ANNUAL REPORT OF SID BANK AND THE SID BANK GROUP 2018

Business name:	**SID – Slovenska izvozna in razvojna banka, d. d., Ljubljana**
Abbreviated business name:	SID banka d.d., Ljubljana
Registered office:	Ulica Josipine Turnograjske 6, SI-1000 Ljubljana
Registration number:	5665493
Tax number:	82155135
VAT ID number:	SI82155135
Settlement account:	0100 0000 3800 058
IBAN:	SI056 0100 0000 3800 058
SWIFT:	SIDRSI22
LEI:	549300BZ3GKOJ13V6F87
Website:	www.sid.si
E-mail:	info@sid.si
Tel.:	+ 386 (1) 200 75 00

SID Bank Group companies:

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Davčna ulica 1, SI-1000 Ljubljana
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Slovenska cesta 17, SI-1000 Ljubljana
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Major financial data and performance indicators of SID Bank and the SID Bank Group

Major financial data [1]

in EUR thousand	SID Bank 2018	SID Bank 2017	SID Bank 2016	SID Bank Group 2018	SID Bank Group 2017	SID Bank Group 2016
Statement of financial position						
Total assets	2,318,834	2,451,641	2,548,643	2,364,541	2,497,302	2,596,076
Loans and deposits from customers	548,452	454,828	487,427	548,452	454,828	487,427
Loans and advances to customers	706,787	597,740	610,563	706,787	597,740	610,563
Total equity	422,051	409,893	393,829	437,706	427,600	413,808
Allowances, value adjustments and provisions for credit losses	96,534	145,380	199,744	96,534	145,380	199,744
Off-balance sheet items	360,760	89,272	64,253	360,760	89,272	64,253
Statement of profit or loss						
Net interest	22,986	20,294	23,841	22,986	20,596	24,166
Net non-interest income	7,969	2,641	21,213	6,036	4,932	27,192
Labour costs, general and administrative costs	(13,270)	(12,394)	(11,018)	(13,270)	(16,664)	(15,288)
Amortisation/depreciation	(881)	(852)	(805)	(881)	(1,267)	(1,115)
Impairments and provisions (credit losses)	853	6,648	(7,914)	853	6,571	(7,619)
Pre-tax profit	17,519	16,224	25,317	15,825	14,168	27,336
Corporate income tax	(3,205)	(2,268)	(3,954)	(3,444)	(2,406)	(4,371)
Net profit for financial year	14,314	13,956	21,363	12,381	11,762	22,965
Statement of other comprehensive income						
Other comprehensive income before tax	(12,735)	2,603	10,399	(12,885)	2,506	10,594
Corporate income tax on other comprehensive income	2,418	(495)	(2,097)	2,449	(476)	(2,417)
Number of employees as at 31 December	185	170	162	277	266	277
Shares						
Number of shareholders	1	1	1			
Number of shares	3,121,741	3,121,741	3,121,741			
Nominal value of one share (in EUR)	96.10	96.10	96.10			
Book value per share (in EUR)	136.00	132.08	126.91			
Long-term credit rating as at 31 December						
Standard and Poor's	A+	A+	A			

[1] Notes:

The prescribed data and indicators are calculated in accordance with the Guidelines for compiling the statement of financial position, income statement and statement of comprehensive income, and calculating the performance indicators of banks and savings banks, which were prescribed by the Bank of Slovenia on the basis of the Regulation on the books of account and annual reports of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 69/17).

The SID Bank Group's net non-interest income in 2018 includes a net loss after tax from discontinued operations.

In light of the intended sale of the subsidiary SID-PKZ, the consolidated financial statements for 2018 have been compiled in accordance with IFRS 5. The figures for 2016 and 2017 in the above table have not been adjusted to this.

The effect of the transition to IFRS 9 as at 1 January 2018 is also taken into account in the items of the statement of comprehensive income.

Selected indicators [2]

In %	SID Bank 2018	SID Bank 2017	SID Bank 2016	SID Bank Group 2018	SID Bank Group 2017	SID Bank Group 2016
Equity						
CET1 ratio	34.2	36.8	33.6	-	-	34.0
Tier 1 capital ratio	34.2	36.8	33.6	-	-	34.0
Total capital ratio	34.2	36.8	33.6	-	-	34.0
Leverage ratio	16.3	15.5	14.0	-	-	14.5
Quality of assets in statement of financial position and commitments given						
Non-performing (on-balance sheet and off-balance sheet) exposures/Classified on-balance-sheet and off-balance-sheet asset items	3.7	-	-	-	-	-
Non-performing loans and advances /Classified loans and advances	5.6	-	-	-	-	-
Allowances, value adjustments and provisions for credit losses /Non-performing exposures	66.5	-	-	-	-	-
Collaterals received/Non-performing exposures	28.8	-	-	-	-	-
Profitability						
Interest margin	1.0	0.8	0.9	0.9	0.8	0.9
Financial intermediation margin	1.3	0.9	1.6	1.2	0.8	1.6
Return on assets after tax	0.6	0.6	0.8	0.5	0.5	0.8
Return on equity before tax	4.2	4.0	6.6	3.6	3.4	6.8
Return on equity after tax	3.4	3.5	5.6	2.8	2.8	5.7
Operating costs						
Operating costs/average assets	0.6	0.5	0.4	0.6	0.7	0.6
Operating costs/net income	45.7	57.8	26.4	48.8	70.2	31.9

Liquidity in 2018 (SID Bank)	January-March	April-June	July-September	October-December
Liquidity coverage ratio (%)	3086%	2960%	1767%	1404%
Liquidity buffer (in EUR thousand)	420,875	359,680	301,612	252,612
Total net cash outflows (in EUR thousand)	19,238	18,430	41,121	58,364

[2] Notes on indicators:

As of 2017 SID Bank is no longer required to meet the requirements on a consolidated basis under the CRR (prudential consolidation), which means that the capital ratios, the leverage ratio and the quality indicators for assets in the statement of financial position and commitments given for 2017 and 2018 have been calculated on an individual basis for SID Bank.

The quality indicators for assets in the statement of financial position and commitments given have not been calculated for 2016 and 2017, as the figures are not comparable because of the transition to IFRS 9 in 2018.

In light of the intended sale of the subsidiary SID-PKZ, the consolidated financial statements for 2018 have been compiled in accordance with IFRS 5. The indicators for the SID Bank Group for 2016 and 2017 in the above table have not been adjusted to this.

The calculation of the financial intermediation margin for the SID Bank Group does not take account of SID-PKZ's income from insurance operations.

List of abbreviations

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
ALM	Assets Liabilities Management
AOP	Annual Operational Plan
BAMC	Bank Assets Management Company
BAS	Bank Association of Slovenia
BGN	Bloomberg Generic Price
CCF	Credit Conversion Factor
CEB	Council of Europe Development Bank
CIR	Cost-to-Income Ratio
CMSR	Centre for International Cooperation and Development
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
EAD	Exposure At Default
EAPB	European Association of Public Banks
EBA	European Banking Authority
EBRD	The European Bank for Reconstruction and Development
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
ELTI	European Long-Term Investors
EQFM	European Quality Foundation Model
ESMA	European Security and Markets Authority
EU	European Union
EUA	European Emission Allowances
EUAA	European Aviation Allowances
EWS	Early Warning System
GDP	Gross Domestic Product
GODECP	Government Office for Development and European Cohesion Policy
GURS	Surveying and Mapping Authority of the Republic of Slovenia
HQLA	High-Quality Liquid Assets
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards as adopted by the EU
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk arising from the Banking Book
KfW	Kreditanstalt für Wiederaufbau
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LR	Liquidity Ratio
LTD	Loan-to-Deposit Ratio
LTV	Loan-to-Value Ratio
MEDT	Ministry of Economic Development and Technology
MEIP	Minimum Export Insurance Premiums
NEFI	Network of European Financial Institutions for Small and Medium Sized Enterprises
NPE	Non Performing Exposures
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Co-operation and Development
O-SII	Other Systemically Important Institutions
PD	Probability of Default
POCI	Purchased or Originated Credit-Impaired Assets
ROE	Return on Equity
RS	Republic of Slovenia
RWA	Risk-Weighted Assets
SID-PKZ	SID – Prva kreditna zavarovalnica
SMEs	Small and medium-sized enterprises
SPPI	Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
SSH	Slovenian Sovereign Holding
TLTRO	Targeted Longer-term Refinancing Operations
ZBan-2	Banking Act
ZGD-1	Companies Act
ZIPRS	Republic of Slovenia Budget Implementation Act
ZJShemFO	Republic of Slovenia Guarantee Scheme for Natural Persons Act
ZJShemRS	Republic of Slovenia Guarantee Scheme Act
ZPFIGD	Act on Guarantees of the Republic of Slovenia to Finance Corporate Investments
ZPPOGD	Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities
ZSIRB	Slovene Export and Development Bank Act
ZZFMGP	Insurance and Financing of International Commercial Transactions Act

BUSINESS REPORT

A word from the president of the management board

The changes resulting from the financial and economic crisis a decade ago have had a long-term impact on the functioning of the global, European and local economies, and also marked the year 2018. In this sense the year 2018 was a turning point, in that the good economic and financial situation of recent years, which was the result of the changes and measures taken by developed countries, began to notably deteriorate, and caused imbalances in developing countries. New risks were revealed in the past actions, and particularly in the present practices, including central bank policies, lower demand, reduced trade, protectionism, nationalism, populism and, above all, geopolitical shifts.

