasonable accuracy at any time. The Management Board is also responsible for ensuring that the financial statements have been compiled in accordance with the legislation and regulations of the Republic of Slovenia. The Management must do everything possible to safeguard the assets of SID Bank and the SID Bank Group, and must undertake the necessary action to prevent or detect any fraud or other irregularities.

The tax authorities may audit a bank's operations at any time in the five years after the date that tax was due to be levied, which may result in additional tax liabilities, penalty interest and fines in connection with corporate income tax or other taxes and levies. The Management Board is not aware of any circumstances that could give rise to any significant liability on this account.

The Management Board of SID banka d.d.

Jožef Bradeško
Member

Sibil Svilan (MSc)
President

Independent Auditor's Report about the Financial Statements of SID Bank and the SID Bank Group

KPMG

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of SID – Slovenska izvozna in razvojna banka, d.d. which comprise the statement of financial position as at 31 December 2014, the income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SID – Slovenska izvozna in razvojna banka, d.d. as at 31 December 2014, and 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

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

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

mag. Simona Korošec Lavrič	Boris Drobnič
Certified Auditor	*Partner*

KPMG Slovenija, d.o.o.

Ljubljana, 30 March 2015

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

KPMG

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company SID – Slovenska izvozna in razvojna banka, d.d and its subsidiaries (SID Bank Group), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the SID Bank Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

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

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

mag. Simona Korošec Lavrič	Boris Drobnič
Certified Auditor	*Partner*
Ljubljana, 30 March 2015	KPMG Slovenija, d.o.o.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

1 Financial statements of SID Bank and SID Bank Group

1.1 Statement of financial position

		SID Bank		SID Bank Group		
In EUR thousand	Note	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Cash on hand, balances with the central bank and demand deposits with banks	2.4.1	3,051	177,458	7,554	179,745	762
Financial assets held for trading		0	0	0	0	1
Available-for-sale financial assets	2.4.2	710,983	344,433	733,053	364,941	326,652
Loans	2.4.3	2,818,627	3,216,220	2,824,019	3,226,413	3,692,407
Loans to banks		2,180,886	2,614,462	2,186,274	2,624,659	3,042,572
Loans to clients other than banks		637,327	601,136	637,327	601,135	649,294
Other financial assets		414	622	418	619	541
Derivatives held for hedging	2.4.4	28,394	36,095	28,394	36,095	78,003
Property, plant and equipment	2.4.5	6,190	3,324	9,229	6,643	7,238
Intangible assets	2.4.5	713	677	1,318	1,258	1,100
Long-term interests in subsidiaries, associates and joint ventures	2.4.6	8,831	8,831	419	419	5,268
Corporate income tax assets	2.4.7	0	307	427	338	1,123
Current tax assets		0	0	427	0	1,090
Deferred tax assets		0	307	0	338	33
Other assets	2.4.8	247	220	26,970	29,145	32,127
Non-current assets held for sale		0	0	0	0	2,718
TOTAL ASSETS		**3,577,036**	**3,787,565**	**3,631,383**	**3,844,997**	**4,147,399**
Financial liabilities held for trading		3	17	3	17	44
Financial liabilities measured at amortised cost	2.4.9	3,178,959	3,432,405	3,179,557	3,433,931	3,735,343
Bank deposits		23,827	40,497	23,827	40,497	44,301
Deposits of clients other than banks		6	6	6	6	5
Loans from banks and central banks		1,841,494	1,782,721	1,841,494	1,783,667	2,132,535
Loans from clients other than banks		381,461	472,965	381,461	472,965	150,063
Debt securities		930,353	1,134,713	930,353	1,134,713	1,406,725
Other financial liabilities		1,818	1,503	2,416	2,083	1,714
Derivatives held for hedging		0	129	0	129	0
Provisions	2.4.10	35,468	8,246	67,435	38,832	44,512
Corporate income tax liabilities	2.4.7	7,025	785	7,103	1,014	28
Current Tax liabilities		6,466	785	6,465	1,014	0
Deferred tax liabilities		559	0	638	0	28
Other liabilities	2.4.11	306	190	4,619	8,284	9,841
TOTAL LIABILITIES		3,221,761	3,441,772	3,258,717	3,482,207	3,789,768
Share capital		300,000	300,000	300,000	300,000	300,000
Share premium account		1,139	1,139	1,139	1,139	1,139
Accumulated other comprehensive income		6,644	1,706	7,132	1,648	897
Profit reserves		46,658	41,961	63,749	58,621	52,028
Treasury shares		(1,324)	(1,324)	(1,324)	(1,324)	(1,324)
Retained earnings (including net profit for the financial year)		2,158	2,311	1,970	2,706	4,891
EQUITY	2.4.12	355,275	345,793	372,666	362,790	357,631
TOTAL LIABILITIES AND EQUITY		**3,577,036**	**3,787,565**	**3,631,383**	**3,844,997**	**4,147,399**

1.2 Statement of profit or loss

		SID Bank		SID Bank Group	
In EUR thousand	Note	2014	2013	2014	2013
Interest income		97,604	117,832	98,093	118,551
Interest expense		(54,357)	(65,288)	(54,377)	(65,309)
Net interest	2.5.1	43,247	52,544	43,716	53,242
Dividend income	2.5.2	910	1,422	0	0
Fee and commission income		3,528	3,017	3,528	3,017
Fee and commission expense		(690)	(626)	(703)	(640)
Net fee and commission	2.5.3	2,838	2,391	2,825	2,377
Gains/(losses) realised on financial assets and liabilities not measured at fair value through profit or loss	2.5.4	(1,148)	15,568	(1,148)	15,569
Net gain on financial assets and liabilities held for trading		13	26	13	26
Gains on financial assets and liabilities measured at fair value through profit or loss	2.5.5	8,632	1,579	8,632	1,579
Changes in fair value in hedge accounting	2.5.6	134	1,053	134	1,053
Net exchange differences loss	2.5.7	(10)	(4)	(8)	(4)
Net gain or loss on derecognition of assets other than non-current assets held for sale		(5)	0	(5)	0
Other net operating gains	2.5.8	1,526	2,032	6,856	9,385
Administrative costs	2.5.9	(9,806)	(8,781)	(13,484)	(12,429)
Depreciation and amortisation	2.5.10	(613)	(589)	(984)	(945)
Provisions	2.5.11	(27,238)	6,454	(27,705)	6,704
Impairments	2.5.12	(6,330)	(67,995)	(6,626)	(68,849)
Share of losses of associates and joint ventures accounted for using the equity method		0	0	0	(1,762)
Profit from ordinary operations		**12,150**	**5,700**	**12,216**	**5,946**
Corporate income tax on ordinary operations	2.5.13	(7,606)	(834)	(7,824)	(1,538)
Net profit for the financial year		**4,544**	**4,866**	**4,392**	**4,408**
Basic earnings per share (in EUR)	2.5.14	**1.46**	**1.57**	**1.42**	**1.42**
Remedial earnings per share (in EUR)		**1.46**	**1.57**	**1.42**	**1.42**

1.3 Statement of comprehensive income

		SID Bank		SID Bank Group	
In EUR thousand	Note	2014	2013	2014	2013
Net profit for the financial year after tax		4,544	4,866	4,392	4,408
Other comprehensive income after tax		4,938	703	5,485	751
Items not reclassified into profit or loss		0	0	(17)	0
Actuarial gains or losses in connection to pension plans with defined benefit plans		0	0	(21)	0
Corporate income tax in connection to items not to be reclassified to profit or loss	2.4.7	0	0	4	0
Items which may be subsequently reclassified to profit or loss		4,938	703	5,502	751
Gain in connection to available-for-sale financial assets	2.4.2	5,949	877	6,628	931
Valuation gains taken to equity		7,296	1,431	7,975	1,486
Transfer of gains or losses into profit or loss		(1,347)	(554)	(1,347)	(555)
Corporate income tax in connection to items which may be subsequently reclassified to profit or loss	2.4.7	(1,011)	(174)	(1,126)	(180)
Total comprehensive income for the financial year after taxation		**9,482**	**5,569**	**9,877**	**5,159**

1.4 Statement of changes in equity

SID Bank

2014 In EUR thousand	Share capital	Share premium account	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE IN ACCOUNTING PERIOD (before adjustment) 1 JAN 2014	300,000	1,139	1,706	41,961	2,311	(1,324)	345,793
OPENING BALANCE IN ACCOUNTING PERIOD 1 JAN 2014	300,000	1,139	1,706	41,961	2,311	(1,324)	345,793
Total comprehensive income for the financial year after taxation	0	0	4,938	0	4,544	0	9,482
Transfer of net profit to profit reserves	0	0	0	4,697	(4,697)	0	0
CLOSING BALANCE IN ACCOUNTING PERIOD 31 DEC 2014	**300,000**	**1,139**	**6,644**	**46,658**	**2,158**	**(1,324)**	**355,275**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR (Note 2.4.13)					**2,158**		

2013 In EUR thousand	Share capital	Share premium account	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE IN ACCOUNTING PERIOD (before adjustment) 1 JAN 2013	300,000	1,139	1,003	37,012	2,394	(1,324)	340,224
OPENING BALANCE IN ACCOUNTING PERIOD 1 JAN 2013	300,000	1,139	1,003	37,012	2,394	(1,324)	340,224
Total comprehensive income for the financial year after taxation	0	0	703	0	4,866	0	5,569
Transfer of net profit to profit reserves	0	0	0	4,949	(4,949)	0	0
CLOSING BALANCE IN ACCOUNTING PERIOD 31 DEC 2013	**300,000**	**1,139**	**1,706**	**41,961**	**2,311**	**(1,324)**	**345,793**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR (Note 2.4.13)					**2,311**		

SID Bank Group

2014 In EUR thousand	Share capital	Share premium account	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE IN ACCOUNTING PERIOD (before adjustment) 1 JAN 2014	300,000	1,139	1,648	58,621	2,706	(1,324)	362,790
OPENING BALANCE IN ACCOUNTING PERIOD 1 JAN 2014	300,000	1,139	1,648	58,621	2,706	(1,324)	362,790
Total comprehensive income for the financial year after taxation	0	0	5,484	0	4,393	0	9,877
Transfer of net profit to profit reserves	0	0	0	5,129	(5,129)	0	0
CLOSING BALANCE IN ACCOUNTING PERIOD 31 DEC 2014	**300,000**	**1,139**	**7,132**	**63,750**	**1,970**	**(1,324)**	**372,667**

2013 In EUR thousand	Share capital	Share premium account	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE IN ACCOUNTING PERIOD (before adjustment) 1 JAN 2013	300,000	1,139	897	52,028	4,891	(1,324)	357,631
OPENING BALANCE IN ACCOUNTING PERIOD 1 JAN 2013	300,000	1,139	897	52,028	4,891	(1,324)	357,631
Total comprehensive income for the financial year after taxation	0	0	751	0	4,408	0	5,159
Transfer of net profit to profit reserves	0	0	0	6,593	(6,593)	0	**0**
CLOSING BALANCE IN ACCOUNTING PERIOD 31 DEC 2013	**300,000**	**1,139**	**1,648**	**58,621**	**2,706**	**(1,324)**	**362,790**

1.5 Cash flow statement

		SID Bank		SID Bank Group	
In EUR thousand	Note	2014	2013	2014	2013
A. CASH FLOWS FROM OPERATING ACTIVITIES					
a) Net profit or loss before tax		12,150	5,700	12,216	5,946
Depreciation and amortisation	2.5.10	613	589	984	945
Impairments of available-for-sale financial assets	2.5.12	828	460	828	460
Loan impairment	2.5.12	5,502	64,448	5,502	64,447
Impairment of property, plant and equipment, investment property, intangible assets and other assets	2.5.12	0	0	296	855
Impairment of interests in subsidiaries, associates and joint ventures	2.5.12	0	3,087	0	3,087
Loss from interests in associates and joint ventures calculated by the equity method		0	0	0	1,762
Net exchange differences loss		10	4	7	4
Net losses on disposal of property, plant and equipment and investment property		5	0	5	0
Other (gains) from investment activities	2.5.2	(910)	(1,422)	0	0
Other adjustments in pre-tax net profit or loss		27,092	(7,531)	27,558	(7,782)
Cash flows from operating activities before changes in operating assets and liabilities		45,290	65,335	47,396	69,724
b) Decrease in operating assets		8.510	97,341	10,065	97,155
Net decrease in financial assets held for trading		0	1	0	1
Net (increase) in available-for-sale financial assets		(365,301)	(31,490)	(366,316)	(38,067)
Net decrease in loans		369,097	107,190	369,760	111,501
Net decrease in assets held for hedging		4,741	18,876	4,741	18,876
Net decrease in non-current assets held for sale		0	2,718	0	2,718
Net (increase)/decrease in other assets		(27)	46	1,880	2,126
c) (Decrease) in operating liabilities		(253,928)	(274,353)	(257,720)	(275,228)
Net (decrease) in financial liabilities held for trading		(1)	(1)	(1)	(1)
Net (decrease) in deposits and loans measured at amortised cost		(52,629)	(26,557)	(53,557)	(26,898)
Net (decrease) in debt securities measured at amortised cost		(201,267)	(247,796)	(201,267)	(247,796)
Net (decrease) in derivative financial liabilities held for hedging		(129)	(2)	(129)	(2)
Net increase/(decrease) in other liabilities		98	3	(2,766)	(531)
d) Cash flows from operating activities (a+b+c)		(200,128)	(111,677)	(200,259)	(108,349)
e) (Paid)/refunded corporate income tax		(1,059)	54	(1,824)	233
f) Net cash flows from operating activities (d+e)		(201,187)	(111,623)	(202,083)	(108,116)
B. CASH FLOWS FROM INVESTING ACTIVITIES					
a) Inflows from investing activities		910	1,422	0	0
Other inflows from investment activities	2.5.2	910	1,422	0	0
b) Outflows from investing activities		(3,520)	(435)	(3,635)	(508)
(Cash payments for the acquisition of property, plant and equipment and investment property)		(3,331)	(159)	(3,365)	(208)
(Cash payments for the acquisition of intangible long-term assets)		(189)	(276)	(270)	(300)
c) Net cash flows from investing activities (a+b)		(2,610)	987	(3,635)	(508)
D. Effect of exchange rate difference on cash and cash equivalents		6	(163)	6	(163)
E. Net increase in cash assets and cash equivalents (Af+Bc+Cb)		(203,797)	(110,636)	(205,718)	(108,624)
F. Opening balance of cash and cash equivalents	2.4.1	206,842	317,641	218,654	327,441
G. Closing balance of cash and cash equivalents (D+E+F)	2.4.1	3,051	206,842	12,942	218,654

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

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

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

Cash flows from investing activities are determined using the direct method and include dividends received among inflows from investing activities, and outflows for acquisition of property, plant and equipment and investment property and intangible assets among outflows from investing activities.

The negative cash flow in 2014 is mainly due to decrease in total assets on the one hand, and due to changes in market conditions and transfer of liquid assets from short-term deposits with banks and the central bank into securities on the other hand.

In 2014 the majority of other adjustments in net profit or loss at the Bank and the Group consist of provisions for off-balance-sheet liabilities.

Cash flows from interest and dividends

	SID Bank		SID Bank Group	
In thousands of EUR	2014	2013	2014	2013
Cash flows from interest and dividends				
Interest received	96,605	122,968	97,455	123,804
Interest paid	(53,233)	(64,652)	(53,248)	(64,673)
Dividends received	910	1,422	0	0
Total	**44,282**	**59,738**	**44,207**	**59,131**

2 Notes to the financial statements

Items 1.1 to 1.5 of this report present the Statement of financial position as at 31 December 2014, Statement of profit or loss for the fiscal year 2014, Statement of comprehensive income for the fiscal year 2014, Statement of changes in equity for the fiscal year 2014 and Statement of cash flows for the year 2014 for SID Bank (separate accounts) and SID Bank Group (consolidated statements). Statements also include comparable data as at 31 December 2013 or fiscal year 2013. The comparative figures for the Group have been adjusted in accordance with the International financial reporting standards.

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

2.1 Basic information

SID Bank Group (hereinafter: SID Bank Group or the group) consists of SID – Slovenska izvozna in razvojna banka d.d., Ljubljana (hereinafter: SID Bank or the bank) as the parent company and its affiliates, joint ventures and co-foundation. The Group is presented in detail in Note 2.4.6.

SID Bank Group provides banking services in accordance with the licenses granted by the Bank of Slovenia, transactions under the authority of the Republic of Slovenia, credit insurance, factoring and debt collection. Among banking transactions the major part consists of granting loans to promote development, environmental and energy projects. A detailed description of transactions under the authority of the Republic of Slovenia is presented in Note 2.3.21.

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

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

2.2 Statement of Compliance

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

2.3 Significant accounting policies

The significant accounting policies, which provide the measurement basis used for the compilation of financial statements of SID Bank and SID Bank Group, as well as other accounting policies that are relevant to the understanding of the separate and consolidated financial statements, are indicated bellow.

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

The approved accounting policies were consistently applied in the two reporting periods.

2.3.1 Basic premises for the preparation of financial statements

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

The accounting policies may only be changed if:
- the change is mandatory under a standard or interpretation, or
- the change results in the financial statements presenting information of greater reliability or relevance.

2.3.2 Use of estimates, judgements and material uncertainty

The compilation of the financial statements in accordance with the IFRS at SID Bank and SID Bank Group requires the use of estimates and judgements that affect the carrying amounts of reported assets and liabilities, the disclosure of contingent assets and liabilities as at the reporting date, and the amount of revenue and expenses in the reporting period. Financial instruments are assigned to a category upon initial recognition with regard to the policy of SID Bank and SID Bank Group. Estimates and judgements were used for:
- Impairment of loans and receivables, provisions for contingent liabilities and impairment of available-for-sale financial assets (further clarifications are in Note 2.3.11 under the title: Impairments of financial assets),
- Estimate of fair value of financial assets and liabilities (further clarifications are in Note 2.3.11 under the title: The principles used in valuation at fair value),
- Derivatives (further clarifications are in Note 2.3.12 under the title: Derivatives held for hedging),
- Amortisation/depreciation period for property, plant and equipment and intangible assets (further clarifications are in Note 2.3.13 under the title: Property, plant and equipment and intangible assets),
- Potential tax items (further clarifications are in Note 2.3.22 under the title: Taxes) and
- Provisions for employee benefits (further clarifications are in Note 2.3.23 – Employee benefits).

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

2.3.3 Consolidation

Investees included in consolidation

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

All mutual receivables and liabilities between entities in the Group are excluded in the consolidation process, as are all revenues and expenses generated within the Group. There were no unrealised gains and losses arising from mutual transactions. There are no non-controlling interests.

Investees excluded from consolidation

Given their lack of material significance to a true and fair picture of the financial statements, SID Bank does not include Pro Kolekt Group or the Centre for International Cooperation and Development (hereinafter: CMSR) in the consolidation.

The total assets of Pro Kolekt Group and the CMSR amount to less than 1% of SID Bank's total assets. The consolidated revenues of the investees in Pro Kolekt Group and the CMSR also amount to less than 1% of SID Bank's revenues. On the basis of the aforementioned indicator, Pro Kolekt Group and the CMSR are not of material significance to SID Bank Group, and are therefore excluded from consolidation. The undertakings in Pro Kolekt Group and the CMSR are also excluded from consolidation according to the Regulation on the supervision of banks and savings banks on a consolidated basis.

Judgements in determination of control over investees

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

2.3.4 Functional and presentation currency

Euro is the functional and presentation currency of SID Bank and SID Bank Group.

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

2.3.5 Translation of transactions and items in foreign currency

Transactions in foreign currency are translated into the functional currency on the transaction date. Exchange differences are recognised in the statement of profit or loss as exchange differences gain or loss.

Items in assets and liabilities denominated in foreign currencies are converted in the Group’s financial statements using the reference European Central Bank exchange rate applicable on the reporting date. Translation effects are disclosed in the statement of profit or loss as exchange differences gain or loss.

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

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

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

The translation of the financial statements of investees whose functional currency differs from the presentation currency is reflected in exchange differences from consolidation, which are disclosed in a separate equity adjustment and only recognised in statement of profit or loss when the investment is disposed of.

2.3.6 Cash equivalents

Assets not held for trading and with an original maturity of no more than three months are disclosed as cash equivalents in the statement of cash flows. All cash, deposits, loans to banks and available-for-sale securities are included.

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

2.3.7 Interest income and expense

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

Interest income and expense on loans granted and received and for other interest are recognised in the statement of profit or loss in the relevant period using the effective interest rate method.

Accrued interest on impaired loans is excluded from income by the Bank, and is only recognised if and when payment occurs.

For available-for-sale financial assets, interest income is calculated by means of the return to maturity on the basis of the calculation of the amortised cost using the effective interest rate method.

2.3.8 Dividend income

Dividends received from subsidiaries and joint ventures are disclosed as dividend income for the Bank. Dividend income is recognised in the statement of profit or loss when the right to receive dividends is acquired.

2.3.9 Fee and commission

Fee and commission income primarily comprises fees and commissions on loans and guarantees given, while fee and commission expense primarily comprise fees and commissions on borrowings. Fees and commissions are generally recognized in the income statement when the service is performed.

2.3.10 Other net operating gains or losses

Other net operating gains or losses disclosed in the statement of profit or loss include revenues for non-banking services, revenues from insurance operations and expense from insurance operations.

Revenue from non-banking services include revenues from credit assessment information, fees for services provided under authorisation, rents and other services. It is recognised in the statement of profit or loss when the service is performed and the receivable recognised.