The Slovenian economy, which depends on foreign demand but traditionally experiences global trends with a lag, has continued to function with high growth in GDP (4.5%) and, in particular, employment. Total employment in Slovenia has reached a record high of 1.03 million. The high growth was primarily driven by exports (up 7.2%) and investment (up 10.6%), followed by strengthened domestic consumption (up 4.6%), which was at its highest level since the crisis year of 2008. Inflation stood at around 1.9%, while productivity was outperformed by the European average.

In these conditions SID Bank and the SID Bank Group again performed well in 2018. We provided services to over 2,200 clients, primarily SMEs and exporters, with EUR 479 million of new financing and EUR 875 million of new insurance. Every fifth euro of Slovenia's exports has been backed by financial services from SID Bank, which represents an indirect presence in 115 countries around the world and cover of 20% of Slovenia's exports. Our services contribute EUR 4.6 billion to GDP and EUR 5 billion to Slovenian companies' sales, according to an independent study on effectiveness of SID Bank's operations for the Slovenian economy.

Given the good economic situation and the intensity of market participants' activity in the banking and insurance markets, we worked within the business model framework, applying new approaches within the established market gaps. Consequently, we withdrew from certain markets, especially in the insurance. SID Bank's total assets declined by 5% to EUR 2.3 billion, although there was no significant change in the structure of the balance sheet. Financing was based on indirect financing through banks, which accounts for 51% of the total credit portfolio, equivalent to EUR 745 million (up 10%). Direct financing, which accounts for 49% of the portfolio and amounted to EUR 707 million, also recorded growth (of 18%), which was primarily attributable to changes in the banking environment and the syndicated financing of major infrastructure investments (railways, roads, energy) and municipalities' projects.

The banking environment was favourable last year, although the banks' consolidation process brings about certain risks with regard to income and maturity, which given the high liquidity and the average LTD ratio under 80% is reducing our possibilities of financing through banks. Accordingly, there was an increase of direct financing of Slovenian companies, that have specific needs, particularly in the areas of long-term and mezzanine financing.

In 2018, we continued to upgrade our business model and introduced changes in the ways and forms of operation. In particular, we tried to achieve a shift from the use of non-refundable to refundable financial instruments, particularly at the level of the EU cohesion funds. As the manager of the Fund of Funds, which we operate under the authorisation of the The Ministry of Economic Development and Technology and the Government Office for Development and European Cohesion Policy on behalf of the state, we successfully placed funds in the amount of EUR 28 million via financial intermediaries for the purposes of research, development and innovation at companies of all sizes, and microloans for SMEs and sole traders, which is a new segment in our business.

Alongside these new developments, we continued to finance SMEs, mostly from long-term financial programmes, mainly using financial instruments, but also equity financing through the Slovene Equity Growth Investment Programme in collaboration with the EIF. In 2018 two Slovenian companies were equity financed from this program and three professional managers of private equity funds, which will invest equity in Slovenian companies, were selected.

On the funding side, the main factor in the decline of liquid assets and thus in total liabilities was the repayment of a bond in the amount of EUR 290 million. The liquidity and refinancing were at a very high level throughout the year, and the regulatory indicators (LCR, NSFR) were highly exceeded. To this end we had, as in the past, made use of credit lines from multilateral development institutions (EIB, KfW, CEB), and maintained a presence in the international financial markets.

As the first Slovenian issuer on the international financial markets, SID Bank successfully issued a certified green bond in the amount of EUR 75 million, which is listed on the Vienna stock exchange and will provide the basis for financing green projects and circular economy projects, which is one of the fundamental elements of our business in Slovenia. In this area we also developed a special methodology for measuring soft factors, which helps steer our financing and corporate investment in the direction of the circular economy.

Given the favourable economic environment and economic growth, risk exposure remained unchanged. Credit risk exposure in the total portfolio was down, and amounted to EUR 1.45 billion, including non-performing exposure, the proportion of which declined to 5.5% while their coverage increased to 67%.

In accordance with the low internally set limits, which are twice as stringent as the regulatory limits, the exposure to interest rate risk was high, but acceptable. As mentioned earlier, liquidity risk was very low, given the high liquidity reserves and high liquidity ratios. With the continuation of the low interest rate environment, income risk remains high, although it is being managed through various measures on the income and the expenses side.

We have upgraded our asset-liability management, including a new pricing policy and a new interest rate risk methodology within the framework of an upgrade to IRRBB. Improvements have also been made to operational risk management in the area of new products, IT and fraud risk.

The risk management culture was upgraded again last year, in all elements of the effective risk management process, by enhancing risk management strategy and policy, where we added a new strategic risk management policy, all in line with the SREP, which we passed successfully.

All of these traits, activities and services and all our endeavours were reflected in good financial performance. SID Bank generated a pre-tax profit of EUR 17.5 million, which reflected an ROE of 4.2%. Net profit for the financial year amounted to EUR 14.3 million, up on the previous year, thanks to net interest income of almost EUR 23 million, up 13% on the previous year, despite the low interest rates. Non-interest income amounted to EUR 7.9 million, up significantly on the previous year. As a result of a change in the business model, and because of investments, particular in new employees, operating costs increased by 6.8%, taking the CIR to 45.7%.

The Bank generated net income from impairments and provisions in the amount of EUR 715 thousand, having made all the necessary methodological adjustments early in 2018 for the full application of IFRS 9 in this area. SID Bank maintained its strong capital adequacy in 2018 (with a total capital ratio of 34.2%), while the leverage ratio stood at 16.3%.

The internal control mechanisms, from internal auditing to compliance, acted in line with the regulators’ latest rules and standards. We also strengthened these departments in terms of staffing and proper technical support. The same applies to accounting and administrative procedures and tasks, and to the regulatory reporting, which represented a major burden for a bank of SID Bank’s size, which is ranked second in terms of systemic importance in the Slovenian banking system.

We were especially active in overhauling and optimising our internal processes, in particular the IT system, which over the coming years will be overhauled in line with the newly adopted development strategy. This was redesigned for the period of 2019 to 2023, with new strategic activities, outcomes and metrics, the aim being to achieve an even better positive impact on the Slovenian economy, thereby increasing its competitiveness on international markets.

The good economic situation and, in particular, the high exports growth also had a positive impact on our activities in the insurance of non-marketable risks, where we provide our services on behalf of and for the account of the state. This business amounted to EUR 808 million, up 31.8%. There was however no significant change in the breakdown and content of our insurance operations: short-term and medium-term operations continue to prevail, most notably insurance for export preparation loans and investment insurance concentrated in countries such as Russia, the USA, Belarus, Croatia, Bosnia and Herzegovina, and Serbia. In our efforts for market diversification we continued to open insurance lines in the Middle East and in Africa, which companies have not yet utilised to a great extent.

Insurance premiums and fees amounted to EUR 8.6 million in 2018, and more than doubled as the volume of business increased. Claims amounted to just under EUR 1 million, down significantly on the previous year, which brought a positive insurance technical result in the amount of EUR 7.3 million, in contrast to the loss made in the previous year. The Ministry of Finance contributed a further EUR 13.7 million in additional contingency funds in 2018, which took the contingency reserves to EUR 154 million, up 16.7%. This offers Slovenian businesses a sound basis for the proper management of non-marketable risks in the upcoming period of uncertainty on international markets.

Accordingly we will focus our future innovations primarily on those market segments where difficulties could arise, and on those companies that need our backing because of changed circumstances. We will also focus on our direct financing from the Fund of Funds in areas such as energy efficiency, urban development, and financing of innovative companies through portfolio guarantees for banks under the InnovFin programme. We will also continue to finance green circular economy projects, and to co-finance new infrastructure projects in cooperation with commercial banks and multilateral development banks.

Last year was a turning point for the SID Bank Group, as in line with our strategy we focused expressly on the development banking activities, and in line with the policy of withdrawing from the market also opted to sell the subsidiary SID-PKZ, which provides insurance of short-term marketable risks. In an international public offering process, which ran for the entire year, the preferred bidder selected was Coface, a French group. Over the next few years Coface will use the insurer SID-PKZ as a hub for the Adriatic region, thereby continuing its successful performance for clients, mainly exporters, and will also strengthen cooperation with SID Bank in the area of insurance of non-marketable risks. The orderly wind-down of the Prvi Faktor Group is also coming to a close, where the objectives we set together with NLB at the beginning of the process will be met. The CMSR performed well last year, particularly in offering official development support in developing countries.