2.3.11 Financial instruments

Classification

Financial assets

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

- Loans and receivables are financial assets with fixed or determinable payments not traded on an active market.
- Financial assets held to maturity are financial assets with fixed and determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity.
- Available-for-sale financial assets are assets not purchased for the purpose of trading. The item includes equities and debt securities. Debt securities are classified in this category for the purpose of being held indefinitely, having been purchased for the management of current liquidity.

- Financial instruments at fair value through profit or loss, which are further divided into financial assets held for trading, derivatives held for hedging and other financial assets at fair value through profit or loss. The Group classifies derivatives not used to hedge against risk as financial assets held for trading. Derivatives held for hedging primarily comprise interest rate swaps, and serve to hedge against the interest rate risk that the Bank faces in its daily operations on the financial markets.

Financial liabilities

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

Financial liabilities at fair value through profit or loss are:

- Financial liabilities held for trading, where derivatives for which hedge against risk is not used are classified, and
- Derivatives held for hedging, where derivatives that meet the criteria for hedge accounting are classified.

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

All other financial liabilities are classified into the category of liabilities at amortised cost, which comprise liabilities from deposits and loans from banks, central banks and clients other than banks, issued debt securities and other financial liabilities.

Measurement, recognition and derecognition

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

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

Purchases and sales of financial assets other than loans and receivables are recognised on the trade date. Loans and receivables are recognised on the settlement date.

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

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

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

After initial recognition the financial liabilities are measured by amortised cost, the difference between the initially recognised amount and the amount at maturity is recognised in the statement of profit or loss using the effective interest rate method.

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

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

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

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

The principles used in valuation at fair value

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

For the financial instruments, which are recognised and measured at amortised cost, fair value is determined by the model, which calculates the net present value of cash flows using interest rates prevailing in new contracts for the same products.

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

Gains and losses

Gains and losses arising on changes in the fair value of financial instruments at fair value through statement of profit or loss are recognised in profit or loss in the period in which they occur.

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

Impairment of financial assets

Loans and receivables

The Group regularly examines, by no later than the end of each reporting period, whether there is objective evidence of any impairment of loans, other financial assets, and factoring receivables.

Loans and receivables are impaired if events have occurred that reduce expected future cash flows, and the reduction can be reliably estimated. Objective evidence of the impairment of financial assets includes significant information in connection with a client's financial difficulties, breaches of contract such as a failure to perform obligations or breaches in the payment of interest and principal, the likelihood of a client's bankruptcy or financial reorganisation, and an adverse economic situation in the local environment.

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

Estimation of credit risk losses is explained in detail in Chapter 3.1 of the financial statements.

Impairment and provision – loans and guarantees

Financial assets derived from loans and guarantees are allocated into individually or collectively impaired assets. Individually impaired items comprise:

- Individually significant items where the total exposure to a single client exceeds EUR 200 thousand for classification purposes, and
- Financial assets that the Bank judges should be impaired individually.

If during the individual assessment of a financial asset there exists objective evidence of impairment, 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 are measured collectively.

The estimated losses for collective impairment is based on a three-year average of estimated losses from financial assets in the group in question, which is adjusted to current economic situation.

Total exposures not subject to individual impairment are classified into groups on the basis of the type of financial asset and the credit rating of the debtor.

The calculation of the credit risk losses of an individually significant financial asset takes account of prime eligible collateral and other credit protection that fully satisfies the conditions specified in 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 transactions (factored receivables, receivables from reverse factoring – hereinafter: factoring receivables) are created whenever it is assessed that specific receivables cannot be redeemed in accordance with the contractual provisions and a loss is expected.

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

In case of individually significant items, where evidence exists of impairment of these assets, the factoring receivables are impaired individually, while other factoring receivables are impaired collectively. In case no evidence of impairment is found in individually assessed factoring receivables, they are included in a group of factoring receivables with similar credit risk characteristics and are impaired collectively.

The existing evidence of impairment shall be significant financial difficulties of the debtor, breach of contractual obligations by the debtor, restructuring of financial assets due to financial difficulties of the debtor, probability or the existence of bankruptcy or financial reorganization of the debtor, adverse changes in the payment of debts and worsening of the economic conditions affecting the settlement of funding.

The amount of the adjustment or impairment of a receivable is estimated on the basis of an assessment of the individual debtor.

Provisions for contingent liabilities are formed using the method used for impairment of loans. When unused loans are disbursed or guarantees redeemed, the formed provisions are cancelled.

Restructured loans

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

All differences arising from the restructuring are recognised in the statement of profit or loss.

Available-for-sale financial assets

Equity instruments are impaired if there is objective evidence of impairment as a result of a loss event or events occurring after initial recognition. Objective evidence of impairment is assumed to have arisen when the fair value declines by more than 40% from the original cost, or when the fair value has been lower than the original cost for more than nine months. When none of the impairment judgement criteria has been met, but in the opinion of the Bank’s credit committee there is sufficient information providing solid, objective evidence of the impairment of equity instruments, impairment is applied after individual judgement of the financial asset in question.

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

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

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

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

2.3.12 Derivatives held for hedging

This item comprises derivatives that meet the conditions for hedge accounting.

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

At the inception of a hedge the Bank must compile a formal document describing the relationship between the hedged item and the hedging instrument, the risk management objective, the valuation methodology and the hedging strategy. It must also document the assessment of the effectiveness of hedging instruments when faced with exposure to changes in the fair value of the hedged item. These are the criteria that must be met to qualify as a hedge relationship. These are the criteria that must be met to qualify as a hedge relationship. The Bank assesses the effectiveness of the hedge when the transaction is concluded and throughout the life of the hedging relationship, where the effectiveness should fall within the range of 80% to 125%. Hedge accounting discontinues if the hedging instrument expires or is sold, or when the hedge no longer satisfies the aforementioned criteria for hedge accounting.

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

SID Bank actively manages interest rate risk by means of hedging transactions. The purpose of hedging is to mitigate risks deriving from potential losses occurring as a result of changes in market interest rates.

2.3.13 Property, plant and equipment and intangible assets

Property, plant and equipment

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

Property, plant and equipment are valued at original cost upon initial recognition. The original cost comprises the purchase price, import duties and non-refundable purchase taxes, and the costs that can be directly attributed to making the asset fit for its intended use. Subsequently incurred costs in connection with an item of property, plant and equipment are disclosed as maintenance costs or an increase in the original cost of the asset.

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

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

Property, plant and equipment become subject to depreciation when the asset is available for use. Amortisation is calculated on a straight-line basis.

The following depreciation rates are applied:

	SID Bank and SID Bank Group (%)
Buildings and parts of buildings	2 – 5
Computer equipment	25 – 50
Cars	12,5 – 20
Furniture	11 – 20
Other equipment	20 – 25
Small items	20 – 100

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

- The fair value less cost to sell, or
- The value in use, whichever is the larger.

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

Intangible assets with a definite useful life

The item includes investments in software and other property rights. If the useful life is definite, its useful life is estimated and it is subject to amortisation at a rate of 20% to 25% for software and 12% to 20% for other property rights. Amortisation is calculated on a straight-line basis.

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

- The fair value less cost to sell, or
- The value in use, whichever is the larger.

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

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

Goodwill

Goodwill arises in the acquisition of investments in subsidiaries or joint ventures, when the original cost exceeds the fair value.

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

2.3.14 Investment property

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

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

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

2.3.15 Long-term interests in subsidiaries and joint ventures

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

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

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

Impairment tests are made each year for interests in joint ventures. For subsidiaries where SID Bank has a controlling influence, there have been no indications of impairment, for which reason impairment tests have not yet been made on these investees.

2.3.16 Other assets

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

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. recoverable amount is checked on the balance sheet date for various types of receivables according to different methods. If there is objective evidence of an impairment of a receivable carried at amortized cost, the amount of the impairment loss is disclosed under impairment in connection to receivables; the carrying amount of the receivable is decreased in a separate allowance account.

2.3.17 Provisions for liabilities and costs

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

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

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

2.3.18 Other liabilities

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

2.3.19 Equity

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

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

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

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

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

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

The equalisation reserve, which derives from insurance contracts, is disclosed in a separate item in the profit reserves, and serves as a reserve for the equalisation of credit risks. Changes therein are similarly disclosed.

2.3.20 Contingent liabilities and financial liabilities

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

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

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

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

The insurance operations and the Interest Rate Equalisation Programme that SID (as an Agent) Bank provides on behalf of the Republic of Slovenia are disclosed in separate items, as determined by the Bank of Slovenia for the administration of transactions under authorisation. The assets and liabilities relating to these transactions are not included in the Bank's statement of financial position.

2.3.22 Taxes

Corporate income tax is accounted at the investees in SID Bank Group in accordance with local legislation.

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

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

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

2.3.23 Employee benefits

Employee benefits include retirement benefits and jubilee or other long-service benefits.

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

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

2.3.24 Calculation of earnings per share

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

2.3.25 Segment reporting

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

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

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

In 2014 the following standards had become effective and had been adopted by the Group:

- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities are effective for annual periods beginning on 1 January 2014 and do not significantly impact the financial statements of the Group.

- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting are effective for annual periods beginning on 1 or after January 2014 and do not significantly impact the financial statements of the Group.<t0/>

- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets are effective for annual periods beginning on or after 1 January 2014 and do not significantly impact the financial statements of the Group.<t0/>

- IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosure of Interests in Other Entities, the new IAS 27 (2011) – Separate Financial Statements, which was amended due to the issue of IAS 10, but retains the current guidance for separate financial statements, as well as the new IAS 28 – Investments in Associates and Joint Ventures (2011), which was amended in order to comply with the amendments of the issued IFRS 10 and IFRS 11. These standards are effective for annual periods beginning on or after 1 January 2014 and their amendments impact the presentation of consolidated financial statements of the Group (Note 2.3.27).

- Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities: Transition Guidance are effective for annual periods beginning on or after 1 January 2014 and they impact the presentation of consolidated financial statements of the Group.

- IFRIC 21 – Levies is effective for annual accounting periods beginning on 17 June 2014. The Group does not expect the initial application of this interpretation to have a significant impact on its financial statements.

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

- IFRS 9 – Financial instruments. IFRS 9 was completed in full in July 2014 and is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group has not yet assessed their impact on the financial statements.

- IAS 19 – Employee benefits: Employee Contributions is effective for annual periods beginning on 1 February 2015. The Group does not expect the amendment to impact the financial statement, since the Group has no defined benefit plans for employees or other persons.
- IFRS 14 – Regulatory Deferral Accounts is effective for annual periods beginning on or after 1 January 2016; no quantitative impact to the financial statements is expected.

- IFRS 15 – Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2017; no quantitative impact to the financial statements is expected.

- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation is effective for annual periods beginning on or after 1 January 2016. The application of the amendment is not expected to significantly impact the financial statements.

- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations are effective for annual periods beginning on or after 1 January 2016. The Group cannot assess their impact on the financial statements before the initial application of the changes.

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture are effective for annual periods beginning on or after 1 January 2016. The Group cannot assess their impact on the financial statements before the initial application of the changes.

- Amendments to IAS 27 – Equity Method in Separate Financial Statements are effective for annual periods beginning on or after 1 January 2016. The Group cannot assess their impact on the financial statements before the initial application of the changes.

- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants are effective for annual periods beginning on or after 1 January 2016 and do not significantly impact the financial statements of the Group.

- Annual Improvements to IFRSs 2012–2014 Cycle The improvements comprise amendments and interpretations and are effective for annual periods beginning on or after 1 January 2016. No quantitative impact to the financial statements is expected.

The Group decided not to apply any standards before the date of mandatory application.

2.3.27 Changes in the financial statements

In 2014 the financial statements' schemes were amended for the purposes of their public release as at 31.12.2014. SID Bank and SID Bank Group used the amended schemes for the disclosure of information for the year 2014 thus ensuring comparability of data as at 31 December 2013.

Changes in the statement of financial position are as follows:
- The item »Cash on hand and balances with the Central Bank« is renamed to »Cash, cash balances at central banks and other demand deposits« because it also includes demand deposits with banks under the new scheme.
- The items »Financial liabilities with central banks« and »Financial liabilities associated with transferred financial assets that do not qualify for derecognition« are eliminated, since these two financial instruments measured at amortised cost are fully integrated in the new scheme within the item »Financial liabilities measured at amortised cost«, and accordingly the titles of items »Deposits from banks« and »Loans from banks« are both complemented with the phrase »and central banks«,
- while the item »Revaluation surplus« is renamed to »Accumulated other comprehensive income«.

Changes in statement of profit or loss, statement of comprehensive income and statement of changes in equity had no effect on the disclosures of SID Bank and SID Bank Group.

Effects of changes in the statement of financial position as at 31 December 2013

	SID Bank	Group SID Bank
Cash on hand, balances with the central bank and demand deposits with banks	42	2,329
Loans	(42)	(2,329)
Loans to banks	(42)	(2,329)
Financial liabilities with the central bank	(207,742)	(207,742)
Financial liabilities measured at amortised cost	207,742	207,742
Loans from banks and central banks	207,742	207,742

In 2014 new standards had become effective, which had been adopted by the Group and impact on the presentation of its consolidated financial statements.

In accordance with the newly adopted standard IFRS 11 – Joint Arrangements SID Bank Group included the investment in Prvi Faktor Group in the consolidated financial statements using the equity method. The transition from proportionate consolidation to the equity method was made as at the beginning of the first prior period i.e. 1 January 2013.

Comparison of the summaries of consolidated financial statements of SID Bank Group, the use of the equity method and proportionate consolidation as at 31 December 2013 and the year 2013

	SID Bank Group	
	Equity method	Proportionate consolidation
	31 Dec 2013	31 Dec 2013
Statement of financial position summary		
Total assets	3,844,997	3,939,577
Loans to banks	2,624,659	2,631,103
Loans to clients other than banks	601,135	682,212
Financial liabilities	3,433,948	3,517,075
Equity	362,790	373,964
	2013	2013
Statement of profit or loss summary		
Net interest	53,242	56,321
Net non-interest income	28,223	32,641
Operating costs	(13,374)	(16,585)
Impairments and provisions	(62,145)	(58,851)
Profit from ordinary operations	5,946	13,526
Net profit of the period	4,408	9,996
Total comprehensive income for the financial year after taxation	5,159	10,789

2.4 Notes to the statement of financial position

2.4.1 Cash

Cash on hand, balances with the central bank and demand deposits with banks

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Settlement account	2,979	5,915	2,979	5,915	408
Cash on hand	0	0	0	0	0
Overnight deposits with the central bank	0	171,501	0	171,501	0
Demand deposits with banks	72	42	4,574	2,329	354
Total	**3,051**	**177,458**	**7,554**	**179,745**	**762**

Cash equivalents

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Bank deposits	0	197,897	5,389	207,423	323,665
Securities	0	2,988	0	2,988	3,014
Cash on hand and balances on settlement account with the central bank	2,979	5,915	2,979	5,915	408
Demand deposits with banks	72	42	4,574	2,329	354
Total	**3,051**	**206,842**	**12,942**	**218,654**	**327,441**

The decrease in cash equivalents from EUR 206,842 thousand at the end of 2013 to 3,051 as at 31 December 2014 is reflected in the cash flow statement.

2.4.2 Available-for-sale financial assets

Breakdown by type of available-for-sale financial asset

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Bonds	480,541	250,698	502,611	271,206	243,073
Treasury bills	211,625	88,531	211,625	88,531	74,893
Deposit certificates	12,971	3,029	12,971	3,029	8,550
Shares and participating interests at fair value	5,846	2,175	5,846	2,175	135
Total	**710,983**	**344,433**	**733,053**	**364,941**	**326,652**
Listed	692,166	337,222	714,236	357,730	315,350
Unlisted	18,817	7,211	18,817	7,211	11,302
Total	**710,983**	**344,433**	**733,053**	**364,941**	**326,652**

Change in available-for-sale financial assets

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Balance as at 1 Jan	344,433	309,755	364,941	326,652
Recognition of new financial assets	590,106	204,621	595,371	210,963
Accrued interest	7,497	8,893	7,875	9,347
Interest paid	(7,617)	(7,043)	(8,377)	(7,618)
Changes in fair value	5,949	878	6,628	932
Net exchange differences	127	(25)	127	(25)
Derecognition of financial assets	(228,684)	(172,186)	(232,684)	(174,850)
Impairment through profit or loss	(828)	(460)	(828)	(460)
Balance as at 31 Dec	710,983	344,433	733,052	364,941

2.4.3 Loans

Loans to banks

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Loans	1,478,645	2,167,404	1,478,645	2,167,404	2,730,250
Deposits	711,045	457,671	716,434	467,866	349,458
Gross exposure	2,189,690	2,625,075	2,195,079	2,635,270	3,079,708
Value adjustments	(8,804)	10,612	(8,804)	(10,612)	(37,135)
Net exposure	**2,180,886**	**2,614,463**	**2,186,275**	**2,624,658**	**3,042,572**

Change in allowance account relating to impairment on loans to banks

	SID Bank and SID Bank Group	
	2014	2013
Balance as at 1 Jan	10,611	37,136
Created value adjustments of loans	7,878	48,315
Elimination of value adjustments of loans	(9,685)	(74,839)
Balance as at 31 Dec	8,804	10,612

Loans to clients other than banks

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Loans	851,517	815,613	851,517	815,613	782,509
Receivables from guarantees given	3,681	3,684	3,681	3,684	10,075
Gross exposure	855,198	819,297	855,198	819,297	792,584
Value adjustments	(217,871)	(218,162)	(217,871)	(218,162)	(143,290)
Net exposure	**637,327**	**601,135**	**637,327**	**601,135**	**649,294**

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

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

	SID Bank and SID Bank Group	
	2014	2013
Balance as at 1 Jan	218,162	143,290
Created value adjustments of loans	139,278	113,071
Elimination of value adjustments of loans	(131,964)	(22,454)
Write-offs	(5,683)	(15,727)
Other	(1,922)	(18)
Balance as at 31 Dec	217,871	218,162

Other financial assets

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Gross exposure	443	1,002	447	999	573
Value adjustments	(29)	(380)	(29)	(380)	(32)
Total	**414**	**622**	**418**	**619**	**541**

Change in allowance account relating to impairment on other financial assets

	SID Bank and SID Bank Group	
	2014	2013
Balance as at 1 Jan	380	32
Value adjustments	1,943	356
Elimination of value adjustments	(1,947)	(2)
Write-offs	0	(6)
Other	(346)	0
Balance as at 31 Dec	30	380

2.4.4 Derivatives held for hedging

	SID Bank and SID Bank Group	
	31 Dec 2014	31 Dec 2013
Fair value	18,576	24,576
Net interest receivables	9,818	11,519
Total	**28,394**	**36,095**

Using the financial accounting method the Bank and the Group hedged the fair value of issued bonds and the hired loan in total amount of EUR 697.7 million.

2.4.5 Property, plant and equipment and intangible assets

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

2014	Land and building	Computers	Other equipment	Total property, plant and equipment	Intangible assets (software)
Original cost					
Balance as at 1 Jan	6,803	758	826	8,387	1,785
Increase/decrease	3,109	24	21	3,154	189
Balance as at 31 Dec	9,912	782	847	11,541	1,974
Accumulated depreciation					
Balance as at 1 Jan	(3,748)	(684)	(631)	(5,063)	(1,108)
Depreciation and amortisation	(316)	(96)	(47)	(459)	(154)
Decrease	7	125	40	172	0
Balance as at 31 Dec	(4,057)	(655)	(638)	(5,350)	(1,262)
Carrying amount as at 31 Dec	**5,855**	**127**	**209**	**6,191**	**712**

2013	Land and building	Computers	Other equipment	Total property, plant and equipment	Intangible assets (software)
Original cost					
Balance as at 1 Jan	6,721	800	823	8,344	1,509
Increase/decrease	83	(42)	4	45	276
Balance as at 31 Dec	6,804	758	827	8,389	1,785
Accumulated depreciation					
Balance as at 1 Jan	(3,432)	(666)	(582)	(4,680)	(1,018)
Depreciation and amortisation	(316)	(122)	(61)	(499)	(90)
Decrease	0	104	10	114	0
Balance as at 31 Dec	(3,748)	(684)	(633)	(5,065)	(1,108)
Carrying amount as at 31 Dec	**3,056**	**74**	**194**	**3,324**	**677**

In 2014 the Bank renovated its office building. The project included the renovation of the building envelope, HVAC, plumbing and lightning systems. Due to renovation the value of the building increased for EUR 3.1 million.

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

2014	Land and building	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Original cost					
Balance as at 1 Jan	9,900	1,360	1,273	12,533	2,613
Increase/decrease	3,109	22	25	3,156	270
Balance as at 31 Dec	13,009	1,382	1,298	15,689	2,883
Accumulated depreciation					
Balance as at 1 Jan	(4,028)	(1,086)	(776)	(5,890)	(1,354)
Depreciation and amortisation	(438)	(236)	(100)	(774)	(211)
Decrease	7	157	41	205	0
Balance as at 31 Dec	(4,459)	(1,165)	(835)	(6,459)	(1,565)
Carrying amount as at 31 Dec	**8,550**	**217**	**463**	**9,230**	**1,318**

2013	Land and building	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Original cost					
Balance as at 1 Jan	9,817	1,355	1,267	12,439	2,312
Increase/decrease	83	5	7	95	301
Balance as at 31 Dec	9,900	1,360	1,274	12,534	2,613
Accumulated depreciation					
Balance as at 1 Jan	(3,590)	(939)	(672)	(5,201)	(1,212)
Depreciation and amortisation	(438)	(252)	(114)	(803)	(142)
Decrease	0	104	10	114	0
Balance as at 31 Dec	(4,028)	(1,086)	(776)	(5,890)	(1,354)
Carrying amount as at 31 Dec	**5,872**	**274**	**498**	**6,643**	**1,259**

2.4.6 Long-term interests in subsidiaries and joint ventures

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Investment in SID – PKZ Ljubljana	8,413	8,413	0	0	0
Investment in Pro Kolekt, Ljubljana	419	419	419	419	419
Investment in Prvi Faktor, Ljubljana	0	0	0	0	4,849
Total	**8,832**	**8,832**	**419**	**419**	**5,268**

The investment in Pro Kolekt Group is included in the SID Bank Group data, but is not consolidated due to its insignificance.

Subsidiaries' data

	SID Bank's holding in equity, %	Voting rights, %	Nominal amount of participating interests	Equity	Profit or loss
31 Dec 2014					
SID – PKZ	100	100	8,413	25,804	757
Pro Kolekt Group	100	100	419	203	(11)
31 Dec 2013					
SID – PKZ	100	100	8,413	25,410	2,727
Pro Kolekt Group	100	100	419	226	(19)

Joint ventures' data

	Voting rights held, %	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Profit or loss	Total revenue
31 Dec 2014								
Prvi Faktor Group	50	176,964	27,268	200,401	331	3,500	1,059	19,393
31 Dec 2013								
Prvi Faktor Group	50	238,106	2,995	261,065	337	(20,301)	(29,107)	27,394

2.4.7 Corporate income tax assets and liabilities

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Current tax assets	0	0	427	0	1,091
Deferred tax assets	0	307	0	338	33
Total tax assets	**0**	**307**	**427**	**338**	**1,123**
Current Tax liabilities	6,465	785	6,465	1,014	0
Deferred tax liabilities	559	0	637	0	28
Total tax liabilities	**7,024**	**785**	**7,102**	**1,014**	**28**

Deferred taxes

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Deferred tax assets					
Expense for impairment of equity investments	525	525	525	525	0
-revaluation expense for impairment of available-for-sale financial assets	240	231	240	231	173
Provisions for pensions and jubilee or other long-service benefits	37	33	63	52	43
Valuation of available-for-sale financial assets	134	2	134	14	18
Total	**936**	**791**	**962**	**822**	**235**
Deferred tax liabilities					
Valuation of available-for-sale financial assets	1,494	483	1,598	483	175
Elimination of impairment of available-for-sale financial assets	0	0	0	0	55
Total	**1,494**	**483**	**1,598**	**483**	**230**
Included in the statement of profit or loss	145	509	148	514	(256)
Included in equity	(1,011)	(174)	(1,123)	(180)	(763)

2.4.8 Other assets

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Other assets	247	220	440	289	414
Reinsurers’ assets	0	0	18,921	18,027	16,987
Receivables from insurance operations	0	0	17,291	18,503	17,539
Gross exposure	247	220	36,651	36,819	34,940
Value adjustments of insurance operations	0	0	(9,680)	(7,674)	(2,813)
Net exposure	**247**	**220**	**26,971**	**29,145**	**32,128**

The largest items of other assets of SID Bank Group consist of the technical reserves that are ceded to reinsurers, receivables from insurance operations (among them the largest are recourse receivables) and their value adjustments. In 2014, the reinsurers' assets increased due to higher provisions for outstanding claims and consequently an increase in their share ceded to reinsurers. Receivables from insurance operations decreased primarily due to lower premiums written and faster payments of invoices by several major insured clients compared to 2013, and also due to payments of recourse claims. Increase in value adjustments mainly arises from additional impairment of recourse receivables for one greater loss event (change of status from compulsory settlement to bankruptcy).

2.4.9 Financial liabilities measured at amortised cost

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Loans from banks and central banks	1,865,321	1,823,219	1,865,321	1,824,165	2,176,836
Loans	1,841,494	1,782,722	1,841,494	1,783,668	2,132,535
Deposits	23,827	40,497	23,827	40,497	44,301
Loans from clients other than banks	381,467	472,971	381,467	472,971	150,068
Loans	381,461	472,965	381,461	472,965	150,063
Deposits	6	6	6	6	5
Debt securities	930,353	1,134,713	930,353	1,134,713	1,406,725
Other financial liabilities	1,818	1,503	2,416	2,083	1,715
Total	**3,178,959**	**3,432,406**	**3,179,557**	**3,433,931**	**3,735,343**

In 2014 SID Bank continued to redeem the bonds with ticker symbol SEDABI3 21/04/15, which is due in April 2015, intending an early repayment of debt. In April 2014 SID Bank issued a public call for the purchase of bonds with the possibility of repayment of the debt in cash or of exchange for the newly issued bond. Given the interest of investors SID Bank issued a new bond marked SEDABI 2.25 24/04/17 on international capital markets with a nominal value of EUR 96.8 million, which is due in April 2017. In addition, SID Bank repaid in cash the SEDABI3 21/04/15 bonds in amount of EUR 53 million, so that the total nominal value of the SEDABI3 21.04.15 bonds amounted to EUR 148.3 million. At the same time the Bank terminated an interest rate swap in the same nominal amount, which was concluded for hedging interest rate risk.

2.4.10 Provisions

Change in provisions at SID Bank

	Provisions for off-balance-sheet liabilities – guarantees	Provisions for off-balance-sheet liabilities – undrawn loans	Provisions for pensions jubilee or other long-service benefits	Total
Balance as at 1 Jan 2014	1,888	6.093	265	8,246
Additions	36,576	8,649	65	45,290
Disposals	(5,458)	(12,592)	0	(18,050)
Spent	0	0	(17)	(17)
Balance as at 31 Dec 2014	**33,006**	**2,150**	**313**	**35,469**
Balance as at 1 Jan 2013	595	13,892	226	14,713
Additions	1,557	5,953	60	7,570
Disposals	(264)	(13,751)	0	(14,015)
Spent	0	0	(21)	(21)
Balance as at 31 Dec 2013	**1,888**	**6,094**	**265**	**8,247**

Change in provisions at SID Bank Group

	Provisions for off-balance-sheet liabilities – guarantees	Provisions for off-balance-sheet liabilities – undrawn loans	Provisions for pensions and jubilee or other long-service benefits	Change in liabilities from insurance contracts	Change in deferred income from reinsurance commissions	Total
Balance as at 1 Jan 2014	1,888	6.093	376	30,061	415	38,833
Additions	36,576	8,649	108	18,937	0	64,270
Disposals	(5,458)	(12,592)	0	(7,084)	(415)	(25,549)
Spent	0	0	(20)	(10,098)	0	(10,118)
Balance as at 31 Dec 2014	**33,006**	**2,150**	**464**	**31,816**	**0**	**67,436**
Balance as at 1 Jan 2013	595	13,892	321	28,861	843	44,512
Additions	1,557	5,953	77	18,424	0	26,011
Disposals	(264)	(13,751)	0	(4,237)	(427)	(18,679)
Spent	0	0	(21)	(12,987)	0	(13,008)
Balance as at 31 Dec 2013	**1,888**	**6,094**	**376**	**30,061**	**415**	**38,833**

Provisions for off-balance sheet liabilities in the amount of EUR 35,156 thousand were formed for potential losses arising from guarantees issued, approved undrawn loans and credit lines.

The major part consists of provisions formed for guarantees given to companies in the Prvi Faktor Group in the amount of EUR 31.6 million. An additional explanation is given in Note 2.5.11.

SID Bank formed provisions for pensions and jubilee benefits as at 31 December 2014 on the basis of its own calculations. Assumptions for the calculation are disclosed in Note 2.3.23.

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

2.4.11 Other liabilities

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Short-term deferred revenues	105	105	281	294	249
Deferred income	21	0	21	0	0
Included reinsurance liabilities	0	0	4,094	7,814	9,504
Liabilities from taxation	180	86	212	122	87
Other liabilities	0	0	11	53	1
Total	**306**	**191**	**4,619**	**8,284**	**9,841**

2.4.12 Equity

	SID Bank		SID Bank Group		
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Share capital	300,000	300,000	300,000	300,000	300,000
Profit reserves	46,658	41,960	63,749	58,621	52,027
Statutory reserves	9,412	9,184	10,268	10,040	9,797
Reserves for treasury shares	1,324	1,324	1,324	1,324	1,324
Reserves under articles of association	21,550	19,391	25,756	23,597	21,286
Other profit reserves	14,372	12,061	21,855	20,021	16,927
Credit risk equalisation reserves	0	0	4,545	3,639	2,692
Share premium account	1,139	1,139	1,139	1,139	1,139
Accumulated other comprehensive income in connection with available-for-sale financial assets	6,644	1,706	7,133	1,648	898
Repurchased treasury shares	(1,324)	(1,324)	(1,324)	(1,324)	(1,324)
Net profit for the financial year (including retained earnings)	2,158	2,311	1,970	2,706	4,893
Total	**355,275**	**345,792**	**372,667**	**362,790**	**357,631**

In 2014 there were no changes in the treasury shares fund. As st 31 December 2014 SID Bank held 18,445 shares of SID Bank with ticker symbol SIDR in total amount of EUR 1,324 thousand.

In accordance with a decree of the General Meeting of Shareholders of SID Bank the undistributed profit of the year 2013 in the amount of EUR 2,311 thousand was allocated to other profit reserves.

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

2.4.13 Distributable profit

	SID Bank	
	31 Dec 2014	31 Dec 2013
Net profit for the financial year	4,544	4,865
Portion of net profit allocated to statutory reserves	(227)	(243)
Portion of net profit allocated to reserves under articles of association	(2,158)	(2,311)
Distributable profit	**2,158**	**2,311**

From the net profit of SID Bank, which amounted to EUR 4,544 thousand for the year 2014, the Management Board in accordance with the articles of association formed statutory reserves in the amount of EUR 227 thousand and reserves under articles of association in the amount of EUR 2,158 thousand.

SID Bank's distributable profit may not be used for distribution to shareholders. In accordance with the Slovene Export and Development Bank Act (hereinafter: ZSIRB), the distributable profit is allocated to other profit reserves under a general meeting resolution.

2.5 Notes to the statement of profit or loss

2.5.1 Net interest

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Interest income				
Loans and deposits	72,860	84,532	72,971	84,797
Derivatives held for hedging	17,236	24,268	17,236	24,268
Available-for-sale financial assets	7,497	8,893	7,875	9,347
Financial assets held for trading	11	139	11	139
Total	97,604	117,832	98,093	118,551
Interest expense				
Securities issued	(35,862)	(44,191)	(35,862)	(44,191)
Loans and deposits	(15,838)	(17,780)	(15,858)	(17,801)
Derivatives held for hedging	(2,572)	(3,281)	(2,572)	(3,281)
Financial liabilities held for trading, other	(85)	(36)	(85)	(36)
Total	(54,357)	(65,288)	(54,377)	(65,309)
Net interest	**43,247**	**52,544**	**43,716**	**53,242**

In accordance with the explanation in Note 2.3.7., the interest in connection with impaired loans are excluded from income. The amount of accrued and excluded interest income as at 31 December 2014 amounts to EUR 4.2 million (EUR 3.8 million as at 31 December 2013). The effect of the accrued and excluded interest income relating to clients rated D and E as at 31 December 2014 amounts to EUR 9.8 million (the effect would have been EUR 3.5 million as at 31 December 2013). An additional explanation is given in Note 2.3.7.

2.5.2 Dividend income

Dividend in the amount of EUR 910 thousand was paid to SID Bank by the subsidiary SID – Prva kreditna zavarovalnica, d.d. (EUR 1,422 thousand in 2013).

2.5.3 Net fees

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Fee and commission income				
Fee and commission from loan operations	3,307	2,771	3,307	2,771
Fee and commission from guarantees given	221	246	221	246
Total	3,528	3,017	3,528	3,017
Fee and commission expense				
Fee and commission for loan operations	(542)	(499)	(542)	(499)
Other fee and commission (stock exchange operations, other)	(148)	(126)	(162)	(141)
Total	(690)	(625)	(704)	(640)
Net fee and commission	**2,838**	**2,392**	**2,824**	**2,377**

The increase in fees and commissions from credit transactions is mainly due to fees from early repayment of loans.

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

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Realised gains				
Financial liabilities measured at amortised cost	51	15,201	51	15,201
Available-for-sale financial assets	1,351	578	1,351	579
Total	1,402	15,779	1,402	15,780
Realised losses				
Loans	(649)	(186)	(649)	(186)
Available-for-sale financial assets	(4)	(23)	(4)	(23)
Other	0	(1)	0	(1)
Financial liabilities measured at amortised cost	(1,896)	0	(1,896)	0
Total	(2,549)	(210)	(2,549)	(210)
Net gains or losses	**(1,147)**	**15,569**	**(1,147)**	**15,570**

2.5.5 Gains or losses on financial assets and liabilities measured at fair value through the statement of profit or loss

	SID Bank and SID Bank Group	
	2014	2013
Realised gains	8,632	2,044
Realised losses	0	(465)
Gains on financial assets and liabilities measured at fair value through profit or loss	**8,632**	**1,579**

These gains and losses arise from the results of the two loan funds established by SID Bank and the Ministry of Economic Development and Technology. Funding for the establishment of both funds was provided by the Ministry and SID Bank. Both funds are managed by SID bank in its own name and for its own account and are recorded in the financial statements of SID Bank; with results of each fund also being noted currently. In accordance with the agreements with the Ministry, the potential negative financial result of each loan fund is covered primarily by the funds provided by the Ministry. In 2014 a negative result in the total amount of EUR 8,632 thousand was identified in both funds, therefore income in the same amount was recognised in the statement of profit or loss recognized revenue in the same amount and at the same time liability from loans received from the Ministry was decreased in accordance with the agreements.

Since the negative result of the funds was considerably higher compared to 2013, the gains increased in 2014. A poor result is a consequence of relatively higher amounts of expense for the impairment loss due to increased risk level of the borrowers.

2.5.6 Changes in fair value in hedge accounting

	SID Bank and SID Bank Group	
	2014	2013
Net gains or losses on derivatives held for hedging	(2,960)	(23,163)
Net gains or losses on hedged items (bonds, loans)	3,094	24,216
Total	**134**	**1,053**

The realised gains on the valuation of derivatives and hedged items amounted to EUR 134 thousand in 2014, and a net positive effect of EUR 14.797 thousand was generated when net interest income from derivatives held for hedging is taken into account. Interest is disclosed in the table in Note 2.5.1.

2.5.7 Net exchange differences gain or loss

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Gains on exchange differences	5,157	6,618	5,161	6,619
Losses on exchange differences	(5,167)	(6,622)	(5,169)	(6,624)
Net losses	**(10)**	**(4)**	**(8)**	**(4)**

2.5.8 Other net operating gains or losses

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Gains				
Income from activities under Republic of Slovenia authorisation	1,856	2,179	1,856	2,179
Insurance premium income	0	0	16,712	19,472
Income from reinsurance commissions	0	0	2,081	2,891
Reinsurance share in compensation, recourse and bonuses	0	0	3,867	4,587
Recourse income	0	0	1,589	5,649
Other operating income	111	154	812	827
Total	1,967	2,333	26,917	35,605
Losses				
Expense for reinsurance premiums	0	0	(9,938)	(11,841)
Expense for gross claims	0	0	(7,397)	(11,958)
Other operating expense	(441)	(301)	(2,726)	(2,421)
Total	(441)	(301)	(20,061)	(26,221)
Net operating gains	**1,526**	**2,032**	**6,855**	**9,384**

In 2014 the Bank realised profits in the amount of EUR 1.9 million from transactions under the authority of the Republic of Slovenia, of which EUR 1.6 million were realised from the management contingency reserve funds, EUR 0.2 million were realised from the guarantee schemes and EUR 0.1 million from other activities under Republic of Slovenia.

Insurance premium income in SID Bank Group contains gross premiums written; they decreased in 2014 mainly due to the reduction in premium rates, while the extent of insurance transactions was also slightly lower than in the previous year. That is consequently reflected in the decrease of expense on reinsurance premiums and lower income from reinsurance commissions. Expense for gross claims is lower, since in 2013 one greater loss event was paid; in 2014 there were no such cases. The loss event from 2013 was highly reinsured and had a high portion of recourse, so these items are also lower in 2014 than in 2013 (recourse income and the reinsurance share in compensation, recourse and bonuses).

2.5.9 Administrative costs

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Labour costs	(6,642)	(6,181)	(9,380)	(8,827)
Gross salaries	(5,117)	(4,687)	(7,159)	(6,634)
Costs of pension insurance	(455)	(415)	(641)	(512)
Social security costs	(374)	(341)	(529)	(672)
Other labour costs	(696)	(738)	(1,051)	(1,009)
General and administrative costs	(3,164)	(2,600)	(4,104)	(3,602)
Material costs	(183)	(183)	(253)	(256)
Service costs	(2,981)	(2,417)	(3,852)	(3,346)
Total	**(9,806)**	**(8,781)**	**(13,485)**	**(12,429)**

2.5.10 Depreciation and amortisation

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Depreciation of property, plant and equipment	(459)	(499)	(773)	(803)
Amortisation of intangible assets	(154)	(90)	(211)	(142)
Total	**(613)**	**(589)**	**(984)**	**(945)**

2.5.11 Provisions

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Provisions for off-balance-sheet liabilities – guarantees	(31,115)	(1,296)	(31,115)	(1,296)
Provisions for off-balance-sheet liabilities – undrawn loans	3,942	7,799	3,942	7,799
Provisions for liabilities from insurance and reinsurance contracts	0	0	(447)	267
Other provisions	(65)	(49)	(85)	(66)
Total	**(27,238)**	**6,454**	**(27,705)**	**6,704**

In 2014 SID Bank generated expenses in the amount of EUR 27.1 million to create provisions for off-balance-sheet liabilities, of which EUR 31.1 million for provisions for guarantees. The high amount of provisions resulted from the guarantees given to the Prvi Faktor Group, for which provisions in total amount of EUR 31.6 million have been created.

Due to its poor financial position of Prvi Faktor Group, SID Bank assumed the risks of a part of the group's portfolio. SID Bank issued guarantees in the amount of EUR 33.2 million to the companies of Prvi Faktor Group and at the same time formed provisions in total amount of EUR 31.6 million.

The balances of off-balance-sheet liabilities, for which provisions were created, are shown in the table in Note 2.6.1.

2.5.12 Impairments

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Impairments of loans and receivables measured at amortised	(5,502)	(64,447)	(5,502)	(64,447)
Impairments of available-for-sale financial assets	(828)	(460)	(828)	(460)
Impairments of other assets	0	(3,087)	(296)	(3,942)
Total	**(6,330)**	**(67,994)**	**(6,626)**	**(68,849)**

In 2014, impairments in the amount of EUR 6.3 million were formed, of which EUR 5.5 million were formed for granted loans and receivables measured at amortised cost. Additional impairments were formed primarily for specific high-risk borrowers, while the collective impairment decreased in 2014.

2.5.13 Corporate income tax on ordinary operations

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Income tax	(7,751)	(1,344)	(7,972)	(2,051)
Deferred taxes	145	510	148	514
Total	**(7,606)**	**(834)**	**(7,824)**	**(1,537)**

The tax rate in Slovenia stood at 17% in 2014 and 2013.

An explanation of the tax rates applied in the calculation of deferred taxes is given in Note 2.3.22.

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

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Profit	12,150	5,700	12,216	5,946
Income tax (at rates applicable in relevant countries)	(2,067)	(969)	(2,232)	(1,552)
Income deducted from taxable base	165	319	165	319
Income added to taxable base	(5)	(5)	6	2
Non-tax-deductible expenses	(5,912)	(756)	(6,005)	(939)
Tax-deductible expenses	2	16	3	45
Increase in taxable base	(8)	(13)	(8)	(13)
Tax allowances	73	64	98	86
Tax	**(7,751)**	**(1,344)**	**(7,972)**	**(2,051)**
Effective tax rate, %	64	24	65	34

In the calculation of income tax for 2014, SID bank did not deduct the formed expense for provisions in the amount of EUR 31.6 million and the realised loss in the amount of EUR 1.8 million from guarantees given to companies of the Prvi Faktor Group. Therefore the tax base was increased and, consequently, the tax liability is also higher.

2.5.14 Net earnings per share

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Number of ordinary registered no-par value shares	3,121,741	3,121,741	3,121,741	3,121,741
Treasury shares	18,445	18,445	18,445	18,445
Number of ordinary shares other than treasury shares	3,103,296	3,103,296	3,103,296	3,103,296
Net profit in period, EUR thousand	4,544	4,865	4,392	4,408
Earnings per share, EUR	**1.46**	**1.57**	**1.42**	**1.42**

2.6 Other notes to the financial statements

2.6.1 Contingent liabilities and commitments

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

	SID Bank and SID Bank Group	
	31 Dec 2014	31 Dec 2013
Guarantees	58,384	25,936
Liabilities from approved unused loans	54,786	28,927
Total commitments	**113,170**	**54,863**
Provisions for off-balance-sheet risks – guarantees	(33,006)	(1,888)
Provisions for off-balance-sheet risks – undrawn loans	(2,150)	(6,094)

SID Bank and SID Bank Group disclose the value of unused loans approved for domestic banks and corporates and the value of guarantees given in the item commitments. The amount of approved loans that had not yet been disbursed as at 31 December 2014 totalled EUR 29.4 million for corporates, and

EUR 25.4 million for banks. In 2014, the value of guarantees given, namely guarantees given to Prvi Faktor Group, increased in the total amount of EUR 33.2 million.

Contract value of derivatives

	SID Bank and SID Bank Group	
	31 Dec 2014	31 Dec 2013
Interest rate swaps	698,011	760,159

The contract value of derivatives that meet the criteria for hedge accounting amounts to EUR 697,671 thousand. The difference in the amount of EUR 340 thousand comprises market interest rate swaps.