The changes and trends cited at the beginning are causing uncertainty, and are clouding the economic and financial picture, therefore, SID Bank has begun preparing for any new challenges and interventions in these changing circumstances. These are likely to occur in the area of the competitiveness of Slovenian economy and productivity, as labour productivity remains below the European average despite high employment growth, as well as in the broader and deeper international environment, on which Slovenia's economic growth and its sustainable development depend, the latter most likely being the only plausible policy.

In the next few years the European economy in particular could be faced with the collision of numerous risks, particularly given the opposing and uncertain economic situations in individual countries, and deteriorating international relations, as exemplified by Brexit. This could impact economic growth and development, thus hitting Slovenian exporters, and so we will use our services to try to ensure a level playing field with the competition when it comes to financing and insurance.

As an environment-friendly company, we have also made significant advances in our attitude to the environment, which is fully evidenced by the indicators that we monitor. We have also upgraded our internal and external communications, in particular regarding the methods and forms of our business.

An independent group of experts and academics from the Faculty of Economics at the University of Ljubljana has completed a periodic study of the impact of SID Bank's operations between years 2011 and 2016. It highlighted many positive effects on the Slovenian economy, although there is still room for improvement, which we will keep in mind as we design and implement the Bank's new strategy.

Responsibility to the environment, to our employees and to our stakeholders is our priority, and a core strategic guideline, in keeping with SID Bank's values, commitments and mission. To all our employees, to our clients, supervisors and owners, to association members inside and outside the banking profession, and to government and financial institutions, on behalf of the management board, I would like to express gratitude for the confidence you have shown in us, and for our good cooperation.

SID Bank will continue its work in line with its new strategy of focusing on activities of promotional and development banking, as well as providing tailored financial services that our clients need, while using refundable financial resources. This we will do primarily by means of market gap financing and insurance, professional advice in all phases of companies' development, digitalisation, and appropriate risk management. We are confident that in this way we will contribute to the sustainable development of all of our stakeholders, and the Slovenian economy as a whole.

Sibil Svilan, M. Sc.

Supervisory board report

In monitoring and supervising the operations of SID Bank and the work of the management board, the supervisory board performed its work in accordance with the powers and responsibilities prescribed by law, the articles of association, codes of conduct, and its own rules of procedure, and within that framework and taking account of the Bank's strategic objectives and the risks to which the Bank is exposed, assessed the adequacy of the Bank's management and its performance.

The members of the supervisory board in 2018 were Monika Pintar Mesarič (chair until the expiry of her term of office on 21 February and as of 15 March following her reappointment to the supervisory board on 22 February), Marko Tišma (deputy-chair), Marjan Divjak, Leo Knez, Zlatko Vili Hohnjec and Aleš Berk Skok (until 16 November 2018).

The supervisory board held 14 ordinary sessions and eight correspondence sessions in 2018, at which it discussed general and specific matters relating to the Bank's operation and performance, and also took decisions on certain transactions in line with its powers to do so. The sessions were attended in full by supervisory board members, although there were absences on two occasions, which were reported in a timely manner in line with the rules of procedure.

The supervisory board members actively participated in discussions, with comments and guidance, and also through various questions and requests for clarification. The supervisory board members signed a statement of independence through which they affirmed that there are no circumstances that could influence their impartial, professional and thorough judgement in discharging their duties or taking decisions. In the discharge of their duties and the decision-making of the supervisory board members, there were no circumstances or conduct that led or could have led to conflicts of interest, or the conflicts of interest were managed such that the supervisory board member in question did not receive the materials and information and was not present at the session during the discussion and decision-making on the matter regarding which they had a conflict of interest.

Expert support for the work of the supervisory board was provided by:

– the audit committee, which held seven sessions, at which it discussed and drew up positions primarily with regard to the Bank's interim performance reports and financial statements, the compilation of the unaudited annual report for 2017, the final auditor's report on the audit of the financial statements for 2017 and the special auditor's report on the transition to IFRS 9, the Bank's financial plan for 2019, regular quarterly reports of the internal audit department, the annual report of the internal audit department and the work plans of the internal audit department, and the signing of contracts with an audit firm for the provision of non-audit services, and also monitored the progress of the final audit for 2017 and the preliminary audit for 2018, and the procedure to award the public contract for auditing SID Bank's separate and consolidated financial statements for the financial years of 2019 to 2022;
– the risk committee, which held eight sessions, and provided expert support to the supervisory board in the area of the risk appetite and risk management, drew up positions primarily with regard to the risk management strategy and policy, the methodologies and assessments of the risk profile of the Bank and the Group, the methodologies and implementation of the internal capital adequacy assessment process and the internal liquidity adequacy assessment process, the findings of the Bank of Slovenia in the supervisory review and evaluation process, and risk management and control within the framework of the discussion of quarterly risk reports, and regularly followed up the realisation of recommendations in connection with the findings of the Bank of Slovenia from the supervisory review of the Bank in 2017, and within this framework the project to overhaul the Bank's rating system;

- the nomination and remuneration committee, which held nine sessions, and provided the supervisory board with expert support in the assessment of the adequacy of remuneration policies and practices, the overhaul of the policy for assessment of the suitability of members of the management body and key function holders and the annual assessment of the performance of the management board, discussed and approved the assessment of the management body with regard to the knowledge, skills and experience of the individual members of the management board and the supervisory board and the management body as a whole, and an assessment of the structure, size, composition and performance of the management board and supervisory board, and with regard to the change in the membership of the supervisory board, i.e. the appointment of new members, discussed and approved the suitability assessments drawn up by the suitability assessment committee.

The major issues discussed and/or decided on by the supervisory board in 2018 were:
- the annual report for 2017 with the auditor's report, and the proposal for the use of the distributable profit for 2017;
- the Bank's strategy for the period of 2019 to 2023, and the realisation of the strategic objectives in 2018;
- the Bank's information system development strategy;
- the annual operational plan, with elements of the business policy and risk policy, and the financial plan for 2019;
- the risk management strategy and policy, and the risk appetite;
- an evaluation of SID Bank's activities between 2011 and 2016, and the future strategic challenges;
- regular reports on the performance of the Bank and the undertakings in the Group, and risk reports;
- the Bank's risk profile assessment for 2018;
- the report to the Bank of Slovenia on the internal capital adequacy assessment process and the internal liquidity assessment process, and the Bank of Slovenia's findings in the supervisory review and evaluation process;
- the internal audit department's plan of work for 2019 and strategic plan of work for 2019 and 2020, the annual internal audit report for 2017 and the quarterly reports by the internal audit department;
- the compliance department's programme of work and the annual report on the implementation of the code of ethics and professional standards;
- decision-making on specific financing and borrowing transactions in line with its powers under the articles of association;
- the introduction of new products and programmes by the Bank, in particular the loan funds, and financial engineering and financial instruments within the framework of the management of EU cohesion funds;
- regular reports on loan reprogramming and corporate restructuring;
- a report on an audit of outsourcing;
- the procedure for the sale of SID-PKZ and the process of orderly wind-down of the undertakings in the Prvi Faktor Group.

In its monitoring and supervision of the Bank's management and operations, the supervisory board obtained regular and comprehensive information from the management board, and obtained all the requisite additional information based on which it was able to continuously assess the performance and work of the management board and to take decisions pursuant to its powers.

In 2018 the supervisory board assessed its own work in 2017, while the self-assessment and assessment of the work of the supervisory board in 2018 was carried out in April 2019 on the basis of the recommendations of the manual for evaluating the effectiveness of the work of supervisory boards issued by the Slovenian Directors' Association. Before beginning the self-assessment procedure, the supervisory board members also obtained reports on the work of all three of the supervisory board committees. The results of the self-assessment confirm that the supervisory board carried out its work professionally, with due diligence and responsibility, and in line with the interests of the Bank, and the individual supervisory board members and that the supervisory board as a collective body possess the knowledge and experience to ensure that its duties are performed effectively. The supervisory board also discussed the results of the self-assessment with regard to the activities required for the further improvement of its work.

Approval of the 2018 annual report

The unaudited annual report of SID Bank and the SID Bank Group for 2018 was discussed by the audit committee and the risk committee at sessions on 11 March 2019, and by the supervisory board at a session on 11 March 2019. The audited annual report was discussed by the audit committee and the risk committee at sessions on 4 April 2019, when the two committees were also briefed by the certified auditor. The two committees assessed the annual report as satisfactory, and proposed that the supervisory board approve the annual report.