Derivatives which meet the criteria for hedge accounting are used to hedge against interest rate risk.

The fair value and economic effects are disclosed in Note 2.4.4 in 2.5.6.

2.6.2 Related party disclosures

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

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

Significant relations of SID Bank with subsidiaries and joint ventures

	2014			2013		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Receivables						
Loans	36	94,122	94,158	55	94,590	94,645
Other financial assets	13	0	13	13	0	13
Gross exposure	49	94,122	94,171	68	94,590	94,658
Value adjustments	(2)	(12,174)	(12,176)	(4)	(21,252)	(21,256)
Net exposure	**47**	**81,948**	**81,995**	**64**	**73,338**	**73,402**
Other financial liabilities	8	125	133	0	0	0
Provisions	2	31,625	31,627	0	0	0
Total tax liabilities	**10**	**31,750**	**31,760**	**0**	**0**	**0**

	2014			2013		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Interest income	1	4,286	4,287	1	4,203	4,204
Dividend income	910	0	910	1,422	0	1,422
Fee and commission income	0	55	55	0	86	86
Income from rents and other services	90	0	90	120	0	120
Fee and commission expense	0	(125)	(125)	0	0	0
Expense for rents and other services	(20)	0	(20)	(7)	(1)	(8)
Provisions	(2)	(31,625)	(31,627)	0	0	0
Impairments	2	9,079	9,081	(2)	(15,709)	(15,711)
Total	**981**	**(18,330)**	**(17,349)**	**1,534**	**(11,421)**	**(9,887)**

In 2014 SID Bank issued guarantees for part of their portfolio to Prvi Faktor Group, the balance of guarantees as at 31 December 2014 amounts to EUR 33,189 thousand. Pursuant to this, SID Bank formed provisions in amount of EUR 31.6 million, and has in addition realised loss in the amount of EUR 1.7 million.

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

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

	SID Bank		SID Bank Group	
Exposure to:	2014	2013	2014	2013
Bank of Slovenia				
Balance as at 31 Dec				
Settlement account	2,979	5,915	2,979	5,915
Deposits	0	171,501	0	171,501
Securities as collateral	258,820	255,654	258,820	255,654
Loans as collateral	52,382	21,719	52,382	21,719
For period				
Interest income	143	57	143	57
Republic of Slovenia				
Balance as at 31 Dec				
Bonds	173,001	82,325	180,512	89,629
Other securities	144,519	84,767	144,519	84,767
Loans	63,700	402	63,700	402
Impairments	(2,848)	0	(2,848)	0
Other	375	0	375	0
For period				
Interest income	5,172	5,862	5,369	6,145
Other income	3,524	2,741	3,524	2,741
Impairments and provisions	771	0	771	0
Other expense	(285)	0	(285)	0
State-owned business entities				
Balance as at 31 Dec				
Deposits	23	0	23	0
Loans	1,207,261	1,934,344	1,207,801	1,937,430
Impairments	(32,287)	(61,343)	(32,287)	(61,343)
Securities	42,180	28,494	43,760	29,747
Impairments	(2,768)	(2,767)	(2,768)	(2,767)
Derivatives	16,830	12,385	16,830	12,385
Contingent liabilities and commitments	69,062	22,614	69,062	22,614
Provisions	(1,238)	(548)	(1,238)	(548)
Other	13	13	52	400
Estimated recourse receivables	0	0	5,794	7,173
Impairments of estimated recourse receivables	0	0	(3,368)	(1,796)
For period				
Interest income	42,758	56,106	42,838	56,268
Other income	1,932	2,132	6,474	7,479
Net interest from derivatives (gains minus losses)	4,471	4,631	4,471	4,631
Net fair value from derivatives (gains minus losses)	4,415	(6,523)	4,415	(6,523)
Other income from recourse receivables	0	0	312	4,696
Impairments for recourse receivables	0	0	(1,574)	(1,298)
Net expense for reinsurance (gains minus losses)	0	0	(15)	(54)
Impairments and provisions	14,783	(2,540)	14,782	(2,561)
Other expense	(61)	0	(1,327)	(8,651)

2.6.3 Remuneration system

Remuneration policy is adopted by the management board, with the consent of the supervisory board. The tasks of the supervisory board concerning the review of adequacy and implementation of the remuneration policy are carried out by the remuneration and HR committee, consisting of two members of the supervisory board and an external expert. In 2014, the remuneration and HR committee verified the changes of legislation or regulations governing remuneration policies, compliance with the principles and provisions of the policy in the payments of benefits, information on the remuneration of the employees whose work is of a special nature and especially the salaries of the heads of the internal control system and the heads of other independent control functions.

Under the remuneration policy, the fixed portion of earnings account for at least 75% of the average employee's total earnings for all types of employee. The variable portion of earnings is paid to employees whose work is of a special nature in the same manner as to the other employees at the Bank, that is on the basis of on-the-job performance of the employee and business performance of the Bank, but also in the form of awards for outstanding achievements and for project work. The criteria for performance-related pay (based on which variable earnings are determined) for members of the Bank's management board and executive directors are set out by the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD).

Business-performance-related pay is paid after the approval of the annual report by the supervisory board of the Bank, provided that the Bank realised profit in the financial year. Stipulations regarding business-performance-related pay do not apply if the variable portion of earnings has to be decreased due to the financial position of the Bank or because of adjustments of remuneration to risks. In case of recommendations by the shareholder of the Bank or other person responsible for such recommendations relating to restrictions on business-performance-related pay or other remuneration from employment, the management board may adopt a decision counter to stipulations provided by the collective agreement or employment contract.

The accounting period is identical to the calendar year. A portion of the variable remuneration is deferred to after the end of the accounting period: the remuneration policy is for a three-year deferral in the remuneration for the president and member of management board and for the executive directors. The possibility of omission is used for other employees.

Under the Slovene Export and Development Bank Act, the Bank may not pay the variable portion of the remuneration in the form of prescribed financial instruments.

Remuneration of members of the supervisory board in 2014

The remuneration from session fees and reimbursements of travel expenses of members of the supervisory board, the audit committee and the remuneration and HR committee in 2014 amounted to EUR 188 thousand, of which EUR 3 thousand for reimbursement of costs. Remuneration of individual members were as follows: Ms Monika Pintar Mesarič (president of the supervisory board and chairman of the remuneration and HR committee) EUR 35 thousand, Mr Janez Tomšič (deputy-president of the supervisory board and member of the remuneration and HR committee) EUR 26 thousand, Mr Marjan Divjak (member of the supervisory board and member of the audit committee) EUR 24 thousand, Mr Štefan Grosar (member of the supervisory board) EUR 19 thousand, Mr Martin Jakše (member of the supervisory board and chairman of the audit committee) EUR 28 thousand, Mr Leo Knez (member of the supervisory board and member of the audit committee) EUR 25 thousand, Mr Anton Rop (member of the supervisory board) EUR 20 thousand, of which EUR 2 thousand in reimbursements of travel expense, Ms Alenka Stanič (external member of the remuneration and HR committee) EUR 5 thousand and Ms Blanka Vezjak (external member of the audit committee) EUR 6 thousand, of which EUR 1 thousand in reimbursements of travel expense.

Representatives of SID Bank on the supervisory bodies of subsidiaries did not receive session fees or other remuneration for supervisory duties at investees in SID Bank Group in 2014.

Remuneration of employees whose work is of a special nature in 2014

A total of EUR 1,016 thousand was paid to twelve employees whose work is of a special nature at SID Bank in 2014, of which the fixed earnings amounted to EUR 831 thousand, variable earnings amounted to 185 thousand (current variable portion amounted to EUR 119 thousand, deferred variable portion amounted to EUR 66 thousand), and other earnings (reimbursement of costs, insurance premiums) amounted to EUR 11 thousand. The management board was paid a total of EUR 396 thousand, of which EUR 310 thousand in fixed portion, EUR 39 thousand in current variable portion, EUR 47 thousand in deferred variable portion and EUR 11 thousand in other benefits. In 2014, the president of management board Mr Sibil Svilan received remuneration in a total of EUR 204 thousand (EUR 159 thousand in fixed portion, EUR 20 thousand in current variable portion, EUR 25 thousand in deferred variable portion and EUR 5 thousand in other benefits), member of management board Mr Jožef Bradeško received remuneration in a total of EUR 192 thousand (EUR 151 thousand in fixed portion, EUR 19 thousand in current variable portion, EUR 22 thousand in deferred variable portion and EUR 6 thousand in other benefits). Employees whose work is of a special nature in internal control system (4 employees) received remuneration in total amount of EUR 196 thousand, of which EUR 169 thousand in fixed portion and EUR 27 thousand in current variable portion of earnings, while employees in other sectors (6 employees) received remuneration in total amount of EUR 424 thousand, of which EUR 352 thousand in fixed variable, EUR 53 thousand in current variable portion, and EUR 19 thousand in deferred variable portion of earnings. In 2014, a total of EUR 47 thousand of earnings was deferred, of which EUR 39 thousand for the management board (Mr Sibil Svilan EUR 20 thousand and Mr Jožef Bradeško EUR 19 thousand) and EUR 8 thousand for other sectors. The balance of deferred earnings at the end of 2014 therefore amounts to EUR 101 thousand, of which EUR 77 thousand for the management board (Mr Sibil Svilan EUR 40 thousand and Mr Jožef Bradeško EUR 37 thousand) and EUR 24 thousand for other sectors. Given the performance, it was not necessary to reduce the amounts of paid deferred earnings in 2014.

2.6.4 Total amount spent on the auditor

	SID Bank		SID Bank Group	
	2014	2013	2014	2013
Auditing of the annual report	43	50	72	79
Other auditing services	2	31	2	31
Total	**45**	**81**	**74**	**110**

2.6.5 Events after the reporting period

There were no business events after the reporting date that would have an impact on the separate and consolidated financial statements of SID Bank and SID Bank Group.

In January 2015 SID Bank obtained a credit rating by Standard & Poor's Rating Services, which remains a long-term credit rating of A- with a stable future outlook, while the short-term credit rating is A-2. The credit rating of SID Bank is on the same level as the credit rating of the Republic of Slovenia.

At the end of January 2015 Moody's credit rating agency increased the credit rating of SID Bank from Ba1 to Baa3, with the outlook remaining stable. The increase in ratings from speculative to investment level is the result of the better rating of the Republic of Slovenia due to progress in fiscal consolidation and stabilization of the banking sector. The achieved stabilization of the banking sector reduces future risks for any additional pressures on public finances.

3 Risk management

3.1 Credit Risk

Credit risk is the risk of a loss as a result of the failure of a debtor to discharge its liabilities, irrespective of the reason of this failure. The management of credit risk begins before a contractual relationship is concluded with the determination of the client's creditworthiness and the establishment of eligible collateral. Credit exposure is approved by the credit committee. Throughout the lifetime of an investment transaction the credit risk is managed by means of the monitoring and management of the credit portfolio, the limitation of concentrations of credit risk in relation to individual clients, groups of connected clients, sectors and countries, the rating process and the creation of impairments and provisions for expected losses, and the provision of adequate capital for cases when losses exceed expectations.

In credit and guarantee transactions the credit risk entails the risk of default with regard to the debtor's financial position and also the risk related to the geographical location of the debtor's country. Credit risk from securities derives from the portfolio managed by SID Bank for the purpose of ensuring liquidity and managing the balance sheet. SID Bank does not undertake trading. SID Bank manages this credit risk primarily by means of limits on exposure with regard to the issuer's credit rating, the issuer's location, the type of issuer and the type of instrument, and the monitoring of market values of securities. Counterparty credit risk in the settlement of transactions in securities and in relation to derivatives is also taken into account. SID Bank calculates its exposure to credit risk in relation to derivatives using an original exposure method, by which the exposure value represents the notional amount of each derivative multiplied by the percentages given in Article 275 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, which are determined according to the residual maturity of the contract. Exposure is managed within the framework of limits on exposure to credit risk, which are approved by the credit committee.

SID Bank classifies financial assets and commitments under off-balance-sheet items according to the Bank of Slovenia system of ratings from A to E, where A is assigned to clients with the highest credit worthiness and E is the lowest credit worthiness, based on assessment of the financial situation of each debtor's ability to provide sufficient cash flow to meet its obligations on a regular basis to SID Bank in the future, the nature and extent of the insurance of financial asset or liability at off-balance-sheet items for each debtor and the debtor's compliance with its obligations to SID Bank in prior periods. The basis for classification consists of internal credit ratings based on the assessment of quantitative and qualitative elements and Bank of Slovenia criteria for the classification of financial assets and commitments under off-balance-sheet items into credit ratings. Throughout the lifetime of a credit transaction the Bank monitors the debtor's performance and reviews the rating on a monthly basis.

SID Bank has its own methodology for the assessment of credit risk losses, which provides adequate coverage of expected losses from credit risk. Under the IFRS, debtors are rated on an individual basis, or in groups as part of the collective assessment of credit risk losses. These are created from groups of debtors with comparable risks, which are primarily related to the debtor's business activities, the debtor's geographical location and the attributes of the financing products.

As at 31 December 2014 SID Bank had total impairments and provisions formed in the amount of EUR 267,777 thousand, which is an increase in the amount of EUR 27,835 thousand from 31 December 2013. Impairments for loans granted and other financial assets amounted to EUR 226,704 thousand, provisions for off-balance-sheet liabilities to EUR 35,155 thousand, and impairments of available-for-sale financial assets to EUR 5,918 thousand. The impairments and provisions derive from collective and individual loss assessments, where losses on D-rated exposures and E-rated exposures are generally assessed on an individual basis.

SID Bank and SID Bank Group use the present value (discounted value) of expected future cash flows for the calculation of recoverable amount. The amount of the impairments or provisions represents the difference between the carrying amount and the recoverable amount of a financial asset or off-balance-sheet liability. The impairment and provisioning policy is described in detail in Note 2.3.11.

SID Bank and SID Bank Group have drawn up appropriate instructions in connection with the classification of debtors into individual ratings, the setting of exposure limits and the investment approval process. The instructions include all the requisite information, and the criteria and the method for rating financial assets and commitments under off-balance-sheet items.

Maximum exposure to credit risk

	SID Bank		SID Bank Group	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Gross exposure of balance-sheet items	**3,781,913**	**4,001,224**	**3,813,879**	**4,034,212**
Balances with the central bank and demand deposits with banks	3,051	177,458	7,554	179,745
Available-for-sale financial assets	705,137	342,258	727,207	362,.766
Debt securities	705,137	342,258	727,207	362,766
Gross exposure	705,137	342,298	727,207	362,806
Impairments (individual)	0	(40)	0	(40)
Loans	2,818,627	3,216,220	2,824,019	3,226,412
Loans to banks	2,180,886	2,614,462	2,186,275	2,624,658
Gross exposure	2,189,690	2,625,073	2,195,079	2,635,269
Impairments (group)	(8,804)	(10,611)	(8,804)	(10,611)
Loans to clients other than banks	637,327	601,136	637,327	601,136
Gross exposure	855,198	819,298	855,198	819,298
Impairments (individual)	(183.005)	(181,865)	(183.005)	(181,865)
Impairments (group)	(34,866)	(36,297)	(34,866)	(36,297)
Other financial assets	414	622	418	619
Gross exposure	443	1,002	447	999
Impairments (individual)	(29)	(379)	(29)	(379)
Impairments (group)	0	(1)	0	(1)
Derivatives held for hedging	28,394	36,095	28,394	36,095
Gross exposure of off-balance-sheet items	**113,170**	**54,863**	**113,170**	**54,863**
Guarantees	25,379	24,047	25,379	24,047
Gross exposure	58,384	25,936	58,384	25,936
Provisions (individual)	(32,840)	(1,645)	(32,840)	(1,645)
Provisions (group)	(165)	(244)	(165)	(244)
Other off-balance-sheet liabilities	52,636	22,834	52,636	22,834
Gross exposure	54,786	28,927	54,786	28,927
Provisions (individual)	(638)	(302)	(638)	(302)
Provisions (group)	(1,512)	(5,791)	(1,512)	(5,791)
Total gross exposure to credit risk	**3,.895,083**	**4,056,087**	**3,927,049**	**4,089,075**
Total net exposure to credit risk	**3,633,224**	**3,818,912**	**3,665,190**	**3,851,900**

The table illustrates the maximum exposure to credit risk of SID Bank and the SID Bank Group under balances at the central bank, loans, investments in financial instruments and off-balance-sheet liabilities, without taking into consideration credit insurance or credit quality. SID Bank's exposure to credit risk as at 31 December 2014 increased compared to exposure as at 31 December 2013 due to of available-for-sale debt securities and off-balance-sheet liabilities, while the exposure due to balances with the central bank, loans and derivatives decreased.

Credit risk at the insurer SID-PKZ, which is a part of SID Bank Group, mostly consists of available-for-sale financial investments and technical reserves that are ceded to reinsurers (totalling 70% of the exposure to credit risk in 2014).

Technical reserves that are ceded to reinsurers,and reinsurers receivables are not past-due or impaired and are rated in the range from A- to AA (S&P rating) or as A3 (Moody's rating).

Due to specific nature of business operations of SID-PKZ and the insignificant exposure due to loans, certain disclosures bellow are only reported for SID Bank.

Exposure of loans – breakdown by type of protection

	SID Bank		SID Bank Group	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Carrying amount of secured loans	**335,362**	**311,779**	**335,362**	**311,779**
Secured by Slovenian government guarantee	23,234	18,319	23,234	18,319
Securities collateral	11,631	10,590	11,631	10,590
Commercial real estate collateral	137,698	147,382	137,698	147,382
Residential real estate collateral	1,740	0	1,740	0
Movable property collateral	99,838	82,904	99,838	82,904
Cession of claims as collateral	36,945	39,762	36,945	39,762
Other forms of credit protection	24,275	12,823	24,275	12,823
Carrying amount of unsecured loans	**2,483,265**	**2,904,441**	**2,488,657**	**2,914,632**
Carrying amount of loans	**2,818,627**	**3,216,220**	**2,824,019**	**3,226,411**

The table illustrates the breakdown of loan exposures by type of credit collateral. Secured loans comprise loans where the fair value of collateral is larger than or equal to the carrying amount of the loan. Where the fair value of the collateral is lower than the carrying amount of the loan, the amount of the loan is included in secured loans. Where the fair value of the collateral is lower than the carrying amount of the loan, the amount of the loan in the amount of the fair value of the collateral is included in secured loans, while the remainder of the loan is included in unsecured loans. For loan agreements where not all disbursements have been made, collateral is taken into account proportionately with regard to the disbursed and undisbursed loan amounts.

The majority of SID Bank’s credit portfolio comprises loans to banks established in Slovenia, who transfer the funding to the final beneficiaries in accordance with Slovene Export and Development Bank Act (ZSIRB). The aforementioned loans are generally unsecured.

Total collateral value for exposures from loans at SID Bank and SID Bank Group amounted to EUR 663,933 thousand as at 31 December 2014, compared with EUR 544,277 thousand as at 31 December 2013. In the breakdown of collaterals the largest value is that of movable property collateral, followed by commercial real estate collateral, cession of claims as collateral, SID Bank insurance policy for the account of the Republic of Slovenia, corporate guarantees by corporates rated A- or higher (according to SID Bank's methodology), transfer of property on trust, collateral in the form of participating interests, equities collateral, and other credit collateral.

On 31 December 2014 SID Bank undertook a revaluation of real estate collateral that was appraised before 1 July 2014, using a statistical method.

Exposure of loans – breakdown by rating

SID Bank	31 Dec 2014				31 Dec 2013			
	Loans and off-balance-sheet liabilities		Impairments and provisions		Loans and off-balance-sheet liabilities		Impairments and provisions	
Total	**3,158,501**	**100.00%**	**(261,860)**	**100.00%**	**3,500,235**	**100.00%**	**(237,136)**	**100.00%**
A-rated	874,856	27.70%	(16,112)	6.15%	635,631	18.16%	(16,406)	6.92%
B-rated	1,649,450	52.22%	(27,640)	10.56%	839,630	23.99%	(21,496)	9.06%
C-rated	162,994	5.16%	(1,330)	0.51%	1,784,861	50.99%	(48,208)	20.33%
D-rated	405,310	12.83%	(151,032)	57.68%	191,545	5.47%	(106,896)	45.08%
E-rated	65,890	2.09%	(65,746)	25.11%	48,567	1.39%	(44,130)	18.61%

SID Bank disclosed a gross exposure of loans and off-balance-sheet liabilities in the amount EUR 3,158,501 thousand as at 31 December 2014, an increase of 9.76% compared to 31 December 2013. As at 31 December 2014 79.92% of total loans and off-balance-sheet liabilities were rated A or B, compared with 42.15% as at 31 December 2013. The proportion of loans and off-balance-sheet liabilities rated A increased from 18.16% as at 31 December 2011 to 27.70% compared to 31 December 2013. The increase was the result of an improvement in the financial position of individual clients and new loans that were classified as A-rated. There were major changes in the breakdown of the credit portfolio in the B and C ratings as a result of upgrading of credit ratings of individual debtors from the financial and insurance sector, which represents the major portion of exposure of loans. Higher exposures in D ratings were the result of deterioration of clients and increase in the number of defaults in addition to the harmonization of internal definitions of non-performing loans with the EBA (European Banking Authority) implementing technical standard. In 2014 SID Bank formed additional impairments and provisions due to exposure of loans and off-balance-sheet liabilities in the amount of EUR 24,724 thousand.