The supervisory board discussed and reviewed the annual report of SID Bank and the SID Bank Group at a session on 4 April 2019, together with the proposal for the use of the distributable profit for 2018 submitted by SID Bank's management board, and had no reservations or comments.

The supervisory board also discussed the independent auditor's report, in which Deloitte Revizija d.o.o., Ljubljana issued an unqualified opinion of the financial statements of SID Bank and the consolidated financial statements of the SID Bank Group for 2018. In the opinion of the auditor, the financial statements present, in all material aspects, a true and fair picture of the financial position of the company as at 31 December 2018 and its net profit and cash flows, while the consolidated financial statements present the consolidated financial position of the Group as at 31 December 2018, and its consolidated net profit and consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The supervisory board had no reservations or comments with regard to the report by Deloitte Revizija d.o.o., Ljubljana.

After the review, the supervisory board unanimously approved the annual report of SID Bank and the SID Bank Group for 2018.

Monika Pintar Mesarič
Chair of the Supervisory Board

About SID Bank and the SID Bank Group

About SID Bank

SID Bank is a specialist promotional, export and development bank authorised to carry out long-term financial services designed to supplement financial markets in various areas defined by the Slovene Export and Development Bank Act (hereinafter: the ZSIRB) as important to Slovenia's sustainable development. The core activity within the activities performed by SID Bank is financing relating to market gaps, which mostly focuses on SMEs, development, environmental protection, infrastructure and energy projects, and the internationalisation of enterprises.

SID Bank's activity is based on a clear strategy and business model that is derived from the long-term development documents of Slovenia and the EU. The long-term stability of SID Bank is guaranteed by the Republic of Slovenia (the state), allowing it to carry out its business and activities to pursue the long-term development policies of Slovenia and the EU. As the sole shareholder, the Republic of Slovenia bears irrevocable and unlimited liability for SID Bank's liabilities from transactions undertaken in its pursuit of the activities set out in Articles 11 and 12 of the ZSIRB. If SID Bank fails to settle a past-due liability to a creditor at the latter's written request, the Republic of Slovenia must settle the liability at the creditor's request without delay. This allows SID Bank to borrow on the financial markets without needing to obtain a government guarantee for each transaction.

In providing its services SID Bank may use all financial instruments available under EU and Slovenian legislation, such as loans, guarantees and other forms of surety and risk take-up, purchase of receivables, finance leasing, financial engineering, concessionary loans and other instruments of international development cooperation, capital investments and other methods of financing, and integrates these into development and promotional financing programmes.

History and legal status

1992

Establishment of Slovenska izvozna družba (SID) as a special private financial institution for insuring and financing Slovenian exports. SID's business activities were then regulated by the Slovenian Export Finance and Insurance Company Act.

2004

Entry into force of the ZZFMGP,[3] which stipulated that SID bring the insurance operations that it pursued on its own behalf and for its own account into line with the regulations governing insurance corporations. SID established an insurance corporation on this legal basis, to which it transferred its portfolio of marketable insurance that had been operated on its own behalf and for its own account up to the end of 2004.

[3] The ZZFMGP regulated the system for insuring and financing international commercial transactions as instruments of Slovenia's national trade policy.

2005
Commencement of operations of SID – Prva kreditna zavarovalnica d.d., Ljubljana.

2006
At the end of the year, by obtaining an authorisation to provide banking services and other financial services from the Bank of Slovenia, SID was converted into a bank and changed its name to SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana.[4]

2007
Commencement of operations of SID Bank as a specialist development bank.

2008
Entry into force of the ZSIRB, which confers upon the Bank the following two powers:

- SID Bank is authorised to act as Slovenia's specialist promotional, export and development bank in the pursuit of activities under the ZSIRB;
- SID Bank is the authorised institution for all transactions under the ZZFMGP.

2010
The updated Banking Act expressly stipulated that SID Bank is authorised as Slovenia's specialist, promotional, export and development bank, and is not allowed to accept deposits from the public.

With the adoption of the Commission Directive 2010/16/EU of 9 March 2010 amending Directive 2006/48/EC of the European Parliament and of the Council, the European Commission confirmed, in accordance with the opinion of the European Banking Committee, that SID Bank is an institution involved in specific activities in the public interest and is thus eligible for inclusion on the list of institutions excluded from the scope of application of Directive 2006/48/EC pursuant to Article 2 of that directive.

2011
SID Bank was recognised as a significant institution in the Slovenian banking system on the basis of a decision by the Bank of Slovenia in October.

SID Bank and the MEDT signed an agreement on financing and implementation of the first financial engineering measure in Slovenia.

2013
The government gave its consent to key elements of the financial engineering measures to promote the development of SMEs, on the basis of which a new EUR 500 million loan fund was established at SID Bank. SMEs thus gained an opportunity to obtain loans to finance working capital and new investments, and the corresponding recruitment.

2014
SID Bank was one of three Slovenian banks at which the ECB carried out a comprehensive assessment, comprising an asset quality review and stress tests. The comprehensive assessment was passed by SID Bank, and no capital shortfall was identified.

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 may be referred to as "the SID Bank Group" or simply "the Group".

On the basis of the ZBan-2, the Bank of Slovenia issued a decision designating SID Bank an O-SII (other systemically important institution).	2015	2016	Under the agreement on financing and implementing the financial engineering measure to promote the investments, operations and capital enhancement of SMEs, SID Bank established a new loan fund in conjunction with the MEDT, within the framework of which two credit lines were introduced, namely a development and promotional programme for financing the operations and capital enhancement of SMEs, and SID Bank's development and promotional programme for financing the investments and capital enhancement of SMEs, each in the amount of EUR 100 million.
The MEDT and SID Bank signed a financing agreement in which the Republic of Slovenia authorised SID Bank to manage the Fund of Funds. Together with the EIF, the Bank set up a Slovene Equity Growth Investment Programme worth EUR 100 million.	2017	2018	Under the aegis of the Fund of Funds, EU cohesion funds were used to develop the first financial instruments and selected financial intermediaries for loans for investments related to research, development and innovation, and for microloans. SID Bank signed a sale and purchase agreement for the sale of its entire holding in its subsidiary SID-PKZ. SID Bank became the first Slovenian issuer to issue green bonds on the international capital market.

SID Bank's services

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

SID Bank's financial services support four main purposes of development:
- development of a society of knowledge and innovative enterprise;
- development of an environment-friendly society and environment-friendly production;
- development of a competitive economy; and
- regional and social development.

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

As at 31 December 2018 SID Bank held a Bank of Slovenia authorisation to provide the following mutually recognised financial services under Article 5 of the ZBan-2:[5]

- acceptance of deposits from informed persons;
- granting of loans, including:
  - mortgage loans;
  - purchase of receivables with or without recourse (factoring);
  - financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting);
- issuance of guarantees and other sureties;
- trading for own account or for the account of customers:
  - in foreign legal tender, including currency-exchange transactions;
  - in standardised futures and options;
  - in currency and interest-rate instruments;
- trading on own account:
  - in money-market instruments;
- credit rating services: collection, analysis and dissemination of information about creditworthiness.

SID Bank's activities under Republic of Slovenia authorisation

Insurance against non-marketable risks

SID Bank provides insurance against non-marketable risks for international business transactions under the ZZFMGP 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 policyholders (claims payouts) and to cover losses on these operations. Contingency reserves are also created from premiums, 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.

Fund of Funds for the implementation of financial instruments within the framework of the European Cohesion Policy 2014-2020

In November 2017 the MEDT appointed SID Bank as manager of the Fund of Funds for the implementation of financial instruments within the scope of European cohesion policy, into which EUR 253 million will be paid by 2023 from European cohesion funds that are available to Slovenia within the 2014-2020 financial framework. The purpose of establishing this fund is the promotion and financing of sustainable economic growth and development, investments in innovations and current operations through debt and equity financing focused on four areas in which market gaps were identified based on a preliminary assessment of financing gaps by PwC Slovenia and supplemented by analysis conducted by the European Investment Bank: research, development and innovation, SMEs, energy efficiency and urban development.

[5] The authorisation to provide banking services is published on the Bank of Slovenia website: https://www.bsi.si/financna-stabilnost/subjekti-nadzora/banke-v-sloveniji/11/sid-slovenska-izvozna-in-razvojna-banka-dd-ljubljana

Management of emission allowances and Kyoto units

Under the updated Environmental Protection Act, SID Bank was authorised in 2010 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, and any related transactions.

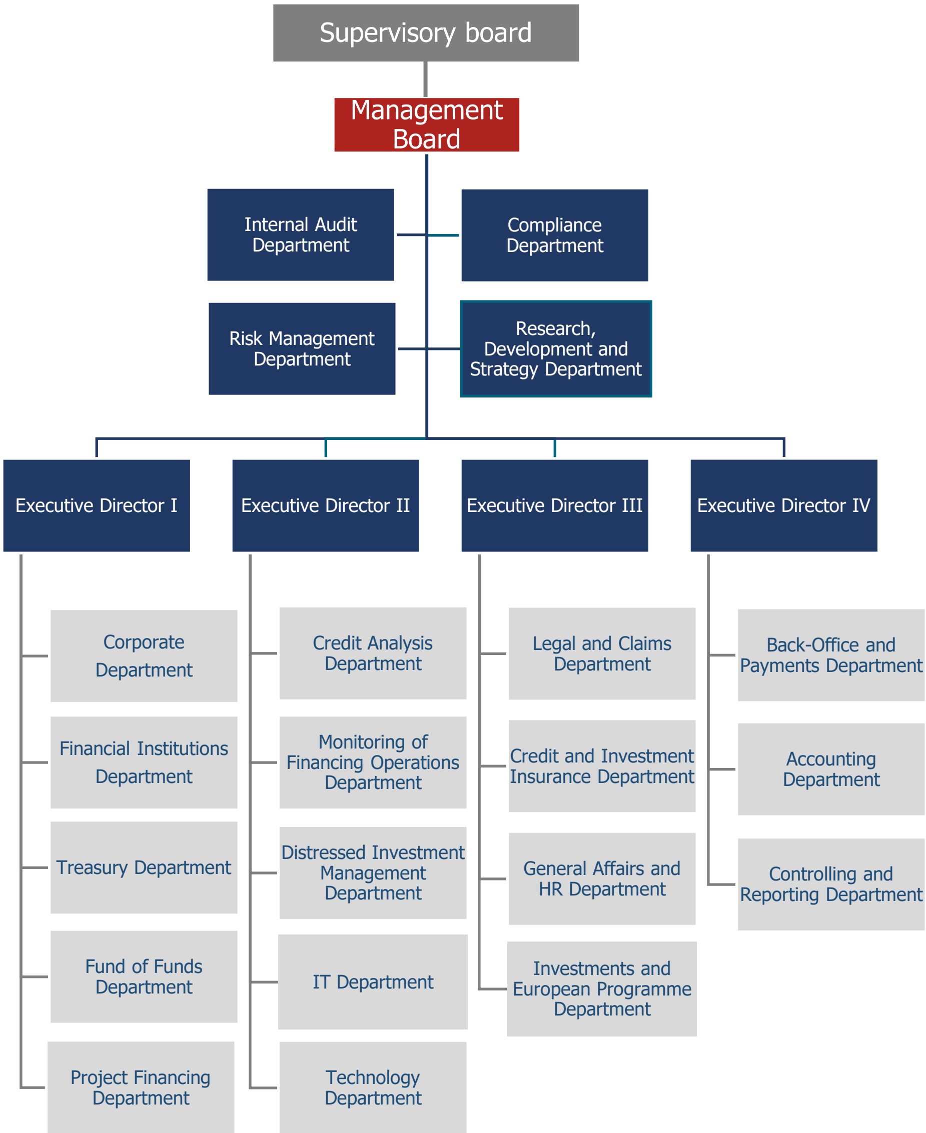
Guarantee schemes and sureties for investments

On the basis of three laws, the Republic of Slovenia Guarantee Scheme Act, the Republic of Slovenia Guarantee Scheme for Natural Persons Act and the Republic of Slovenia Guarantees for Financial Investments by Companies Act, SID Bank was authorised to pursue business in the form of guarantee issuance on behalf of and for the account of the state. The statutory deadline for issuing government guarantees passed at the end of 2010 for the first two laws, and at the end of 2015 for the third.

Activities under all three schemes are now carried out in the processing of applications for consent to contractual amendments, requests for the payment of guarantees and in the enforcement of recourse claims.

SID Bank's activities under Republic of Slovenia authorisation in 2018 are presented in detail in the section entitled Operations under Republic of Slovenia authorisation.

Organisational structure of SID Bank as at 31 December 2018



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 shareholder register and all procedures for trading the shares are administered at the Central Securities Clearing Corporation in Ljubljana.

Shareholders as at 31 December 2018	Number of shares	Holding of share capital (%)
Republic of Slovenia	3.103.296	99,4
SID Bank (treasury shares)	18.445	0,6
Total	3.121.741	100,0

There were no changes to the share capital in 2018, which amounted to EUR 300,000 thousand as at 31 December 2018.

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 in SID Bank, and the distributable profit may not be used for distribution to shareholders, but is instead allocated to other profit reserves.

On 14 June 2018 the SID Bank general meeting passed a resolution allocating the distributable profit for 2017 in the amount of EUR 6,628,945.98 to other profit reserves.

The Bank's total shareholder equity amounted to EUR 422,051 thousand as at 31 December 2018, while the audited book value of one share stood at EUR 136.00 (31 December 2017: EUR 132.08).

About the SID Bank Group

SID Bank Group

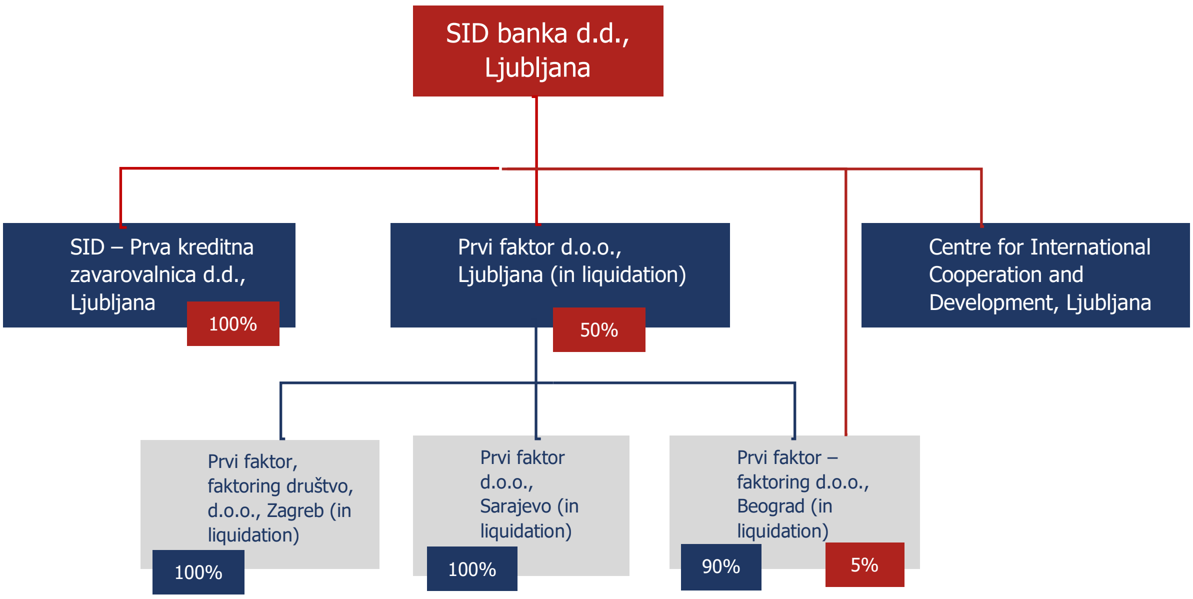
As at 31 December 2018 the SID Bank Group comprised:

Company	Relation/role	Holding of SID Bank (%)
SID banka d. d., Ljubljana	Parent bank	-
SID - Prva kreditna zavarovalnica d. d., Ljubljana	Subsidiary	100
Prvi faktor Group	Joint venture	50
Centre for International Cooperation and Development (CMSR)	Joint foundation	-

The SID Bank Group's consolidated financial statements include SID Bank and SID – Prva kreditna zavarovalnica d.d., Ljubljana under the full consolidation method, and the Prvi Faktor Group under the equity method. In light of the intended sale of the subsidiary SID-PKZ, the consolidated financial statements have not been compiled according to the traditional method, but are instead disclosed in accordance with IFRS 5.

Given its immaterial impact on the financial position and profit or loss of the SID Bank Group, the Centre for International Cooperation and Development is not included in consolidation.

Organisational structure of the SID Bank Group as at 31 December 2018



SID – Prva kreditna zavarovalnica d.d., Ljubljana

The nominal value of SID Bank's interest in SID-PKZ stood at EUR 8.4 million as at 31 December 2018.

SID – Prva kreditna zavarovalnica d.d., Ljubljana (SID-PKZ) commenced its operations on 1 January 2005.