The average coverage of exposure to credit risk by impairments and provisions for clients other than banks stood at 25.48% as at 31 December 2014 (31 December 2013: 26.63%). The coverage of exposure to D- and E-rated clients by impairments and provisions to these clients stood at 42.99% as at 31 December 2014 (31 December 2013: 63.11%).

Exposure of loans – breakdown by maturity and impairment

	31 Dec 2014				31 Dec 2013			
SID Bank	Loans to banks	Loans to clients other than banks	Other financial assets	Loans Total	Loans to banks	Loans to clients other than banks	Other financial assets	Loans Total
Gross loans	**2,189,690**	**855,197**	**443**	**3,045,330**	**2,625,073**	**819,298**	**1,002**	**3,445,373**
Non-past-due and individually non-impaired loans	2,189,690	426,676	407	2,616,773	2,625,073	371,812	443	2,997,328
Past-due and individually non-impaired loans	0	2,856	0	2,856	0	22,966	11	22,977
Individually impaired loans	0	425,665	36	425,701	0	424,520	548	425,068
of which D- and E- rated loans	0	425,665	36	425,701	0	236,441	543	236,984
Impairments	**(8,804)**	**(217,871)**	**(29)**	**(226,704)**	**(10,611)**	**(218,162)**	**(380)**	**(229,153)**
Individual impairments	0	(183.005)	(29)	(183,034)	0	(181,865)	(379)	(182,244)
of which impairments of D- and E- rated loans	0	(183.005)	(29)	(183,034)	0	(149,241)	(378)	(149,619)
Group impairments	(8,804)	(34,866)	0	(43,670)	(10,611)	(36,297)	(1)	(46,909)
Net loans	**2,180,886**	**637,326**	**414**	**2,818,626**	**2,614,462**	**601,136**	**622**	**3,216,220**
Fair value of collateral	**19,551**	**644,382**	**0**	**663,933**	**22,845**	**521,432**	**0**	**544,277**

Compared to 2013, individual impairments increased by of EUR 790 thousand, of which individual impairments for D- and E-rated loans (also due to the change of harmonization of internal definitions of non-performing loans with the EBA implementing technical standard) increased by EUR 33,415 thousand. Due to the decrease of collective impairments total impairments decreased by EUR 2,449 thousand. The majority of SID Bank's credit portfolio is classified in the group of banks from countries, which fall in risk class 0 or 1 on the scale of minimum export insurance premiums (MEIP), since in accordance with ZSIRB SID Bank grants loans to banks established in Slovenia, who transfer the funding to the final beneficiaries.

SID Bank Group	31 Dec 2014 Loans to banks	Loans to clients other than banks	Other financial assets	Loans Total	31 Dec 2013 Loans to banks	Loans to clients other than banks	Other financial assets	Loans Total
Gross loans	**2,195,079**	**855,197**	**447**	**3,050,723**	**2,635,268**	**819,298**	**999**	**3,455,565**
Non-past-due and individually non-impaired loans	2,195,079	426,676	411	2,622,166	2,635,268	371,812	440	3,007,520
Past-due and individually non-impaired loans	0	2,856	0	2,856	0	22,966	11	22,977
Individually impaired loans	0	425,665	36	425,701	0	424,520	548	425,068
of which D- and E- rated loans	0	425,665	36	425,701	0	236,441	543	236,984
Impairments	**(8,804)**	**(217,871)**	**(29)**	**(226,704)**	**(10,611)**	**(218,162)**	**(380)**	**(229,153)**
Individual impairments	0	(183.005)	(29)	(183,034)	0	(181,865)	(379)	(182,244)
of which impairments of D- and E- rated loans	0	(183.005)	(29)	(183,034)	0	(149,241)	(378)	(149,619)
Group impairments	(8,804)	(34,866)	0	(43,670)	(10,611)	(36,297)	(1)	(46,909)
Net loans	**2,186,275**	**637,326**	**418**	**2,824,019**	**2,624,657**	**601,136**	**619**	**3,226,412**
Fair value of collateral	**19,551**	**644,382**	**0**	**663,933**	**22,845**	**521,432**	**0**	**544,277**

Loans neither past-due nor individually impaired

SID Bank	31 Dec 2014 Loans to banks	Loans to clients other than banks	Other financial assets	Loans Total	31 Dec 2013 Loans to banks	Loans to clients other than banks	Other financial assets	Loans Total
Total	**2,189,690**	**426,675**	**407**	**2,616,772**	**2,625,073**	**371,812**	**443**	**2,997,328**
A-rated	648,650	201,550	392	850,592	441,440	175,024	438	**616,902**
B-rated	1,392,219	206,611	15	1,598,845	678,345	141,099	5	**819,449**
C-rated	148,821	13,002	0	161,823	1,505,288	55,689	0	**1,560,977**
D-rated	0	5,512	0	5,512	0	0	0	**0**
E-rated	0	0	0	0	0	0	0	**0**
Fair value of collateral	**19,551**	**406,154**	**0**	**425,705**	**22,845**	**311,588**	0	**334,433**

Loans past-due but not individually impaired

SID Bank and SID Bank Group	31 Dec 2014 Loans to clients other than banks	Other financial assets	Loans Total	31 Dec 2013 Loans to clients other than banks	Other financial assets	Loans Total
Total	**2,856**	**0**	**2,856**	**22,966**	**11**	**22,977**
Receivables past-due up to 30 days	823	0	823	17.613	1	17,614
Receivables past-due from 30 to 90 days	638	0	638	3,934	3	3,937
Receivables past-due more than 90 days	1,395	0	1,395	1,419	7	1,426
Fair value of collateral	**5,192**	**0**	**5,192**	**34,208**	**0**	**34,208**

Individually impaired loans

SID Bank and SID Bank Group	31 Dec 2014 Loans to clients other than banks	31 Dec 2014 Other financial assets	31 Dec 2014 Loans Total	31 Dec 2013 Loans to clients other than banks	31 Dec 2013 Other financial assets	31 Dec 2013 Loans Total
Total	**425,666**	**36**	**425,702**	**424,520**	**548**	**425,068**
Outstanding receivables	240,007	9	240,016	255,322	517	**255,839**
Receivables past-due up to 30 days	39,578	0	39,578	60	0	60
Receivables past-due from 30 to 90 days	12,283	0	12,283	74,571	0	74,571
Receivables past-due more than 90 days	133,798	27	133,825	94,567	31	94,598
Fair value of collateral	**233,036**	**0**	**233,036**	**175,636**	**0**	**175,636**

The gross exposure to receivables past-due from loans as at 31 December 2014 amounted to EUR 188,542 thousand at SID Bank and SID Bank Group, it comprises loans to 25 companies from Slovenia, one from Bosnia and Herzegovina and two from Serbia.

SID Bank's past-due exposures from loans are secured by commercial real estate collateral, movable property collateral, transfer of property on trust, cession of claims as collateral, corporate guarantees by corporates rated A- or higher (according to SID Bank's methodology), SID Bank insurance policies for the account of the Republic of Slovenia, collateral in the form of equities and participating interests, irrevocable guarantees by the Republic of Slovenia, deposits pledged to SID Bank and other forms of credit protection.

The recovery and redemption procedure at SID Bank and SID Bank Group is set out in internal rulebooks. Recovery proceeds in accordance with internal procedures, and can vary from case to case. The type of recovery depends primarily on the length of the arrears, the amount of receivables past-due and defaulted exposures and the exposure to the debtor at SID Bank and SID Bank Group.

Each recovery begins with a verbal and written reminder to the debtor, irrespective of the recovery method and the recovery contractor. The reminder procedure begins on the business day immediately following the debtor's entry into arrears in the performance of monetary or non-monetary obligations. Reminders are given by telephone, by email and in writing, and include offsetting and any other activities that could expedite the faster, more efficient and more effective repayment of receivables past-due. The decision of which reminder methods to employ is based on the experience of transactions with the debtor and other circumstances of the case, with the aim of ensuring that the obligations are met. Reminders call on the debtor to meet the obligations, and set a deadline by which the obligations are to be met.

When the reminder procedure ends in failure, or the investment transaction cannot be restructured or the restructuring proposal is rejected by the credit committee, procedures are initiated to ensure the repayment of outstanding past-due receivables from collateral instruments that are exercisable without preliminary procedures and conclusion of agreements with debtors about alternative methods for repaying the debt as proceeds from the underlying contract on the investment transaction.

Should the dialogue with the debtor be unsuccessful, judicial recovery is initiated, and is conducted by the department of distressed investment management. It begins with reminders sent before the lawsuit, contacts with debtors, the filing of claims and/or enforcement motions with the court, and other activity in the judicial recovery procedure, and the registration of the company's receivables in composition, bankruptcy or liquidation proceedings or other proceedings.

Restructured loans

SID Bank and SID Bank Group	31 Dec 2014				31 Dec 2013			
	Loans to banks	Loans to clients other than banks	Other financial assets	Loans Total	Loans to banks	Loans to clients other than banks	Other financial assets	Loans Total
Gross loans	**9,294**	**376,621**	**9**	**385,924**	**24,651**	**225,227**	**516**	**250,394**
Non-past-due and individually non-impaired loans	9,294	72	0	9,366	24,651	5,292	0	29,943
Past-due and individually non-impaired loans	0	0	0	0	0	3,934	0	3,934
Individually impaired loans	0	376,549	9	376,558	0	216,001	516	216,517
of which D- and E-rated loans	0	376,549	9	376,558	0	184,776	516	185,292
Impairments	**(37)**	**(158,349)**	**(3)**	**(158,389)**	**(99)**	**(106,953)**	**(352)**	**(107,404)**
Individual impairments	0	(158,349)	(3)	(158,352)	0	(106,310)	(352)	(106,662)
of which impairments of D- and E- rated loans	0	(158,349)	(3)	(158,352)	0	(103,182)	(352)	(103,534)
Group impairments	(37)	0	0	(37)	(99)	(643)	0	(741)

The carrying amount of restructured loans (gross exposure minus impairments) at SID Bank and SID Bank Group amounted to EUR 227,535 thousand as at 31 December 2014 (31 December 2013: EUR 150,253 thousand). New agreements on repayment terms were reached with 23 companies, of which 9 from Slovenia and 5 foreign companies. Loans were restructured mainly by the extension or postponement of the due date of repayment.

Breakdown of available-for-sale securities by issuer's rating

	SID Bank		SID Bank Group	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
	705,137	**342,258**	**727,207**	**362,766**
AAA	39,196	32,459	41,219	34,464
AA+ to AA-	35,172	40,086	37,238	42,100
A+ to A-	137,454	65,637	146,723	73,925
Below A-	458,540	179,358	466,151	186,761
Unrated	34,775	24,718	35,877	25,516

The table illustrates the breakdown of the carrying amount of available-for-sale debt securities classified according to the credit rating of the issuer in accordance with the methodology of SID Bank. Where the issuer has been assessed by several international rating agencies (Moody's Investors service, Standard & Poor's Ratings Services in Fitch Ratings), the calculated average rating is used.

A detailed breakdown of the securities portfolio as at 31 December 2014 is given in Note 2.4.2.

Exposure to credit risk from derivatives held for hedging

	SID Bank and SID Bank Group	
	31 Dec 2014	31 Dec 2013
Derivatives held for hedging	**28,394**	**36,095**
Interest rate swaps	28,394	36,095

As at 31 December 2012 SID Bank held 9 interest rate swaps as fair value hedges used in hedge accounting, in the total nominal amount of EUR 697,671 thousand. In 2014 SID Bank entered into one interest rate swap intended for fair value hedge used in hedge accounting, in nominal amount of EUR 96,832 thousand. When redeeming bonds issued by SID Bank, the Bank at the same time terminated interest rate swaps held for hedging in nominal amount of EUR 148,301 thousand. As at 31

December 2014 SID Bank held 5 interest rate swaps held for trading in total nominal amount of EUR 340 thousand. Exposure due to interest rate swaps held for trading amounted to 58 EUR. Exposure to credit risk from derivatives, calculated by using the original exposure method, amounted to EUR 9,323 thousand.

Exposure to credit risk – breakdown by geographical region

SID Bank	Slovenia	Other members of the EU	SE and E Europe (excluding EU members)	Other countries	Total
Financial assets 31 as at Dec 2014	**2,539,374**	**954,629**	**58,079**	**3,127**	**3,555,209**
Balances with the central bank and demand deposits with banks	3,051	0	0	0	3,051
Available-for-sale financial assets	370,294	331,716	0	3,127	705,137
Debt securities	370,294	331,716	0	3,127	705,137
Loans	2,149,199	611,349	58,079	0	2,818,627
Loans to banks	1,598,744	571,908	10,234	0	2,180,886
Loans to clients other than banks	550,056	39,426	47,845	0	637,327
Other financial assets	399	15	0	0	414
Derivatives held for hedging	16,830	11,564	0	0	28,394
Off-balance-sheet liabilities as at 31 Dec 2014	**77,354**	**0**	**661**	**0**	**78,015**
Guarantees	25,379	0	0	0	25,379
Gross exposure	30,014	0	28,370	0	58,384
Provisions	(4,635)	0	(28,370)	0	(33,005)
Other off-balance-sheet liabilities	51,975	0	661	0	52,636
Gross exposure	54,122	0	664	0	54,786
Provisions	(2,147)	0	(3)	0	(2,150)
Total exposure as at 31 Dec 2014	**2,616,728**	**954,629**	**58,740**	**3,127**	**3,633,224**
Financial assets as at 31 Dec 2013	3,117,579	529,026	116,239	9,187	3,772,031
Off-balance-sheet liabilities as at 31 Dec 2013	45,977	0	904	0	46,881
Total exposure as at 31 Dec 2013	**3,163,556**	**529,026**	**117,143**	**9,187**	**3,818,912**

The table illustrates the breakdown of net exposure to credit risk by geographical region as defined by the registered office of the debtor.

As at 31 December 2014 SID Bank is exposed due to financial assets and off-balance-sheet liabilities to countries: Romania, Italy, Spain, Slovenia and Cyprus in the amount of EUR 2,745,595 thousand, of which exposure to Slovenia amounts to EUR 2,622,574 thousand, exposure to Italy to EUR 50,535 thousand (available-for-sale financial assets), exposure to Spain to EUR 49,232 thousand (available-for-sale financial assets), exposure to Romania to EUR 22.753 thousand (available-for-sale financial assets) and exposure to Cyprus to EUR 501 thousand (available-for-sale financial assets).

SID Bank's exposure to Slovenia as at 31 December 2014 decreased for EUR 546,828 thousand compared to 31 December 2013, while exposure to other EU members increased for EUR 425,603 thousand. SID Bank uses internal exposure limits to apply a maximum allowable exposure to individual geographical regions.

SID Bank Group	Slovenia	Other members of the EU	SE and E Europe (excluding EU members)	Other countries	Total
Financial assets 31 as at Dec 2014	**2,559,922**	**965,413**	**58,079**	**3,760**	**3,587,174**
Balances with the central bank and demand deposits with banks	7,554	0	0	0	7,554
Available-for-sale financial assets	380,947	342,500	0	3,760	727,207
Debt securities	380,947	342,500	0	3,760	727,207
Loans	2,154,591	611,349	58,079	0	2,824,019
Loans to banks	1,604,133	571,908	10,234	0	2,186,275
Loans to clients other than banks	550,056	39,426	47,845	0	637,327
Other financial assets	403	15	0	0	418
Derivatives held for hedging	16,830	11,564	0	0	28,394
Off-balance-sheet liabilities as at 31 Dec 2014	**77,354**	**0**	**661**	**0**	**78,015**
Guarantees	25,379	0	0	0	25,379
Gross exposure	30,014	0	28,370	0	58,384
Provisions	(4,635)	0	(28,370)	0	(33,005)
Other off-balance-sheet liabilities	51,975	0	661	0	52,636
Gross exposure	54,122	0	664	0	54,786
Provisions	(2,147)	0	(3)	0	(2,150)
Total exposure as at 31 Dec 2014	**2,637,276**	**965,413**	**58,740**	**3,760**	**3,665,189**
Financial assets as at 31 Dec 2013	3,140,089	538,892	116,239	9,798	3,805,019
Off-balance-sheet liabilities as at 31 Dec 2013	45,977	0	904	0	46,881
Total exposure as at 31 Dec 2013	**3,186,066**	**538,892**	**117,143**	**9,798**	**3,851,900**

Exposure to credit risk – breakdown by sector

SID Bank	Financial and insurance activities	Manufacturing	Public administration and defence	Trade	Transport and storage	Professional, scientific and technical activities	Other	Total
Financial assets 31 as at Dec 2014	**2,403,660**	**233,512**	**623,886**	**81,236**	**49,580**	**29,849**	**133,486**	**3,555,209**
Balances with the central bank and demand deposits with banks	3,051	0	0	0	0	0	0	3,051
Available-for-sale financial assets	97,986	4,568	560,163	12,999	253	4,192	24,976	705,137
Debt securities	97,986	4,568	560,163	12,999	253	4,192	24,976	705,137
Loans	2,274,229	228,944	63,723	68,237	49,327	25,657	108,510	2,818,627
Loans to banks	2,180,886	0	0	0	0	0	0	2,180,886
Loans to clients other than banks	93,313	228,934	63,356	68,237	49,327	25,656	108,504	637,327
Other financial assets	30	10	367	0	0	1	6	414
Derivatives held for hedging	28,394	0	0	0	0	0	0	28,394
Off-balance-sheet liabilities as at 31 Dec 2014	**45,327**	**6,664**	**349**	**508**	**390**	**1,073**	**23,704**	**78,015**
Guarantees	20,073	5,306	0	0	0	0	0	25,379
Gross exposure	20,153	10,156	0	27,366	709	0	0	58,384
Provisions	(80)	(4,850)	0	(27,366)	(709)	0	0	(33,005)
Other off-balance-sheet liabilities	25,254	1,358	349	508	390	1,073	23,704	52,636
Gross exposure	25,356	1,903	352	600	460	1,121	24,994	54,786
Provisions	(102)	(545)	(3)	(92)	(70)	(48)	(1,290)	(2,150)
Total exposure as at 31 Dec 2014	**2,448,987**	**240,176**	**624,235**	**81,744**	**49,970**	**30,922**	**157,190**	**3,633,224**
Financial assets as at 31 Dec 2013	3,025,265	233,975	282,471	104,978	41,395	30,535	53,412	3,772,031
Off-balance-sheet liabilities as at 31 Dec 2013	20,412	23,699	0	678	175	118	1,799	46,881
Total exposure as at 31 Dec 2013	**3,045,677**	**257,674**	**282,471**	**105,656**	**41,570**	**30,653**	**55,211**	**3,818,912**

In 2014 SID Bank was again most heavily exposed to the financial and insurance activities sector, as the majority of its assets are earmarked for banks with registered office in the Republic of Slovenia, which transfer funding to the final beneficiaries in accordance with ZSIRB.. Between 31 December 2013 and 31 December 2014 an increase was recorded by the exposure to the public administration and defence sector, due to the programme of (co-)financing local government infrastructure and environmental projects, transportation and storage and other sectors.

SID Bank Group	Financial and insurance activities	Manufacturing	Public administration and defence	Trade	Transport and storage	Professional, scientific and technical activities	Other	Total
Financial assets 31 as at Dec 2014	**2,421,243**	**233,512**	**638,268**	**81,236**	**49,580**	**29,849**	**133,486**	**3,587,174**
Balances with the central bank and demand deposits with banks	7,554	0	0	0	0	0	0	7,554
Available-for-sale financial assets	105,686	4,568	574,533	12,999	253	4,192	24,976	727,207
Debt securities	105,686	4,568	574,533	12,999	253	4,192	24,976	727,207
Loans	2,279,610	228,944	63,735	68,237	49,327	25,657	108,510	2,824,019
Loans to banks	2,186,275	0	0	0	0	0	0	2,186,275
Loans to clients other than banks	93,313	228,934	63,356	68,237	49,327	25,656	108,504	637,327
Other financial assets	22	10	379	0	0	1	6	418
Derivatives held for hedging	28,394	0	0	0	0	0	0	28,394
Off-balance-sheet liabilities as at 31 Dec 2014	**45,327**	**6,664**	**349**	**508**	**390**	**1,073**	**23,704**	**78,015**
Guarantees	20,073	5,306	0	0	0	0	0	25,379
Gross exposure	20,153	10,156	0	27,366	709	0	0	58,384
Provisions	(80)	(4,850)	0	(27,366)	(709)	0	0	(33,005)
Other off-balance-sheet liabilities	25,254	1,358	349	508	390	1,073	23,704	52,636
Gross exposure	25,356	1,903	352	600	460	1,121	24,994	54,786
Provisions	(102)	(545)	(3)	(92)	(70)	(48)	(1,290)	(2,150)
Total exposure as at 31 Dec 2014	**2,466,570**	**240,176**	**638,617**	**81,744**	**49,970**	**30,922**	**157,190**	**3,665,189**
Financial assets as at 31 Dec 2013	3,045,438	233,975	295,286	104,978	41,395	30,535	53,412	3,805,019
Off-balance-sheet liabilities as at 31 Dec 2013	20,412	23,699	0	678	175	118	1,799	46,881
Total exposure as at 31 Dec 2013	**3,065,850**	**257,674**	**295,286**	**105,656**	**41,570**	**30,653**	**55,211**	**3,851,900**

Counterparty credit risk

Derivatives held for hedging are valued at market interest rates and yield curves. The fair value should reflect the rating of the instrument. Since market interest rates and the yield curves used for the valuation of derivatives do not contain counterparty credit risk or other factors market participants would involve in the instrument valuation, an adjustment for these factors should be made.