SID-PKZ insures short-term trade receivables, generally with a maturity of up to 180 days, or up to 1 year when the nature of the transaction or the type of goods so requires. The insurance covers commercial and optional risks, and also non-commercial (political) risks. The insurance contracts are generally annual or apply for a two-year period, and cover the policyholder's entire turnover on an open basis. It is also possible to insure one particular segment of sales (e.g. exports, domestic sales, receivables financed by a bank), if SID-PKZ assesses that objective criteria apply to the selection of the segment offered for insurance, and not any kind of moral hazard. Pre-delivery risks (production risks) may also be insured separately in insurance contracts. SID-PKZ also insures factoring operations under adjusted terms and specific project and engineering operations if the payment periods do not exceed two years. In 2018 SID-PKZ offered its customers upgraded coverage with additional coverages, transitional coverage, insurance of disputed receivables and extended coverage for previously approved orders. Transitional coverage enables the secure and quick transition (transfer of limits) of a policyholder from competing insurers to SID-PKZ, insurance of disputed receivables provides for advance insurance payouts when receivables are contested by a customer, while extended coverage for previously approved orders provides coverage for receivables arising on the basis of approved orders in the event of the limit being lowered or cancelled.

SID-PKZ was headed by a three-member management board in 2018: Sergej Simoniti (president), Igor Pirnat and Denis Stroligo. The terms of office of all three members began on 1 January 2018.

SID-PKZ's supervisory board in 2018 consisted of Goran Katušin (president), Bojan Pecher (deputy-president), Ph.D. Matejka Kavčič and Mirjam Janežič, Andraž Tinta and Sanja Dimec (the last two of whom are employee representatives). The audit committee consisted of four members in 2018, namely three members of the supervisory board and an independent expert, Blanka Vezjak. The audit committee operated with Matejka Kavčič as chair, Mirjam Janežič as deputy-chair, and Bojan Pecher and Blanka Vezjak as the other members.

SID Bank signed a sale and purchase agreement for the sale of its entire holding in its subsidiary SID-PKZ in September 2018. The transfer of ownership and receipt of the consideration is expected in the first half of 2019. SID Bank has thereby pushed ahead with its strategic alignment and its focus on its core business activities. In its business for the account of the state, SID Bank will continue to provide insurance and reinsurance services in collaboration with SID-PKZ, assuming further collaboration is ensured. The arrival of a strategic owner (Coface, a French credit insurer and one of the leading groups in the market) with a wide network of insurance products and services will allow SID-PKZ to expand and to further develop.

Prvi faktor, faktoring družba, d. o. o. (in liquidation)

SID acquired a 50% interest in the nominal capital and half of the voting rights of the company in 2002. The other partner was Nova Ljubljanska banka d.d., Ljubljana (NLB).

The nominal value of SID Bank's interest in the company stood at EUR 1.6 million as at 31 December 2018.

The main activity of Prvi faktor, faktoring družba, d.o.o., Ljubljana (in liquidation) was the provision of factoring services. On 28 December 2016 the company's general meeting passed a decision to initiate voluntary liquidation proceedings, and to appoint the two previous directors as liquidators.

The company's liquidators in 2018 were Klemen Hauko and Marcel Mišanović Osti. SID Bank was represented at the general meeting in 2018 by Saša Keleman and Branko Jerak.

Prvi faktor, Ljubljana is also the founder of the following:

- Prvi faktor, faktoring društvo, d.o.o., Zagreb (in liquidation), of which it owns 100%. The company was established on 17 December 2003. Its nominal capital amounts to EUR 2.7 million. The company has been in liquidation since 31 December 2016. The liquidators of the company in 2018 were Jure Hartman and Marko Ugarković. The company's general meeting comprises representatives of Prvi faktor Ljubljana, namely Marcel Mišanović Osti (chair of the general meeting) and Klemen Hauko. The chair of the company's supervisory board is Klemen Hauko, while Igor Jarc and Matjaž Jevnišek are the other members.
- Prvi faktor d.o.o., Sarajevo (in liquidation), of which it owns 100%. The company was established on 27 February 2006. Its nominal capital amounts to EUR 1.4 million. The company has been in liquidation since 29 December 2016. The previous director and current liquidator of the company is Đenan Bogdanić. The company's general meeting comprises representatives of Prvi faktor Ljubljana, namely Marcel Mišanović Osti (chair of the general meeting), Klemen Hauko and Svetlana Miškić.
- Prvi faktor – faktoring d.o.o., Beograd (in liquidation), of which it owns 90%. The company was established on 24 February 2005. The company has been in liquidation since 3 August 2017. The company's nominal capital amounts to EUR 2.5 million. With the conversion of cash and receivables into equity in the company by NLB and SID Bank, changes were made in the company's ownership structure at the end of July 2017, with both owners each gaining a 5% direct interest. The company was managed by liquidator Željko Atanasković in 2018. SID Bank was represented at the general meeting in 2018 by the Bank's management board or its proxies Saša Keleman and Branko Jerak.

Centre for International Cooperation and Development (CMSR)

SID Bank is a co-founder of the CMSR together with the Republic of Slovenia. The CMSR's core activities are macroeconomic, political and other analysis of sovereigns, assessments of country risk and publicity activities. On the basis of the International Development Cooperation and Humanitarian Aid of the Republic of Slovenia Act, the CMSR carries out technical and operational work in the field of international development cooperation.

The CMSR's management bodies are the director and the council. The institute is represented by its director. The council had five members as at 31 December 2018. SID Bank's representatives on the council are Sibil Svilan, who is also chair of the council, and Bojan Pecher.

Corporate governance statement

In accordance with the fifth paragraph of Article 70 of the ZGD-1, SID Bank hereby issues the following corporate governance statement.

1. Reference to codes, recommendations and other internal regulations on corporate governance, and on derogations from codes and recommendations

SID Bank is a company with a capital asset of the state, and is not a public company in the sense of the Financial Instruments Markets Act.

SID Bank applied the following codes and recommendations in its operations in 2018:

- The Corporate Governance Code issued by the Ljubljana Stock Exchange and the Slovenian Directors' Association on 27 October 2016. The full text of the code is available on the Ljubljana Stock Exchange website, (http://www.ljse.si/);
- The Corporate Governance Code for Companies with Capital Assets of the State, which was issued by Slovenski državni holding d.d. in May 2017, and the Recommendations and Expectations of Slovenian Sovereign Holding, which was issued by Slovenski državni holding d.d. in March 2018. The two documents are published on Slovenski državni holding's website (www.sdh.si).

Details of the derogations from the aforementioned codes and recommendations and the arguments for these derogations are presented below, and primarily proceed from the special arrangements of the ZBan-2 and ZSIRB.

Corporate Governance Code

Corporate governance framework

Recommendation 1
The fundamental principles of the operations of SID Bank are set out in the ZSIRB. The basic objective of SID Bank is not to maximise the company's value, but to create direct or indirect value-added for the users of its financial services and, in particular, the maintenance and increase of its capital without pursuing the objective of maximising profit (Article 9 of the ZSIRB).

Relations between the company and its shareholders

Recommendation 6
Since the Republic of Slovenia is the sole shareholder in SID Bank, the recommendations are applied *mutatis mutandis* (Article 4 of the ZSIRB).

Recommendations 8.1., 8.2, 8.4 and 8.10
The Republic of Slovenia is the sole shareholder in SID Bank (Article 4 of the ZSIRB).

Recommendation 8.9
A representative of the auditor is not invited to the general meeting. The sole shareholder (Slovenski državni holding) is regularly briefed on SID Bank's performance.

Supervisory board

Recommendations 9, 10 and 12
The recommendations are applied *mutatis mutandis*, as the nomination and appointment of supervisory board members is determined by a special law (Article 18 of the ZSIRB). SID Bank is committed to complying with the ZBan-2 and regulations issued on its basis (e.g. the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks).

SID Bank implements its corporate governance arrangements in accordance with the legislation applicable in Slovenia, having regard for its own bylaws (e.g. its articles of association). SID Bank also takes account of the regulatory framework of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), the legal acts of the ECB, and the regulations and other acts of the Bank of Slovenia.

Recommendation 18.1
SID Bank is required to comply with Article 49 of the ZBan-2, which stipulates that a bank's supervisory board must have an audit committee and a risk committee. SID Bank also has a nomination and remuneration committee.

Recommendations 18.2 and 18.3
SID Bank is required to comply with Article 49 of the ZBan-2, which stipulates that, the ZGD-1 notwithstanding, only members of a bank's supervisory board may sit on its supervisory board committees.

Transparency of operations

Recommendations 27.3 and 29.3
The ownership of SID Bank is prescribed by law (limited), with the sole shareholder in SID Bank being the Republic of Slovenia (Article 4 of the ZSIRB).

Recommendation 28.2
The recommendation is applied *mutatis mutandis*.

Corporate Governance Code for Companies with Capital Assets of the State

3. Corporate governance framework for companies with capital assets of the state

Recommendation 3.1
The operations of SID Bank are regulated by the ZSIRB, which stipulates, *inter alia*, that SID Bank provides its services in order to create direct or indirect value-added for the users of its services, in accordance with the purpose and goal of individual transactions, projects, investments and other forms, and, in particular, to maintain or increase capital without pursuing the objective of maximising profit (Article 9 of the ZSIRB).

4. Relationship between shareholders or partners, SSH, the state and companies with capital assets of the state

Recommendations are applied *mutatis mutandis*.

Recommendation 4.2
The ownership of SID Bank is prescribed by law (limited), with the sole shareholder in SID Bank being the Republic of Slovenia (Article 4 of the ZSIRB).

Recommendation 4.3
The power to nominate members of SID Bank's supervisory board is shared by the minister responsible for finance and the minister responsible for the economy, each of whom nominates one member, and the minister responsible for development and European affairs (now the Government Office for Development and European Cohesion Policy), who nominates five independent experts. The power to appoint members of SID Bank's supervisory board lies with the government (Article 18 of the ZSIRB).

6. Supervisory board

Recommendation 6.4
In addition to the ZBan-2 and the ZGD-1, the procedures for the nomination and appointment of members of SID Bank's supervisory board are also governed by the ZSIRB, which sets out the number of supervisory board members and the composition of the supervisory board (Article 18 of the ZSIRB).

Recommendations 6.5, 6.10 and 6.13
SID Bank is required to comply with Article 49 of the ZBan-2, which stipulates that, the ZGD-1 notwithstanding, only members of a bank's supervisory board may sit on its supervisory board committees.

Recommendation 6.6
Members of SID Bank's supervisory board are appointed by the government, at the proposal of ministers (Article 18 of the ZSIRB).

Recommendation 6.7
The recommendation is applied *mutatis mutandis*. Members of SID Bank's supervisory board are appointed by the government, at the proposal of ministers (Article 18 of the ZSIRB). The procedure for assessing candidates is conducted in accordance with the ZBan-2, the EBA guidelines and bylaws in the manner described in detail in the section relating to the actions of the committee for the assessment of the suitability of members of the management body and key function holders (in this section, under the title *Composition and functioning of*

management and supervisory bodies and their committees).

Recommendation 6.8.2
The same applies as in the case of the supervisory board's audit committee (point 6.5), in that SID Bank complies with the provisions of the ZBan-2.

Recommendation 6.8.5
The recommendation is applied *mutatis mutandis*, having regard for Article 18 of the ZSIRB.

Recommendations 6.8.8 and 6.8.9
Members of SID Bank's supervisory board are appointed by the government, at the proposal of ministers (Article 18 of the ZSIRB).

Recommendation 6.9.2
Alongside the model resolution by the general meeting, given the incomplete composition of the supervisory board, an increase in the total amount of fees for performing functions on supervisory board committees was proposed for the period until the supervisory board reached full complement.

8. Transparency of operations and reporting

Recommendation 8.1.1
SID Bank is required to comply with the ZBan-2 with regard to disclosures, and more precisely in the compilation of its business report it is required to take account of the requirements set out in Chapter 4 of the ZBan-2 (Articles 86 to 93), Sections 3.2 and 3.4 of the Regulation on books of account, and Article 70 of the ZGD-1. Disclosures under Part Eight (Articles 431 to 451 and Article 492) of the CRR are included in the financial report, in the format and with the content set out by the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013.

Recommendations and Expectations of Slovenian Sovereign Holding

Sponsorship and donations

Recommendation 3.8
SID Bank is not financed from public funds, as a result of which the restrictions referred to in section 3.11 do not apply to it. SID Bank has adopted a communications strategy, which has neither been approved by the supervisory board nor published on its website. A governance policy that regulates sponsorship and donations among other issues has been adopted/approved by the supervisory board. Information about sponsorship and donation agreements is published on the SID Bank website (https://www.sid.si).

Optimisation of costs

Recommendation 4.4
SID Bank paid annual leave allowance in 2018 in line with the collective agreement for the banking sector, and the performance-related payment in line with its own collective agreement, which sets out the procedures and criteria for defining payments. SID Bank did not publish information about the payments.

Recommendation 4.5
SID Bank has published the collective agreement for the banking sector on its website, but has not published its own collective agreement, which sets out in detail the conditions, criteria and metrics for promotions, and for the assessment of personal on-the-job performance and overall performance, and the amount of other personal remuneration of employees paid by SID Bank on the basis of the collective agreement for the banking sector. SID Bank's remuneration system is presented in detail in disclosures in the annual report.

Achieving quality and excellence in the operations of a company/group

SID Bank has joined the process of regular self-assessment under the proven European model of business excellence developed by the European Foundation for Quality Management (EFQM). The process was last undertaken in 2016, and the next was deferred until 2019 because of an extensive overhaul of the strategy, which alongside the external elements is also based on self-assessment of quality and the attainment of the Bank's mandates.

SID Bank is a signatory of the Slovenian corporate integrity guidelines. The guidelines are published online at http://www.zdruzenje-ns.si.

2. Main features of internal control systems and risk management in connection with financial reporting procedure

The internal control mechanisms put in place for all of SID Bank's business activities commensurately with the materiality and risk of the individual activities include:

- internal controls of the implementation of the Bank's organisational procedures, business procedures and work procedures;
- functions and internal control departments that, in organisational terms, report directly to the Bank's management board.

The implementation of internal controls is primarily undertaken on the basis of:

- documented rules and procedures for ensuring the compliance of the Bank's operations with regulations, standards and bylaws, and the requirements of the Bank of Slovenia and other competent supervisory authorities;
- monitoring of the compliance of business transactions and investments with the adopted risk limits;
- oversight of the proper implementation of the prescribed work procedures in connection with operational and organisational activities on the part of employees;
- verification of the accuracy of internal and external reports;
- safeguarding of the Bank's assets;
- development and safeguarding of the security of the Bank's information systems and information.

In the area of financial reporting procedures, internal controls that are primarily carried out at organisational units responsible for risk management, accounting, controlling and reporting have been put in place via bylaws. The functioning of internal controls and risk management at the Bank is also subject to internal auditing, which is carried out by a dedicated organisational unit.

The internal control functions at SID Bank include the internal audit department, the risk management function, which is organised within the risk management department (for more details see the section entitled Risk management in the business report and section 3.3 of the financial report), and the compliance function, including the information security function, which is organised at the compliance department.

The supervisory board has established an audit committee, whose work focuses on financial reporting, and a risk committee, whose responsibilities primarily relate to supervision and the provision of advice on risk management.

Compliance

Compliance risk is the risk of a significant financial loss or loss of reputation owing to legal sanctions and measures by supervisory authorities that the Bank could suffer because of the wilful or accidental failure of its operations to comply with applicable legislation and standards of good practice.

SID Bank established a compliance department in 2008 and was therefore one of the first banks in Slovenia with a compliance function.

The compliance function advises the management body on action that needs to be taken to ensure compliance with applicable legislation and other regulations and standards, and assesses the potential effects of changes in the legal and legislative environment on the bank's activities and its compliance arrangements.

Independently of the establishment and implementation of the compliance function, SID Bank's management board remains primarily responsible for managing compliance risk and for ensuring that SID Bank's operations comply with regulations. All of the Bank's employees are responsible for ensuring compliance, with regard to their role and level of responsibility. It is their right and obligation to undergo training in the area of compliance risk management.

The aim of the compliance function is to eliminate or mitigate SID Bank's compliance risk, to strengthen its corporate ethics and integrity, and to prevent fraud and abuse. With minor derogations explained in point 1 of this statement, SID Bank complies with the Corporate Governance Code for Companies with

Capital Assets of the State and the Corporate Governance Code, and is a signatory of the Slovenian Corporate Integrity Guidelines.

With the consent of the supervisory board, the management board of SID Bank adopted a code of ethics and professional standards (published online at https://www.sid.si) setting out the principles and rules by which SID Bank, its bodies and its employees act in the performance of their work and tasks in relation to customers, other banks, the economic environment and within SID Bank itself.

The compliance department has a supervisory function, and as the administrator of the internal code of ethics and professional standards is responsible for handling breaches of the aforementioned code and for handling anonymous or public reports of breaches and/or complaints, filed either by employees or third parties. The whistleblowing system allows for the anonymous reporting of breaches. The department received and handled two whistleblowers' reports in 2018, establishing in the investigation procedure that no breach had occurred. 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 analysis of the risk profile suggests that the risk of non-compliance is highest. During compliance audits the compliance department cooperates with the internal audit department by exchanging information and findings, and with the risk management department. The compliance function includes monitoring and reporting on compliance risk, and providing advice and training on the management of compliance risk.

The compliance department had two employees in 2018. The compliance department is an independent organisational unit whose director is directly accountable to the management board, and is able to communicate directly with the supervisory board. Under the aegis of the compliance department there is also an information security officer, who is responsible for monitoring and conducting controls on information security procedures for the purpose of preventing unauthorised access to information in storage, during processing or during transfer, and changes thereto, including the management of related risks and the production of analysis of these risks on each occasion.