For this purpose, credit valuation adjustment (hereinafter: CVA) is calculated, which represents value adjustment of the derivative for the counterparty credit risk and reflects the difference between the value of a financial instrument without taking into account the credit risk and value with taking credit risk into account. Counterparty credit risk (CVA) and debit valuation adjustment (DVA) are both taken into account in the valuation adjustment.

The bank does not calculate it's debit valuation adjustment (DVA). CVA is calculated on a monthly basis, for each closed transaction in derivatives.

Potential insurance is also taken into account when calculating the CVA. For the purpose of managing counterparty credit risk in transactions with derivatives the Bank may sign a credit support annex (CSA) – a legal supplement to the ISDA master agreement, which sets out the conditions and instructions for adjusting the mutual credit exposure by using collateral, which alternates between the two parties in the contract, according to the daily fair value of the derivative. A deposit is generally agreed as an insurance. Another option to reduce the risk in case the CSA is not signed is an implementation of clearing through qualified central counterparty in accordance with the provisions of the EMIR.

In both cases from the previous paragraph, the CVA is not calculated. The CVA is also not calculated for exposure to the Republic of Slovenia.

The bank recognises the calculated CVA in the income statement for the first time in the month in which the total amount of calculated CVA for all derivatives exceeds 10 basis points of the last amount of total risk exposure according to paragraph 3 of Article 92 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter: the CRR).

The amount of CVA for SID Bank and SID Bank Group as at 31 December 2014 amounted to EUR 727 thousand and did not exceed the threshold for recognition in profit or loss.

3.2 Liquidity Risk

Liquidity risk is the risk of losses arising when a bank is unable to settle all its maturing liabilities, or when a bank is unable to provide enough funds to settle liabilities at maturity and is thus compelled to provide the necessary funds at significantly higher costs than normal. The greater the mismatch between interest and principal on the asset side and the liability side, and in off-balance-sheet items, the higher is the risk of illiquidity.

Liquidity risk in the narrower sense arises when a bank is unable to repay its liabilities via investment transactions. These liabilities are usually settled using cash inflows, readily convertible assets and borrowed funding. Liquidity risk in the broader sense is the risk that a bank will have to additionally borrow at a higher interest rate, and the risk that a bank will be compelled to sell non-cash investments at a discount owing to the need for liquidity. At SID Bank this risk is low, given the surplus position in current liquidity and the adequate secondary liquidity, a significant proportion of which consists of government securities and other high-quality highly liquid securities.

SID Bank does not accept bank deposits from uninformed persons, other than for the purpose of credit insurance to its clients, and is therefore not exposed to liquidity risk in the traditional sense. Problems can nevertheless arise if a debtor falls into arrears in the repayment of a loan or fails to repay a loan, or if SID Bank is unable to replace its existing liabilities as they mature with new funding. SID Bank has precisely defined procedures for its action in such an eventuality. It also calculates liquidity ratios for a baseline scenario, and discusses a stress scenario on a weekly basis on the liquidity committee. The asset/liability committee examines whether the assumptions used in the scenarios are appropriate.

The management of liquidity risk at SID Bank and SID Bank Group is undertaken in accordance with the liquidity risk management policy, which defines the procedures for managing assets and funding in domestic and foreign currency on a daily basis and also over the long term. SID Bank and SID Bank Group manage liquidity risk by means of the proper planning of inflows and outflows, which is undertaken separately for own account transactions, the contingency reserve and the Interest Rate Equalisation Programme reserves, and by means of an adequate stock of highly liquid financial assets. Under the liquidity risk management policy SID Bank and SID Bank Group ensure the regular settlement of all monetary liabilities, and the high-quality management of operational and structural liquidity.

SID Bank monitors and measures its exposure to liquidity risk on the basis of the daily calculation of liquidity ratios in the manner set out by current banking legislation as prescribed by the Regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks. The liquidity ratio is the ratio of the sum of financial assets in domestic and foreign currency to the sum of funding in domestic and foreign currency with regard to residual maturity. The first-bucket liquidity ratio (up to 30 days) must be at least 1, while the second-bucket liquidity ratio (up to 180 days) is of an informative nature. SID Bank has set internal liquidity ratios that are higher than those prescribed by law, which provides additional security. Should the first-bucket liquidity ratio fall to 1.2 or the second-bucket liquidity ratio fall to 1.1, the treasury department is obliged to put forward measures to safeguard sufficient liquidity. The daily values of the first-bucket liquidity ratio surpassed the Bank of Slovenia's legal requirements in 2014. The first-bucket liquidity ratio stood at 11.19 as at 31 December 2014, while the second-bucket liquidity ratio stood at 2.31.

SID Bank calculates the liquidity coverage ratio (LCR) as envisaged in Basel III on a three-monthly basis, the values surpassing the prescribed level. The LCR as at 31 December 2014 amounted to 6,758%, and 1,809% as at 31 December 2013. The calculation is presented to the liquidity committee.

In conjunction with other organisational units at SID Bank the treasury department carries out weekly and monthly planning of liquidity flows, and simulations of the first-bucket liquidity ratio for the upcoming period. When it is necessary to improve operational or structural liquidity, the treasury department proposes measures to manage the aforementioned risks to the liquidity committee (lengthening the maturities of liability transactions, shortening the maturities of asset transactions, raising deposits and credit lines on the money market, reducing guarantee and credit potential). For the purpose of raising additional reserves of daily liquidity from the central bank and from other banks, SID Bank has a portfolio of securities permanently available to act as collateral for such receivables.

Financial assets and financial liabilities – breakdown by residual maturity as at 31 December 2014

SID Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**318,982**	**240,359**	**826,216**	**781,395**	**1,394,103**	**3,561,055**
Balances with the central bank and demand deposits with banks	3,051	0	0	0	0	3,051
Available-for-sale financial assets	31,403	112,285	183,996	233,379	149,920	710,983
Loans	284,528	127,706	614,194	548,016	1,244,183	2,818,627
Loans to banks	171,527	127,512	612,195	417,447	852,205	2,180,886
Loans to clients other than banks	112,793	12	1,982	130,567	391,973	637,327
Other financial assets	208	182	17	2	5	414
Derivatives held for hedging	0	368	28,026	0	0	28,394
Financial liabilities	**66,241**	**75,998**	**633,523**	**849,707**	**1,666,663**	**3,292,132**
Financial liabilities held for trading	0	0	3	0	0	3
Financial liabilities measured at amortised cost	62,547	48,538	626,305	796,137	1,645,432	3,178,959
Bank deposits	10,014	2,883	10,930	0	0	23,827
Deposits of clients other than banks	6	0	0	0	0	6
Loans from banks and central banks	50,825	45,655	110,003	432,871	1,202,140	1,841,494
Loans from clients other than banks	0	0	0	0	381,461	381,461
Debt securities	0	0	505,372	363,150	61,831	930,353
Other financial liabilities	1,702	0	0	116	0	1,818
Assumed irrevocable liabilities and financial guarantees	3,694	27,460	7,215	53,570	21,231	113,170
Liquidity gap as at 31 December 2014	**252,741**	**164,361**	**192,693**	**(68,312)**	**(272,560)**	**268,923**
Financial assets as at 31 Dec 2013	288,143	254,325	563,751	1,308,129	1,359,858	3,774,206
Financial liabilities as at 31 Dec 2013	20,883	11,167	378,954	1,667,260	1,409,016	3,487,280
Liquidity gap as at 31 December 2013	**267,260**	**243,158**	**184,797**	**(359,131)**	**(49,158)**	**286,926**

SID Bank Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**326,086**	**244,903**	**829,008**	**793,430**	**1,399,593**	**3,593,020**
Balances with the central bank and demand deposits with banks	7,554	0	0	0	0	7,554
Available-for-sale financial assets	31,979	113,462	186,788	245,414	155,410	733,053
Loans	286,554	131,073	614,194	548,016	1,244,183	2,824,019
Loans to banks	173,549	130,879	612,195	417,447	852,205	2,186,275
Loans to clients other than banks	112,793	12	1,982	130,567	391,973	637,327
Other financial assets	212	182	17	2	5	418
Derivatives held for hedging	0	368	28,026	0	0	28,394
Financial liabilities	**66,634**	**76,070**	**633,615**	**849,748**	**1,666,663**	**3,292,730**
Financial liabilities held for trading	0	0	3	0	0	3
Financial liabilities measured at amortised cost	62,940	48,610	626,397	796,178	1,645,432	3,179,557
Bank deposits	10,014	2,883	10,930	0	0	23,827
Deposits of clients other than banks	6	0	0	0	0	6
Loans from banks and central banks	50,825	45,655	110,003	432,871	1,202,140	1,841,494
Loans from clients other than banks	0	0	0	0	381,461	381,461
Debt securities	0	0	505,372	363,150	61,831	930,353
Other financial liabilities	2,095	72	92	157	0	2,416
Assumed irrevocable liabilities and financial guarantees	3,694	27,460	7,215	53,570	21,231	113,170
Liquidity gap as at 31 December 2014	**259,452**	**168,833**	**195,393**	**(56,318)**	**(267,070)**	**300,290**
Financial assets as at 31 Dec 2013	293,498	260,928	568,681	1,318,295	1,365,791	3,807,193
Financial liabilities as at 31 Dec 2013	21,276	11,306	379,334	1,667,874	1,409,016	3,488,806
Liquidity gap as at 31 December 2013	**272,222**	**249,622**	**189,347**	**(349,579)**	**(43,225)**	**318,387**

The breakdown of financial assets and financial liabilities by residual maturity illustrates the management of liquidity risk in connection with credit risk. The items are disclosed in net amounts (gross amounts decreased by formed impairments). Cash flows from interest payments of a fixed and variable portion of derivatives held for hedging are settled on a net basis. SID Bank did not have any liquidity problems in 2014, as a result of the long maturities of its liability transactions and its adequate secondary liquidity.

Since December 2011 SID Bank has again been obliged to meet the reserve requirement at the central bank. The reserve requirement is 1% of the stock of deposits received and issued debt securities with an agreed maturity of up to 2 years. A general allowance of EUR 100 thousand is taken into account in the calculation.

SID Bank is deemed to have met the reserve requirement if the average balance in the settlement account at the end of the calendar day during the maintenance period is no less than the amount calculated for the aforementioned period. Under the Rules on the maintenance of the reserve requirement, the required average can be managed continually each day in the individual maintenance period, or can be met on the final day of the period by providing the requisite funds on a one-off basis. The reserve requirement calculated for the period between 10 December 2014 and 27 January 2015 stood at 0 EUR.

3.3 Interest Rate Risk

Interest rate risk is the risk of a change in the interest rates of interest-sensitive asset and liability items that could have an adverse impact on profit or loss, and on the economic value of assets, liabilities and off-balance-sheet items. To a great extent exposure to interest rate risk derives from interest-sensitive assets with different maturities and a different repricing period compared with interest-sensitive liabilities (the income aspect). Another part of interest rate risk consists of the sensitivity of investments to changes in interest rates (the economic aspect).

SID Bank is exposed to interest rate risk from available-for-sale securities, loans granted and the balance in the settlement account and in commercial accounts on the asset side, and from borrowings and issued debt securities on the liability side.

Since SID Bank also acquires resources with a fixed interest rate, and in order to reduce interest rate risk it enters into derivative financial instruments (interest rate swaps), which are dealt with within the framework hedge accounting, thereby achieving lower volatility in profit or loss due to changes in fair value of derivatives held for hedging.

SID Bank analyses the exposure to interest rate risk with the repricing gap method, thus pursuing a policy closed bank position and minimising the amount of interest rate spreads.

SID Bank primarily manages its exposure to interest rate risk by matching the interest accrual methods of asset and liability items. The majority of assets and liabilities consist of euro-denominated instruments with an interest rate tied to a reference interest rate (the Euribor), and the bank thus remains exposed solely to the mismatches in the repricing periods and incomplete matching in the choice of interest rate (3-month or 6-month Euribor).

Financial assets and financial liabilities – breakdown by exposure to interest rate risk as at 31 December 2014

SID Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total interest bearing items	Unremune-rated bearing items	Total
Financial assets	**588,863**	**585,549**	**2,021,355**	**206,578**	**158,305**	**3,560,650**	**405**	**3,561,055**
Balances with the central bank and demand deposits with banks	3,051	0	0	0	0	3,051	0	3,051
Available-for-sale financial assets	45,476	137,871	188,010	200,302	139,324	710,983	0	710,983
Loans	540,336	447,310	1,805,319	6,276	18,981	2,818,222	405	2,818,627
Loans to banks	227,723	332,255	1,608,350	5,533	7,025	2,180,886	0	2,180,886
Loans to clients other than banks	312,613	115,055	196,967	741	11,951	637,327	0	637,327
Other financial assets	0	0	2	2	5	9	405	414
Derivatives held for hedging	0	368	28,026	0	0	28,394	0	28,394
Financial liabilities	**355,304**	**501,345**	**1,926,650**	**201,311**	**192,536**	**3,177,146**	**1,816**	**3,178,962**
Financial liabilities held for trading	0	0	3	0	0	3	0	3
Financial liabilities measured at amortised cost	355,304	501,345	1,926,647	201,311	192,536	3,177,143	1,816	3,178,959
Bank deposits	20,944	2,883	0	0	0	23,827	0	23,827
Deposits of clients other than banks	6	0	0	0	0	6	0	6
Loans from banks and central banks	261,751	176,628	1,363,246	39,869	0	1,841,494	0	1,841,494
Loans from clients other than banks	72,601	120,126	58,029	0	130,705	381,461	0	381,461
Debt securities	0	201,708	505,372	161,442	61,831	930,353	0	930,353
Other financial liabilities	2	0	0	0	0	2	1,816	1,818
Interest rate sensitivity gap as at 31 Dec 2014	**233,559**	**84,204**	**94,705**	**5,267**	**(34,231)**	**383,504**	**(1,411)**	**382,093**
Financial assets as at 31 Dec 2013	519,302	736,906	2,347,808	118,799	48,602	3,771,417	2,789	3,774,206
Financial liabilities as at 31 Dec 2013	462,367	598,041	1,526,292	726,971	117,377	3,431,048	1,503	3,432,551
Interest rate sensitivity gap as at 31 Dec 2013	**56,935**	**138,865**	**821,516**	**(608,172)**	**(68,775)**	**340,369**	**1,286**	**341,655**

SID Bank Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total interest bearing items	Unremune-rated bearing items	Total
Financial assets	**595,988**	**593,432**	**2,024,154**	**217,167**	**161,870**	**3,592,612**	**409**	**3,593,020**
Balances with the central bank	7,553	0	0	0	0	7,553	0	7,554
Available-for-sale financial assets	46,077	142,388	190,809	210,891	142,889	733,054	0	733,054
Loans	542,358	450,677	1,805,319	6,276	18,981	2,823,611	409	2,824,019
Loans to banks	229,745	335,622	1,608,350	5,533	7,025	2,186,275	0	2,186,275
Loans to clients other than banks	312,613	115,055	196,967	741	11,951	637,327	0	637,327
Other financial assets	0	0	2	2	5	9	409	418
Derivatives held for hedging	0	368	28,026	0	0	28,394	0	28,394
Financial liabilities	**355,304**	**501,345**	**1,926,650**	**201,311**	**192,536**	**3,177,146**	**2,414**	**3,179,560**
Financial liabilities held for trading	0	0	3	0	0	3	0	3
Financial liabilities measured at amortised cost	355,304	501,345	1,926,647	201,311	192,536	3,177,143	2,414	3,179,557
Bank deposits	20,944	2,883	0	0	0	23,827	0	23,827
Deposits of clients other than banks	6	0	0	0	0	6	0	6
Loans from banks and central banks	261,751	176,628	1,363,246	39,869	0	1,841,494	0	1,841,494
Loans from clients other than banks	72,601	120,126	58,029	0	130,705	381,461	0	381,461
Debt securities	0	201,708	505,372	161,442	61,831	930,353	0	930,353
Other financial liabilities	2	0	0	0	0	2	2,414	2,416
Interest rate sensitivity gap as at 31 Dec 2014	**240,684**	**92,087**	**97,504**	**15,856**	**(30,666)**	**415,466**	**(2,006)**	**413,460**
Financial assets as at 31 Dec 2013	525,742	746,791	2,354,721	124,541	52,612	3,804,407	2,786	3,807,193
Financial liabilities as at 31 Dec 2013	463,313	598,041	1,526,292	726,971	117,377	3,431,994	2,083	3,434,077
Interest rate sensitivity gap as at 31 Dec 2013	**62,429**	**148,750**	**828,429**	**(602,430)**	**(64,765)**	**372,414**	**703**	**373,116**

Sensitivity analysis

SID Bank and SID Bank Group conduct analysis of the sensitivity of remunerated assets and liabilities to changes in interest rates.

Analysis of the sensitivity of interest-sensitive asset and liability items is made under the assumption of a change of 100 basis points in market interest rates. The impact on net interest income in the first year of the change is calculated.

Were market interest rates to rise by 100 basis points, SID Bank's net interest income in 2015 would increase by EUR 3,620 thousand (compared with EUR 2,835 thousand in 2014). The change would be reflected in higher income in the statement of profit or loss. Were market interest rates to fall by 100 basis points, the changes would be of the same magnitude as after a rise in interest rates, but in the opposite direction. For larger or smaller changes in market interest rates, the results have been calculated proportionately.

Were market interest rates to rise by 100 basis points, SID Bank Group's net interest income in 2015 would increase by EUR 3,860 thousand (compared with EUR 3,017 thousand in 2012). The change would be reflected in higher income in the statement of profit or loss. 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 larger or smaller changes in market interest rates, the results have been calculated proportionately.

Sensitivity analysis is also made for the risk of changes in prices of debt securities of SID Bank. If the prices of debt securities were to rise by 100 basis points, the revaluation of equity adjustment would increase by EUR 6,706 thousand, while in case the drop in the price by 100 basis points the revaluation of equity adjustment would decrease by the same amount.

3.4 Currency risk

Currency risk is the risk of a loss arising from adverse changes in exchange rates.

In the management of currency risk SID Bank determines the potential loss that would arise as a result of a change in exchange rates by means of the open foreign exchange position, which is the difference between the sums of all assets and liabilities in foreign currencies. Internal limits are placed on the open foreign exchange position, and it was minimal throughout 2014.

Transactions executed by SID Bank and SID Bank Group in foreign currencies are not materially significant, and this currency risk is also not of material significance. Given the lack of material significance, SID Bank and SID Bank Group do not make analysis of currency sensitivity.

The SID Bank Group ties fiduciary cession advances to the euro, in order to neutralise as far as possible the effect of changes in exchange rates on debts expressed in euros. In insurance operations the SID Bank Group matches the currency breakdown of its assets covering technical provisions with the currency structure of the exposure to the largest possible extent.

Financial assets and financial liabilities – breakdown by currency as at 31 December 2014

	SID Bank				SID Bank Group			
	EUR	USD	Other currencies	Total	EUR	USD	Other currencies	Total
Financial assets	**3,533,767**	**27,288**	**0**	**3,561,055**	**3,565,731**	**27,288**	**0**	**3,593,019**
Balances with the central bank and demand deposits with banks	3,030	21	0	3,051	7,533	21	0	7,554
Available-for-sale financial assets	709,740	1,243	0	710,983	731,810	1,243	0	733,053
Loans	2,792,603	26,024	0	2,818,627	2,797,995	26,024	0	2,824,019
Loans to banks	2,154,862	26,024	0	2,180,886	2,160,250	26,024	0	2,186,274
Loans to clients other than banks	637,327	0	0	637,327	637,327	0	0	637,327
Other financial assets	414	0	0	414	418	0	0	418
Derivatives held for hedging	28,394	0	0	28,394	28,394	0	0	28,394
Financial liabilities	**3,151,758**	**27,204**	**0**	**3,178,962**	**3,152,355**	**27,205**	**0**	**3,179,560**
Financial liabilities held for trading	3	0	0	3	3	0	0	3
Financial liabilities measured at amortised cost	3,151,755	27,204	0	3,178,959	3,152,352	27,205	0	3,179,557
Bank deposits	20,944	2,883	0	23,827	20,944	2,883	0	23,827
Deposits of clients other than banks	6	0	0	6	6	0	0	6
Loans from banks and central banks	1,817,173	24,321	0	1,841,494	1,817,173	24,321	0	1,841,494
Loans from clients other than banks	381,461	0	0	381,461	381,461	0	0	381,461
Debt securities	930,353	0	0	930,353	930,353	0	0	930,353
Other financial liabilities	1,818	0	0	1,818	2,415	1	0	2,416
Net on-balance-sheet position as at 31 Dec 2014	**382,009**	**84**	**0**	**382,093**	**413,376**	**83**	**(0)**	**413,459**
Assumed irrevocable liabilities	**93,016**	**0**	**20,153**	**113,169**	**93,016**	**0**	**20,153**	**113,169**
Financial assets as at 31 Dec 2013	3,740,297	33,909	0	3,774,206	3,773,284	33,909	0	3,807,193
Financial liabilities as at 31 Dec 2013	3,398,940	33,611	0	3,432,551	3,400,456	33,612	10	3,434,077
Net on-balance-sheet position as at 31 Dec 2013	**341,357**	**298**	**0**	**341,655**	**372,829**	**297**	**(10)**	**373,116**
Assumed irrevocable liabilities as at 31 Dec 2013	34,467	0	20,396	54,863	34,467	0	20,396	54,863

3.5 Operational risk

Operational risk arises as a result of inadequate or failed performance of internal processes, people and systems or from external events, and depends on internal organisation, the management of business processes, the functioning of internal controls, the effectiveness of internal and external auditing, etc.

Operational risk factors include personnel, business processes, information technology and other infrastructure, organisational arrangements and external events.

The expansion in SID Bank's role as Slovenia's primary financial institution concerned with promotional development, its increase in turnover and the gradual increase in the complexity of its products and processes have increased operational risk.

The Bank uses a basic indicator approach to monitor operational risk. Management of operational risk is based on the established system of internal controls, the system of decision-making and powers, proper replacements during absences, the right training for personnel, and investment in information technology. The systemic risks entailed by information technology, which are increasing as the level of computerisation increases, have been managed by additional measures such as the business continuity plan put in place, the duplication of server infrastructure and other measures to increase information security (systems to prevent penetrations, systems for detecting penetrations, surveillance systems).

In recent years SID Bank has acquired many new clients, mostly with the introduction of funding programs for small and medium-sized enterprises (Promotional and Development Platform), which required the employment of additional staff and the development of necessary software. Operational risks under this title are managed by using pre-set work flows and system of authorisations, by following the four eyes principle and setting up adequate IT support.

3.6 Capital management

SID Bank and SID Bank Group must always have adequate capital at their disposal as a reserve against the various risks that they are exposed to in their operations. This is a continuous process of determining and maintaining the amount and quality of capital that is adequate, taking the risks defined in the capital management policy into account.

Capital risk refers to the inappropriate composition of capital in relation to the scope and nature of the operations or the difficulties faced by the Bank in obtaining fresh capital, especially when it has to be increased rapidly, or when facing unfavourable conditions in the business environment.

The role and responsibilities of the supervisory board when managing the capital risk and capital are assessment of the adequacy capital risk and capital management policy, and evaluation of policy implementation. The management board is responsible for the adoption of appropriate policies for managing capital, provision of the proper amount and quality of capital and the meeting of the capital requirements of the regulator.

Regulatory capital

The calculation of regulatory capital based on the provisions of the CRR. The calculation of capital adequacy of SID Bank Group is based on the consolidated financial statements, as defined by the Regulation. Accordingly, the consolidated financial statements do not include insurance companies, and joint ventures are consolidated using the proportional method. In accordance with the Regulation, SID Bank and 50% of SID Bank Group (using the prudential consolidation), are included in the consolidation.

According to its attributes and requirements, capital is divided into common equity tier 1 capital (CET1), additional tier 1 capital (Tier 1) and tier 2 capital (Tier 2). The capital of SID Bank consists of only the components of highest quality CET1 core capital, the bank has no additional capital.

The Bank uses the standardised approach to calculate the capital requirements for credit risk at SID Bank and SID Bank Group. In order to calculate risk weighted exposure amounts for credit risk, instead of using credit ratings for each category of exposure, the Bank allocates risk weights for individual exposure categories according to the degree of risk of the client's country. For determining credit quality step of the central government (Article 114 of the CRR), The Bank and the Group use credit assessment by SID Bank as a nominated ECAI, as provided for in Article 137 of the CRR.

The basic indicator approach is used to calculate the capital requirements for operational risks.

Capital requirements for credit valuation adjustment risk (CVA) are calculated by the standard method, as provided for in Article 384 of the CRR.

At the end of 2014 the Bank and the Group did not need to establish capital requirements for currency risks as the sum of total net foreign currency position for both the Bank and the Group does not exceed 2 percent of its total capital.

Capital adequacy ratios

	SID Bank		SID Bank Group	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Own funds	**345,726**	**334,997**	**356,927**	**354,568**
TIER 1 capital	345,726	343,410	356,927	346,156
Common equity tier 1 capital (CET1)	345,726	343,410	356,927	346,156
Paid-up share capital	300,000	300,000	300,000	300,000
Share premium	1,139	1,139	1,139	1,139
(–) Direct holding of CET1 instruments	(1,324)	(1,324)	(1,324)	(1,324)
Other reserves and retained earnings	46,658	44,272	58,362	55,446
Accumulated other comprehensive income	6,644	1,706	6,152	1,706
(–) Intangible assets	(713)	(677)	(723)	(692)
(–) Other adjustments of CET1	(6,678)	(1,706)	(6,678)	(1,706)
(–) Items deducted from TIER1 and CET1	0	(8,413)	0	(8,413)
TIER 2 capital	0	0	0	0
CET 1 capital ratio (%)	26.15	16.49	25.82	16.12
Tier 1 capital ratio (%)	26.15	16.49	25.82	16.12
Capital adequacy ratio (%)	**26.15**	**16.49**	**25.82**	**16.12**

Own funds requirements – breakdown by type of risk

	SID Bank				SID Bank Group			
	31 Dec 2014	Structure (%)	31 Dec 2013	Structure (%)	31 Dec 2014	Structure (%)	31 Dec 2013	Structure (%)
Own funds requirements								
for credit risk	93,998	88.8	152,757	94.0	97,644	88.3	159,803	93.0
for operational risk	11,448	10.8	9,809	6.0	12,587	11.4	11,046	6.4
for currency risk	0	0.0	0	0.0	0	0.0	961	0.6
for credit valuation adjustment risk (CVA)	363	0.3	0	0.0	363	0.3	0	0.0
Total	**105,809**	**100.0**	**162,566**	**100**	**110,594**	**100.0**	**171,810**	**100**

Own funds requirements for credit risk

	SID Bank		SID Bank Group	
Exposure classes	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Central governments or central banks	1,891	3	1,988	86
Regional governments or local authorities	620	926	632	987
Public sector entities	402	996	443	1,009
Institutions	36,446	102,742	36,687	103,047
Corporates	27,568	42,910	31,166	48,514
Exposures in default	24,336	4,682	23,901	5,220
Items associated with particular high risk	50	0	50	286
Covered bonds	21	42	21	42
Equity	2,150	0	2,150	0
Other exposures	514	456	606	611
Total	**93,998**	**152,757**	**97,644**	**159,803**

Internal capital adequacy assessment

SID Bank annually assesses its risk profile, which comprises a documented and categorised collection of quantitative and qualitative assessments of the risks that a bank takes up within the framework of its operations and the control environment with which it manages these risks.

The risk profile represents a basis for the integral risk management process, the internal capital adequacy assessment process, the planning of internal audit procedures, and direct supervision by the Bank of Slovenia.

The risk profile is assessed for the entire SID Bank Group in accordance with the CRR on risk management and the implementation of the internal capital adequacy assessment process for banks and savings banks.

The internal capital adequacy assessment process takes account of risks included in the first pillar (credit risk, market risk, operational risk), risks under the second pillar (concentration risk, transfer risk, interest rate risk, liquidity risk, profitability risk, settlement risk, reputation risk, strategic risk, capital risk), and other elements and factors of the external environment (regulatory changes, the impact of economic cycles, stress tests). In the context of factors of the external environment the bank takes into consideration the fact that this is an alternative component of equity, intended for use in crisis situations. SID Bank has estimated the capital need from the stress tests of the unsecured part of assets more than 90 days overdue and for which SID Bank has not formed any impairments. As at 31 December 2014 the capital requirements for these items amounted to EUR 24,700 thousand.

In 2014 SID Bank participated in the comprehensive assessment under the leadership of the ECB, in the context of which the basic and unfavourable stress scenarios were also carried out. In the process of supervisory review and evaluation (SREP) the Bank of Slovenia identified a higher capital need as at 31 December 2013 due to the stress tests, in the amount of EUR 50,000 thousand. In this process it used the loss before tax for the year 2014 at an unfavorable scenario for the purpose of factors of the external environment for SID Bank.

Internal assessment of own funds requirements

	SID Bank and SID Bank Group			
	31 Dec 2014	(%)	31 Dec 2013	(%)
Own funds requirements				
for credit risk	97,644	63.7	159,803	63.2
for operational risk	12,587	8.2	11,046	4.3
for currency risk	0	0	0	0
for credit valuation adjustment	363	0.2	/	/
Own funds requirements				
for interest rate risk	4	0.0	2,957	1.2
for concentration risk	13,670	8.9	22,372	8.7
for strategic risk	4,409	2.9	6,8340	2.8
for factors of the external environment	24,698	16.1	50,000	19.8
Internal assessment of own funds requirements	**153,376**	**100**	**253,018**	**100**

Internal assessment of own funds requirements as at 31 December 2014 amounted to EUR 153.4 million. In the internal assessment of capital needs, the capital requirements for credit risk amount to 63.7%, 8.2% for operational risk, 0.2% for credit valuation adjustment and 27.9% for interest rate risk, concentration risk, strategic risk, and external factors. Taking into account the capital requirements of the second pillar, the capital adequacy of SID Bank banking group amounted to 18.6% at the end of 2014.

3.7 Fair value of financial assets and liabilities

The fair value is the value that would be received when selling an asset or paid when transferring a liability in a regular transaction between market participants at the measurement date under current market conditions, irrespective of whether the price can be directly observed or estimated using other valuation techniques.

Fair values of financial assets and financial liabilities traded in active markets are based on quoted market prices. For all other financial instruments SID Bank and SID Bank Group determine the fair value using other valuation techniques.

An active market is a market in which transactions with the assets or liabilities are often concluded, so that information on prices is regularly provided for the public.

SID Bank and SID Bank Group measure the fair value using the fair value hierarchy that reflects the significance of the input data.

- Level 1: quoted prices in active markets for identical assets or liabilities, that SID Bank and SID Bank Group can access on the measurement date. This level also includes investments into bonds valued based on the BGN (Bloomberg Generic Price) exchange rate, as it represents a unanimous rate of the interbank or OTC market. Although SID Bank and SID Bank Group cannot use the BGN exchange rate directly as at the sale of securities, its use ensures objectivity in the valuation and the price is a reflection of actual market transactions and an adequate indicator of prices that would have been achieved in the sale of bonds on the market. Prices of the providers do not materially deviate from the rate applied.

- Level 2: input data other than quoted prices included in Level 1, which can be directly (prices) or indirectly (derived from prices) observed for the asset or liability. In Level 2 SID Bank and SID Bank Group include financial instruments which are valued using: quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in non-functioning markets or input data other than quoted prices which can be observed for the assets or liabilities, i.e. interest rates and yield curves.

- Level 3: in this category SID Bank and SID Bank Group include financial instruments for which fair value is calculated according to the model, which uses mainly unobserved input data and financial instruments which are valued at original cost in the transitional period.

Observed input data is developed based on market data, such as publicly available information about actual events or transactions. Unobserved input data is that for which market data is not available and is developed using the best available information concerning the assumptions that market participants would use in pricing the asset or liability.

Financial assets measured at fair value

The financial instruments that SID Bank and SID Bank Group disclose in the statement of financial position at fair value are financial assets and liabilities held for trading, available-for-sale financial assets and financial assets used for hedging.

Financial assets and liabilities held for trading and derivative financial instruments held for hedging, which include interest rate swaps, are valued with regard to market interest rates and the yield curve.

The fair value of available-for-sale financial assets is determined by using quoted prices in active markets for identical assets, or by using quoted prices in active markets for similar assets and quoted prices for identical or similar assets in non-functioning markets.

Financial instruments measured at fair value – the fair value hierarchy

The table below illustrates the financial instruments measured at fair value at the reporting date, depending on the level in the fair value hierarchy in which they are classified.

	SID Bank						
	31 Dec 2014				31 Dec 2013		
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Total
Financial assets measured at fair value							
Available-for-sale financial assets	531,775	163,221	15,987	710,983	337,221	7,212	344,433
Debt securities	531,775	157,375	15,987	705,137	337,221	5,037	342,258
Equity securities	0	5,846	0	5,846	0	2,175	2,175
Derivatives held for hedging	0	28,394	0	28,394	0	36,095	36,095
Total financial assets	**531,775**	**191,615**	**15,987**	**739,377**	**337,221**	**43,307**	**380,528**
Financial liabilities measured at fair value							
Financial liabilities held for trading	0	3	0	3	0	17	17
Derivatives held for hedging	0	0	0	0	0	129	129
Total financial liabilities	**0**	**3**	**0**	**3**	**0**	**146**	**146**

	SID Bank Group						
	31 Dec 2014				31 Dec 2013		
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Total
Financial assets measured at fair value							
Available-for-sale financial assets	551,949	165,116	15,987	733,052	357,729	7,212	364,941
Debt securities	551,949	159,270	15,987	727,206	357,729	5,037	362,766
Equity securities	0	5,846	0	5,846	0	2,175	2,175
Derivatives held for hedging	0	28,394	0	28,394	0	36,095	36,095
Total financial assets	**551,949**	**193,510**	**15,987**	**761,446**	**357,729**	**43,307**	**401,036**
Financial liabilities measured at fair value							
Financial liabilities held for trading	0	3	0	3	0	17	17
Derivatives held for hedging	0	0	0	0	0	129	129
Total financial liabilities	**0**	**3**	**0**	**3**	**0**	**146**	**146**

Financial instruments not measured at fair value

The table illustrates the fair values of financial instruments not measured at fair value and analyses them according to the level in the fair value hierarchy in which they are classified.

	31 Dec 2014							
	SID Bank				SID Bank Group			
	Level 2	Level 3	Fair value	Carrying amount	Level 2	Level 3	Fair value	Carrying amount
Balances with the central bank and demand deposits with banks	3,051	0	3,051	3,051	7,554	0	7,554	7,554
Loans	2,184,384	639,688	2,824,072	2,818,627	2,189,777	639,688	2,829,465	2,824,020
Loans to banks	2,183,879	0	2,183,879	2,180,886	2,189,268	0	2,189,268	2,186,275
Loans to clients other than banks	0	639,688	639,688	637,327	0	639,688	639,688	637,327
Other financial assets	505	0	505	414	509	0	509	418
Total financial assets	**2,187,435**	**639,688**	**2,827,123**	**2,821,678**	**2,197,331**	**639,688**	**2,837,019**	**2,831,574**
Financial liabilities measured at amortised cost	2,249,361	930,353	3,179,714	3,178,959	2,249,959	930,353	3,180,312	3,179,557
Bank deposits	23,827	0	23,827	23,827	23,827	0	23,827	23,827
Deposits of clients other than banks	6	0	6	6	6	0	6	6
Loans from banks and central banks	1,842,057	0	1,842,057	1,841,494	1,842,057	0	1,842,057	1,841,494
Loans from clients other than banks	381,653	0	381,653	381,461	381,653	0	381,653	381,461
Debt securities	0	930,353	930,353	930,353	0	930,353	930,353	930,353
Other financial liabilities	1,818	0	1,818	1,818	2,416	0	2,416	2,416
Total financial liabilities	**2,249,361**	**930,353**	**3,179,714**	**3,178,959**	**2,249,959**	**930,353**	**3,180,312**	**3,179,557**

	31 Dec 2013							
	SID Bank				SID Bank Group			
	Level 2	Level 3	Fair value	Carrying amount	Level 2	Level 3	Fair value	Carrying amount
Balances with the central bank and demand deposits with banks	177,458	0	177,458	177,458	179,745	0	179,745	179,745
Loans	2,618,831	603,091	3,221,922	3,216,220	2,629,024	603,091	3,232,115	3,226,413
Loans to banks	2,618,106	0	2,618,106	2,614,462	2,628,302	0	2,628,302	2,624,658
Loans to clients other than banks	0	603,091	603,091	601,136	0	603,091	603,091	601,136
Other financial assets	725	0	725	622	722	0	722	619
Total financial assets	**2,796,289**	**603,091**	**3,399,380**	**3,393,678**	**2,808,769**	**603,091**	**3,411,860**	**3,406,158**
Financial liabilities measured at amortised cost	2,298,678	1,134,713	3,433,391	3,432,405	2,300,204	1,134,713	3,434,917	3,433,931
Bank deposits	40,497	0	40,497	40,497	40,497	0	40,497	40,497
Deposits of clients other than banks	6	0	6	6	6	0	6	6
Loans from banks and central banks	1,783,471	0	1,783,471	1,782,721	1,784,417	0	1,784,417	1,783,667
Loans from clients other than banks	473,201	0	473,201	472,965	473,201	0	473,201	472,965
Debt securities	0	1,134,713	1,134,713	1,134,713	0	1,134,713	1,134,713	1,134,713
Other financial liabilities	1,503	0	1,503	1,503	2,083	0	2,083	2,083
Total financial liabilities	**2,298,678**	**1,134,713**	**3,433,391**	**3,432,405**	**2,300,204**	**1,134,713**	**3,434,917**	**3,433,931**

The carrying values of money are assumed to be approximately equal to their fair value.

Market interest rates are used for the fair values of loans with variable yield and floating rate and in which the credit risk is not subject to significant change. Given that loans with fixed interest rates represent only 1.1% of the loan portfolio, SID Bank and SID Bank Group estimate that there is no material difference between the fair value of loans and their carrying amounts.

The fair values of financial liabilities with floating rates are approximately equal to their carrying amounts as at the reporting date. The liabilities for loans measured at amortized cost of SID Bank and SID Bank Group include 8.9% of loans with fixed interest rate. The Bank and the Group estimate that there is no material difference between their fair value and their carrying amount. Market interest rates are used to calculate the fair value of liabilities for loans measured at amortized cost with floating rates.

The issued debt securities and loans at SID Bank and SID Bank Group are recognised and measured at amortized cost. For instruments included in the hedging relationship, the fair value for the purpose of calculating the effects of hedge accounting is calculated by using valuation techniques, namely the expected present value. The expected present value is calculated by using input data other than quoted prices that can be observed, namely interest rates and yield curves.

Table of transfers between levels in 2014

	SID Bank and SID Bank Group
	Transfers from Level 1 to Level 2
Financial assets measured at fair value	
Available-for-sale financial assets	12,147
Debt securities	12,147
Equity securities	0
Derivatives held for hedging	0

4 Segment reporting

Allocation and disclosure by operating segment is carried out on the basis of the attributes of individual business activities at SID Bank Group. The disclosure of information by operating segment takes account of supervisory approaches and the content of reports that serve the Bank's management in the governance of the SID Bank Group. Performance across the operating segments is monitored on the basis of the accounting policy as presented in Note 2.3.25. The reports are compiled in accordance with the IFRS. The majority of SID Bank Group's operations are on the domestic market, for which reason the Group does not disclose additional itemisation by geographical segments.

The SID Bank Group business activities can be divided into three operating segments:
- Banking,
- Credit and investment insurance and
- Factoring.

Each operating segment is organised as a legal entity in the form of an independent business entity. Within the SID Bank Group banking services are provided by the controlling company SID Bank, credit and investment insurance is carried out at PKZ, and factoring is the domain of the Prvi Faktor Group. The factoring operating segment includes proportionate share (50%) of the Prvi Faktor Group. The individual operating segments include products and services that differ from the other operating segments in terms of risk and return. Transactions between the operating segments are executed at normal commercial terms.

Analysis by operating segment

2014	Banking	Credit and investment insurance	Factoring	Total	Interrelations in the Group	Relations to third parties
Interest income	97,604	489	7,272	105,365	(2,209)	103,156
Interest expense	(54,357)	(20)	(5,445)	(59,822)	2,138	(57,684)
Net interest	43,247	469	1,827	45,543	(71)	45,472
Dividend income	910	0	0	910	(910)	0
Fee and commission income	3,528	0	2,030	5,558	(27)	5,531
Fee and commission expense	(690)	(13)	(494)	(1,197)	197	(1,000)
Net fee and commission	2,838	(13)	1,536	4,361	170	4,531
Gains/(losses) realised on financial assets and liabilities not measured at fair value through profit or loss	(1,148)	0	296	(852)	1,763	911
Net gains or losses from financial assets and liabilities held for trading	13	0	(2)	11	0	11
Gains on financial assets and (liabilities) recognised at fair value through the statement of profit or loss	8,632	0	0	8,632	0	8,632
Changes in fair value in hedge accounting	134	0	0	134	0	133
Net exchange differences gain or loss	(10)	3	882	875	0	875
Net gains/losses from derecognition of assets other than non-current assets held for sale	(5)	0	8	3	0	3
Other net operating gains or losses	1,526	5,334	(26)	6,834	(113)	6,721
NET INCOME	56,137	5,793	4,521	66,451	839	67,289
Other information by segment	(43,987)	(4,818)	(3,301)	(52,106)	22,551	(29,554)
Administrative costs	(9,806)	(3,684)	(2,814)	(16,304)	5	(16,298)
Depreciation and amortisation	(613)	(371)	(67)	(1,051)	0	(1,051)
Provisions	(27,238)	(467)	0	(27,705)	31,625	3,920
Impairments	(6,330)	(296)	(420)	(7,046)	(9,079)	(16,125)
Profit from ordinary operations	12,150	975	1,220	14,345	23,390	37,735
Corporate income tax on ordinary operations	(7,606)	(218)	(691)	(8,515)	0	(8,515)
Net profit for the financial year	4,544	757	529	5,830	23,390	29,219
ASSETS AND LIABILITIES						
Total assets	3,577,036	62,768	102,116	3,741,920	(52,878)	3,689,042
Long-term interests in subsidiaries, associates and joint ventures	8,831	0	0	8,831	(8,413)	418
Liabilities (other than equity) by	3,221,761	36,964	100,366	3,359,091	(78,756)	3,280,335
Total equity	355,275	25,804	1,750	382,829	25,878	408,707
Increase/decrease in property, plant and equipment and intangible assets	2,902	(256)	(26)	2,620	0	2,620

The column Interrelations in the Group presents all income and expense generated between companies in SID Bank Group, dividend income from subsidiaries, impairment of loans given to companies in SID Bank Group and the impairment of interest in Prvi Faktor Ljubljana, interests in subsidiaries and joint ventures, mutual receivables and liabilities of the companies in SID Bank Group, and other consolidation entries.

2013	Banking	Credit and investment insurance	Factoring	Total	Interrelations in the Group	Relations to third parties
Interest income	117,832	719	9,806	128,357	(2,058)	126,299
Interest expense	(65,288)	(21)	(6,798)	(72,107)	2,129	(69,978)
Net interest	52,544	698	3,008	56,250	71	56,321
Dividend income	1,422	0	0	1,422	(1,422)	0
Fee and commission income	3,017	0	3,824	6,841	(42)	6,799
Fee and commission expense	(626)	(14)	(606)	(1,246)	153	(1,093)
Net fee and commission	2,391	(14)	3,218	5,595	111	5,706
Gains realised on financial assets and liabilities not measured at fair value through profit or loss	15,568	1	0	15,569	0	15,569
Net gains or losses from financial assets and liabilities held for trading	26	0	(8)	18	0	18
Gains on financial assets and (liabilities) recognised at fair value through the statement of profit or loss	1,579	0	0	1,579	0	1,579
Changes in fair value in hedge accounting	1,053	0	0	1,053	0	1,053
Net exchange differences loss	(4)	0	(315)	(319)	0	(319)
Net profits from derecognition of assets, excluding non-current assets held for sale	0	0	6	6	0	6
Other net operating gains or losses	2,032	7,358	(245)	9,145	(116)	9,029
NET INCOME/EXPENSE	76,611	8,043	5,664	90,318	(1,356)	88,962
Other information by segment	(70,911)	(4,614)	(18,226)	(93,751)	18,315	(75,436)
Administrative costs	(8,781)	(3,653)	(3,133)	(15,567)	5	(15,562)
Depreciation and amortisation	(589)	(356)	(78)	(1,023)	0	(1,023)
Provisions	6,454	250	0	6,704	0	6,704
Impairments	(67,995)	(855)	(15,015)	(83,865)	18,310	(65,555)
Profit/loss from ordinary operations	5,700	3,429	(12,562)	(3,433)	16,959	13,526
Corporate income tax on ordinary operations	(835)	(703)	(1,993)	(3,531)	0	(3,531)
Net profit/loss for the financial year	4,865	2,726	(14,555)	(6,964)	16,959	9,995
ASSETS AND LIABILITIES						
Total assets	3,787,565	65,852	120,551	3,973,968	(34,393)	3,939,575
Long-term interests in subsidiaries, associates and joint ventures	8,831	0	0	8,831	(8,412)	419
Liabilities (other than equity) by segment	3,441,772	40,442	130,701	3,612,915	(47,303)	3,565,612
Total equity	345,793	25,410	(10,151)	361,052	12,911	373,963
Increase/decrease in property, plant and equipment and intangible assets	(154)	(283)	4	(433)	(488)	(921)

The column Interrelations in the Group presents all income and expense generated between companies in SID Bank Group, dividend income from the subsidiary, impairment of loans given to companies in SID Bank Group, interests in subsidiaries and joint ventures, mutual receivables and liabilities of the companies in SID Bank Group, and other consolidation entries.

5 Other disclosures

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

As an authorized institution SID Bank insures on behalf and for the account of the Republic of Slovenia commercial and non-commercial or political risks of the nature and level for which private reinsurance market is not willing to cover or has limited capabilities to cover.

On behalf and for the account of the Republic of Slovenia, SID Bank also implements the Interest Rate Equalization Programme (IREP) for export credits.

Operations on behalf of and for the account of the Republic of Slovenia is not included in the financial statements of SID Bank. They are recorded on specific items defined by the Bank of Slovenia for their keeping.

31 Dec 2014	Insurance on behalf and for the account of the Republic of Slovenia	Interest rate equalisation Programme
Assets		
Cash at customer transaction accounts	100	57
Receivables from financial instruments	125,187	8,106
Loans	34,523	650
Available-for-sale financial assets	65,907	7,449
Other	24,757	7
Total assets	**125,287**	**8,163**
Liabilities		
Liabilities to customers from cash and financial instruments	125,287	8,163
Total tax liabilities	**125,287**	**8,163**
Memorandum account for brokerage	**550,229**	**1,328**

31 Dec 2013	Insurance on behalf and for the account of the Republic of Slovenia	Interest rate equalisation Programme
Assets		
Cash at customer transaction accounts	65	2
Receivables from financial instruments	144,100	8,031
Loans	56,707	1,501
Available-for-sale financial assets	76,124	6,496
Other	11,269	34
Total assets	**144,165**	**8,033**
Liabilities		
Liabilities to customers from cash and financial instruments	144,165	8,034
Total tax liabilities	**144,165**	**8,034**
Memorandum account for brokerage	**682,788**	**3,983**

Memorandum account for brokerage in insurance on behalf and for the account of the Republic of Slovenia represents exposure from valid insurance policies and promises, while in the Interest Rate Equalization Programme it represents derivatives designed to hedge against interest rate risk.

5.2 Disclosures in accordance with the EU Regulation 575/2013

SID Bank has the status of an EU parent bank, for which reason it is obliged to publish disclosures under the EU Regulation 575/2013 (the Regulation) on the basis of the prudential consolidation.

This chapter presents disclosure under the Regulation which are not included in the financial statements of the annual report.

Due to the transition to the new regulations, the data between 2014 and 2013 is not comparable.

The prudential consolidation in accordance with the Regulation include SID Bank using the full consolidation method and Prvi Faktor Group using the method of proportionate consolidation (50%). The Pro Kolekt Group and the CMSR have been excluded from consolidation, because their total assets amount to less than EUR 10 million. The investment in the Pro Kolekt Group is also not classed as a deduction against the capital of SID Bank as a banking group.

Under the IFRS, SID Bank Group's consolidated financial statements include, in addition to SID Bank, the insurance corporation PKZ using the full consolidation method, and Prvi Faktor Group using the equity method. Banking consolidation and accounting consolidation therefore differ in that the latter includes the insurance corporation PKZ and also, using the consolidation method, the Prvi Faktor Group.

In SID Bank banking group there are no impediments to the transfer of capital or to the settlement of liabilities between the parent undertaking and its subsidiaries.

All the SID Bank Group subsidiaries that are not included in prudential consolidation meet the required minimum capital. The overall shortfall in capital is zero.

5.2.1 Objectives and policies of risk management

In accordance with the Articles of Association, the management board of SID Bank can have no more than three members, one of whom is appointed President of the management board, while the number of members is determined by the supervisory board. In 2014 the management board consisted of two members appointed on 16 March 2011.

The management board is appointed by the supervisory board for the period of five years, from among the candidates who apply for public tender. In accordance with the Slovene Export and Development Bank Act (ZSIRB), a member of the management board must meet the conditions set by the law governing banking, and have at least fifteen years of professional experience, of which at least seven years of those are in the supervision of management of operations of companies of comparable size and activity to SID Bank, or other comparable operations, and have the necessary expertise in the field of SID Bank's activities or in individual technical areas managed by the said member. Additional qualification requirements and functional skills are defined case-by-case in the internal regulations on job classifications and are concretely determined at each invitation to tender.

The provision of ZSIRB as stated in paragraph b) gives, in addition to banking regulations, basic guidelines for the selection of members of management board. The adopted management policy of the Bank refers to the application of the Corporate Governance Code for Joint Stock Companies and the Corporate Governance Code for Companies with State Capital Investment, both of which contain recommendations regarding the procedures of selection and appointment of members of management board, which are taken into account by the supervisory board, all in order to select the most appropriate candidates to meet the Bank's objectives set out in the ZSIRB and respective strategies. At the beginning of the selection process of the members of the management board, the supervisory board specifies in its decision the more detailed requirements and conditions, fulfilment of which is expected of the candidates. At the last selection of members of the management board, the supervisory board has already taken into account the provisions of the then current codes and other recommendations. Given the results achieved since the last selection of board members in 2011, the objectives set at the time can be considered as having been met.

In accordance with the adopted strategies and policies and other general acts in the field of risk management, the person responsible for each type of risk management reports to the management body at various intervals, mostly in written reports. The management board considers any information of internal character, information intended for the supervisory board and its audit committee, as well as information intended for the supervisory institutions. By monitoring all important processes, the management board is constantly informed about the associated risks and their management, while the functioning of the institution is under further review through the established system of internal controls, including reports by the relevant internal departments. SID Bank has not established a separate committee for risks.

5.2.2 Total exposure amount by accounting offsets, without notice of effects of credit insurance and average amount of exposure broken down by all exposure classes

Exposure class	Balance 31 Dec 2014	Average 2014	Balance 31 Dec 2013	Average 2013
Central governments or central banks	564,542	411,801	412,202	331,703
Regional governments or local authorities	38,820	30,312	24,108	15,778
Public sector entities	28,517	28,045	38,059	39,852
Multilateral development banks	13,624	13,501	12,071	12,262
International organizations	17,374	19,876	7,423	7,460
Institutions	2,312,791	2,574,451	2,737,465	2,991,472
Corporates	438.205	421,840	615,311	690,641
Exposures in default	253,246	234,410	48,271	40,706
Items associated with particular high risk	419	1,681	3,007	5,173
Covered bonds	2,579	2,635	2,639	3,908
Collective investments undertakings	0	0	0	113
Equity	14,259	15,363	0	0
Other exposures	7,579	6,635	7,638	6,544
Total	3,691,955	3,760,550	3,908,193	4,145,612

5.2.3 Breakdown of exposures by major geographical region itemised into exposure classes

2014 Exposure class	Slovenia	Other EU members	SE Europe (excluding EU members)	Other countries	Total
Central governments or central banks	321,169	242,849	524	0	564,542
Regional governments or local authorities	38,374	100	29	317	38,820
Public sector entities	28,015	503	0	0	28,517
Multilateral development banks	0	13,624	0	0	13,624
International organizations	0	17,374	0	0	17,374
Institutions	1,681,071	618,958	3,196	9,567	2,312,792
Corporates	357,209	49,834	30,017	1,145	438.205
Exposures in default	171,441	34,991	46,814	0	253,246
Items associated with particular high risk	419	0	0	0	419
Covered bonds	0	2,579	0	0	2,579
Equity	14,259	0	0	0	14,259
Other	6,575	848	156	0	7,579
Total	**2,618,530**	**981,659**	**80,736**	**11,029**	**3,691,955**

2013 Exposure class	Slovenia	Other EU members	SE Europe (excluding EU members)	Other countries	Total
Central governments or central banks	392,139	75,302	1,038	0	468,479
Regional governments or local authorities	23,533	4	571	0	24,108
Public sector entities	25,052	10,213	87	0	35,352
Multilateral development banks	0	12,071	0	0	12,071
International organizations	0	7,423	0	0	7,423
Institutions	2,283,715	410,013	12,652	2,128	2,708,509
Corporates	428,753	12,343	149,233	1,728	592,058
Exposures in default	42,898	31	3,981	0	46,910
Items associated with particular high risk	604	0	2,403	0	3,007
Covered bonds	0	2,639	0	0	2,639
Other exposures	7,636	0	2	0	7,638
Total	3,204,330	530,039	169,968	3,856	3,908,193

5.2.4 Breakdown of exposures by economic sector or type of client itemised into major exposure classes

2014 Exposure class	Financial and insurance activities	Public sector and defence; compulsory social security	Manufacturing	Trade; maintenance and repairs of motor vehicles	Electricity, gas and steam	Other	Total
Central governments or central banks	2,979	561,521	0	0	0	43	564,542
Regional governments or local authorities	0	38,805	0	0	0	15	38,820
Public sector entities	2,868	25,596	0	0	0	53	28,517
Multilateral development banks	13,624	0	0	0	0	-	13,624
International organizations	0	0	0	0	0	17,374	17,374
Institutions	2,312,792	0	0	0	0	-	2,312,792
Corporates	19,913	12	180,500	64,532	76,388	96,858	438.205
Exposures in default	51,397	70	76,543	61,865	2,860	60,511	253,246
Items associated with particular high risk	0	0	0	0	0	419	419
Covered bonds	2,579	0	0	0	0	-	2,579
Equity	8,413	0	0	0	0	5,846	14,259
Other exposures	76	0	0	0	0	7,503	7,579
Total	**2,414,639**	**626,004**	**257,043**	**126,398**	**79,248**	**188,622**	**3,691,955**

2013 Exposure class	Financial and insurance activities	Public sector and defence; compulsory social security	Manufacturing	Trade; maintenance and repairs of motor vehicles	Transport and storage	Other	Total
Central governments or central banks	177,416	291,048	0	0	15	0	468,479
Regional governments or local authorities	0	23,756	0	0	0	352	24,108
Public sector entities	0	24,908	0	0	1	10,443	35,352
Multilateral development banks	12,071	0	0	0	0	0	12,071
International organizations	0	0	0	0	0	7,423	7,423
Institutions	2,700,509	0	0	0	0	8,000	2,708,509
Corporates	62,482	3	240,326	153,090	42,875	93,281	592,058
Exposures in default	0	427	34,810	1,587	598	9,488	46,910
Items associated with particular high risk	246	0	770	1,334	0	657	3,007
Covered bonds	2,639	0	0	0	0	0	2,639
Other exposures	2,379	0	0	0	0	5,259	7,638
Total	**2,957,742**	**340,142**	**275,906**	**156,011**	**43,489**	**134,903**	**3,908,193**

5.2.5 Itemisation of all exposure classes in terms of residual maturity

	2014		2013	
Exposure class	Short-term (up to 1 year)	Long-term (more than 1 year)	Short-term (up to 1 year)	Long-term (more than 1 year)
Central governments or central banks	259,506	305,036	339,217	72,989
Regional governments or local authorities	228	40,316	970	24,886
Public sector entities	552	29,096	231	39,706
Multilateral development banks	0	13,624	0	12,071
International organizations	11,284	6,089	0	7,423
Institutions	968,663	1,353,115	681,646	2,066,513
Corporates	77,084	394,531	182,459	599,025
Exposures in default	178,518	278,838	24,354	69,424
Items associated with particular high risk	3,569	0	38,346	142
Covered bonds	2,579	0	0	2,639
Equity	17,027	0	0	0
Other exposures	339	7,240	208	10,198
Total	**1,519,349**	**2,427,884**	**1,267,430**	**2,905,016**

5.2.6 Past-due exposures, impaired past-due exposures and value adjustments due to impairments and provisions for major economic sectors

2014 Sector	Past due exposure	Impaired part-due exposure	Value adjustment for impairments and provisions
Financial and insurance activities	63.715	63.715	21,780
Public administration and defence; compulsory social security	104	104	2,888
Manufacturing	160,350	160,350	107,290
Trade; maintenance and repairs of motor vehicles	93,211	93,211	34,177
Electricity, gas and steam	3,465	3,465	3,798
Other	136,511	136,511	85,346
Total	**457,356**	**457,356**	**255,279**

2013 Sector	Past due exposure	Impaired part-due exposure	Value adjustment for impairments and provisions
Financial and insurance activities	10,780	10,780	36,791
Public administration and defence; compulsory social security	525	525	3,728
Manufacturing	55,608	55,590	118,815
Trade; maintenance and repairs of motor vehicles	7,572	7,569	31,298
Transport and storage	1,463	1,463	13,756
Other	50,081	50,079	59,864
Total	**126,029**	**126,006**	**264,253**

5.2.7 Past-due exposures, impaired past-due exposures and value adjustments due to impairments and provisions for major geographical regions

2014 Region	Past due exposure	Past-due impaired exposure	Value adjustments for impairments and provisions
Slovenia	336,691	336,691	213,560
Other EU members	46,313	46,313	13,819
SE Europe (excluding EU members)	74.352	74.352	27,866
Other countries	0	0	34
Total	**457,356**	**457,356**	**255,279**

2013 Region	Past due exposure	Past-due impaired exposure	Value adjustments for impairments and provisions
Slovenia	105,637	105,629	227,268
Other EU members	108	108	1,846
SE Europe (excluding EU members)	20,284	20,269	35,092
Other countries	0	0	48
Total	**126,029**	**126,006**	**264,253**

5.2.8 Change in impairments and provisions

	2014			2013		
	Impairments	Provisions	Total	Impairments	Provisions	Total
Balance as at 1 Jan	242,495	7,981	250,476	197,480	14,486	211,966
Increase	156,057	1,718	157,775	159,131	7,510	166,641
Decrease	(146,803)	(6,169)	(152,972)	(114,116)	(14,015)	(128,131)
Balance as at 31 Dec	**251,749**	**3,530**	**255,279**	**242,495**	**7,981**	**250,476**

5.2.9 Investments in equity securities not included in the trading book

	31 Dec 2014	31 Dec 2013
Carrying amount	5,847	7,363
Revaluation surplus	3,672	0
Realised gains	296	32

Equity securities in the amount of EUR 5,847 thousand were acquired by conversion of receivables. All these securities are classified as available-for-sale financial assets, are not listed on a stock exchange and are disclosed at fair value in the accounting records.

In 2014 SID Bank banking group realised gains from the sale of investments in equity securities in the amount of EUR 296 thousand (2013: EUR 32 thousand).

5.2.10 Encumbered and unencumbered assets

	Encumbered assets		Unencumbered assets	
2014	Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances with the central bank	0	0	5,685	5,685
Equity	0	0	5,847	5,847
Debt securities	266,118	266,118	439,018	439,018
Loans and receivables	61,834	61,989	2,809,849	2,814,871
Other assets	0	0	46,344	46,344
Total assets	**327,952**	**328,108**	**3,306,744**	**3,311,766**

	Encumbered assets		Unencumbered assets	
2013	Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances with the central bank	0	0	177,417	177,417
Equity	0	0	2,175	2,175
Debt securities	256,147	256,147	91,298	91,298
Loans and receivables	24,908	24,954	3,275,924	3,281,477
Other assets	0	0	54,274	54,274
Total assets	**281,055**	**281,101**	**3,601,089**	**3,606,641**

5.2.11 Credit protection

The types of credit protection used by SID Bank are defined in the rulebook on credit protection for insurance transactions. The rulebook defines the general categories and principles of credit protection, the criteria for individual types of credit protection, and the operational procedures for establishing, recording, monitoring/valuing and exercising credit protection. The rulebook also sets out the rules for valuing individual types of credit protection, and the procedures involving assets serving as collateral.

SID Bank banking group classifies the following as eligible providers of unfunded credit protection: central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organisations, and legal entities with a high credit rating (credit quality step of at least 2 under the ECAI methodology). The SID Bank banking group does not use credit derivatives to mitigate credit risk.

Assets pledged as collateral are valued at market value. Assets listed on stock exchange are valued using the current rate. Assets not listed on a stock exchange are valued on the basis of comparable transactions. Real estate is valued by an independent certified appraiser, the international valuation standards applying. Real estate valuation is prepared according to the market and liquidation value. A transaction price obtained in a transaction with unrelated entities no more than one year in the past may also be used.

Throughout the repayment term of an investment SID Bank banking group monitors the credit rating of the receivable and the coverage of the investment by collateral. Should the collateral value decline, an additional collateral is established as appropriate.

The amount of indirect credit risk and market risk exposure deriving from credit protection received, together with the actual exposure to the individual client or group of connected clients, may not reach or exceed 10% of the stock of SID Bank's funding. The providers of personal guarantees of greatest significance to SID Bank banking group are banks, insurance corporations, business entities with a high credit rating (joint surety) and private individuals (creditworthy joint sureties).

In the breakdown of credit protection the largest proportion is that accounted for by movable property collateral, followed by commercial real estate collateral, cession of claims as collateral, the SID Bank insurance policy for the account of the Republic of Slovenia, guarantees of A-rated corporates, fiduciary transfer of title to real estate, collateral in the form of participating interests, equity securities collateral and other credit protection.

Total exposure value covered by personal guarantees or credit derivatives by exposure class

	2014		2013	
Exposure class	Amount	Structure in %	Amount	Structure in %
Public sector entities	2,868	4.2	2,707	4.9
Regional governments or local authorities	12	0.0	0	0
Institutions	42,557	62.0	28,745	52.4
Corporates	21,515	31.4	22,097	40.3
Past due items	1,660	2.4	1,293	2.4
Total	68,612	100.0	54,841	100.0

The above table takes account solely of credit protection that the bank takes into account in the reduction of the capital requirements for credit risk.

5.3 Disclosure in accordance with Article 89 of the Directive 2013/66/EU (CRD IV)

Country	Company	Nature of activities	Turnover*	Number of employees on a full time equivalent basis (integers)	Profit or loss before tax	Tax on profit or loss	Public subsidies received
2014							
EU members							
Slovenia	SID banka, d.d., Ljubljana	Banking	102,042	130.03	12,150	(7,606)	0
	Prvi Faktor, faktoring družba, d.o.o., Ljubljana	Factoring	7,742	29.06	13,773	(442)	0
Croatia	Prvi Faktor, faktoring družba, d.o.o., Zagreb	Factoring	6,784	33.65	177	(55)	0
Other countries							
Bosnia and Herzegovina	Prvi Faktor d.o.o., Sarajevo	Factoring	2,224	15.00	42	0	0
Serbia	Prvi Faktor –faktoring, d.o.o., Beograd	Factoring	6,073	24.00	1,447	(838)	0
2013							
EU members							
Slovenia	SID banka, d.d., Ljubljana	Banking	122,271	119.87			
	Prvi Faktor, faktoring družba, d.o.o., Ljubljana	Factoring	11,472	30.00			
Croatia	Prvi Faktor, faktoring družba, d.o.o., Zagreb	Factoring	9,062	38.41			
Other countries							
Bosnia and Herzegovina	Prvi Faktor d.o.o., Sarajevo	Factoring	2,516	14.99			
Serbia	Prvi Faktor –faktoring, d.o.o., Beograd	Factoring	11,282	27.92			

* includes income from interest, fee and commission and dividends