Internal auditing

The internal audit department is an independent and impartial organisational unit that is separate from the Bank's other organisational units in terms of functioning and organisation, and is answerable directly to the management board.

The internal audit department operates in accordance with the Banking Act, the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors and the Code of Internal Auditing Principles. The activity of the internal audit department and the procedures of internal auditing are set out in the rules of procedure of internal auditing and in the internal auditing manual.

The purpose of the internal audit department is to provide independent and impartial assessments on the effectiveness and quality of risk management, internal controls and internal governance arrangements, thereby contributing to the Bank's improved functioning and achievement of objectives. The internal audit department pursues its mission through internal audits and provision of advice, focusing on the highest-risk areas that it defines within the scope of planning the work of the department. The annual and strategic plans are based on the Bank's risk profile, the internal methodology of audit planning, and the regulator's requirements for mandatory auditing of individual areas of the Bank's operations, with the aim of auditing the most high-risk areas of the Bank's operations and periodically covering low-risk or as-yet-unaudited areas. The two plans are adopted by the management board, subject to the supervisory board's approval.

The annual plan for 2018 envisaged 12 comprehensive and complex audits, of which ten were completed during the year, one was completed in 2019, and one was switched to the annual plan for the 2019 financial year. There was also one *ad hoc* audit conducted in 2018, and a self-assessment of the quality of the work of the internal audit department.

The internal audit department also devoted considerable attention to following up the implementation of recommendations. In addition to regular audits and the follow-up of recommendations, in 2018 the internal audit department also provided advice in the area of the development of banking products within the framework of the Fund of Funds and financial engineering, and also informal advice of a broad spectrum.

The internal audit department reports on an annual and quarterly basis to the Bank's management board, audit committee and supervisory board regarding its work, its findings and the follow-up of recommendations. The Bank's management board also discusses all reports on individual audits that have been carried out.

The internal audit department had three employees in 2018, one of whom was on half hours. All of the employees possess the required licences and professional titles to perform internal auditing tasks.

3. Information on point 4 of the fifth paragraph of Article 70 of the ZGD-1 with regard to the information referred to in points 3, 4, 6, 8 and 9 of the sixth paragraph of the aforementioned article

The Republic of Slovenia is the sole shareholder in SID Bank pursuant to Article 4 of the ZSIRB.

Company rules on the appointment and replacement of members of management and supervisory bodies, and change to articles of association

Members of the Bank's management body may be appointed/dismissed in accordance with the ZBan-2, the ZGD-1 and the articles of association. None of the members of SID Bank's supervisory board was dismissed in 2018, but Aleš Berk Skok submitted his resignation in November 2018, which reduced the number of members to five.

There were no changes in the management board in 2018.

There were also no changes to SID Bank's articles of association in 2018, which means that the articles of association approved at the general meeting of 6 July 2016, when they were adopted by the sole shareholder, remain in force.

4. Information about the operation and key powers of the general meeting, and description of shareholder rights and their exercise

SID Bank's general meeting is convened by the management board, and may also be convened by the supervisory board. The general meeting is convened in accordance with the law and the articles of association by means of registered mail to the sole shareholder. The support material for the general meeting is sent to the shareholder at the same time as the convening notice. On the day that the registered mail is sent, SID Bank publishes all the notices and information required by the ZGD-1 on its website. In accordance with Article 4 of the ZSIRB, the voting rights and other rights of the sole shareholder are exercised by the Republic of Slovenia, which in accordance with the Slovenian Sovereign Holding Act authorises Slovenski državni holding d.d. to act on behalf of and for the account of the sole shareholder pursuant to law. When the ZGD-1 gives the sole shareholder the right to use electronic means, it may submit proposals, authorisations and other documents to SID Bank by emailing the address cited in the convening notice. The general meeting sits at least once a year, after the end of the financial year, at SID Bank's headquarters, at the registered office of the sole shareholder, or at a place designated by the sole shareholder. The exact time and date of the general meeting are determined when it is convened.

The general meeting's powers are set out by the ZGD-1 and the ZBan-2.

5. Composition and functioning of management and supervisory bodies and their committees

SID Bank has a two-tier system of governance: the business is directed by the management board, while its functioning is supervised by the supervisory board.

Supervisory board

The supervisory board monitors and supervises the management and operations of the Bank. The supervisory board 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 ZGD-1, the ZBan-2 and the ZSIRB.

The supervisory board's role includes approving the Bank's strategic policy, reviewing the annual reports and other financial reports and formulating an opinion thereof, explaining to the general meeting its opinion of the annual report by the internal audit department and its opinion of the annual report by the management board, approving the annual report and the management board's proposal for the use of the distributable profit, and discussing any findings made in supervisory procedures by the Bank of Slovenia, tax inspectors and other supervisory authorities. In addition, the supervisory board is responsible for giving its consent to the management board in relation to the Bank's business policy, financial plan, remuneration policy, the organisation of the system of internal controls, the internal audit department's annual programme of work, and the compliance department's annual programme of work. The supervisory board is also responsible for issuing prior consent for the conclusion of financing, borrowing and capital investment transactions. The supervisory board has appointed an audit committee, a risk management committee and a nomination and remuneration committee as advisory bodies. Each committee's tasks and powers are set out in its own rules of procedure.

In accordance with the ZSIRB, the supervisory board consists of seven members who are appointed by the government. Members of the supervisory board are appointed to a five-year term of office. The procedure and requirements for the selection of suitable members are set out in the ZSIRB and ZBan-2, and in the policy for the selection of supervisory board members that was adopted by the Slovenian government. The policy sets out the method for the selection of candidates who possess the relevant knowledge, skills and experience to supervise and monitor the direction of the Bank's business, and the requisite reputation, and ensures that the supervisory board as a whole possesses the relevant knowledge, skills and experience required for the in-depth understanding of SID Bank's activities and the risks to which it is exposed. Diversity is encouraged as much as possible in terms of knowledge, skills and experience, and also in terms of other circumstances, in particular regarding gender, age, qualifications, social status and other circumstances on the part of candidates. The supervisory board comprises at least one member with knowledge and experience in the areas of (i) financial risk management, (ii) supervision and auditing of SID Bank's activities, (iii) commercial law and corporate governance, and (iv) management and remuneration, and at least two members with specific banking knowledge and several years of experience in banking.

SID Bank has put in place a process for assessing the suitability of members of the management body. An assessment of the suitability of members of the management body is formulated at least once a year. The structure, size, composition and performance of the management body are assessed at least once a year by the supervisory board itself.

Within the framework of the annual assessment of the management body, the supervisory board was assessed as suitable, both in terms of the knowledge, skills and experience of individual members and the body as a whole, with regard to its structure, size and composition and the performance of its work, irrespective of its incomplete composition in accordance with the ZSIRB. All three committees of the supervisory board (the audit committee, the risk committee and the nomination and remuneration committee) have the suitable size and composition, and the committee members possess the requisite knowledge and experience to perform the tasks of individual committees that are determined by the law, meaning that the committees did not use any external advisors or experts in 2018.

It was established during the assessment procedure that the composition of the supervisory board ensures diversity according to the majority of the criteria referred to in the selection policy for supervisory board members. However, the composition lacks balance in terms of gender. As a result, increased focus was placed on this criterion when determining the profiles of supervisory board members to be recruited, which in 2018 were set out by the nomination and remuneration committee in the procedure for appointing new supervisory board members. The nomination and remuneration committee informed the ministries responsible for proposing members of SID Bank's supervisory board of the numerical incompleteness of the supervisory board, particularly at the end of the year, when the resignation of one member left it with just five members.

In 2018 there was no need to formulate new overall assessments of the suitability of individual members of the supervisory board, as no circumstances arose in connection with the board members that would require a new individual suitability assessment, other than in the case of new candidates for supervisory board membership.

As at 31 December 2018 the supervisory board consisted of Monika Pintar Mesarič as chair, Marko Tišma as deputy-chair, Marjan Divjak, Zlatko Vili Hohnjec and Leo Knez.

Name and Surname	Date of Appointment	Duration of Mandate (yrs)	Duration (untill)	Position	Changes in 2018
Monika Pintar Mesarič	22-Feb-2018*	5	2023	Chair	until 21-Feb-2018
				Member	from 22-2-Feb-2018
				Chair	from 15-Mar-2018
Marko Tišma	28-jul-2016	5	2021	Deputy-chair	-
Marjan Divjak	18-maj-2017	5	2022	Member	-
Leo Knez	22-Feb-2018*	5	2023	Member	until 21-Feb-2018
				Member	from 22-Feb-2018
Aleš Berk Skok	13-apr-2017	5	16-nov-2018	Member	until 16-Nov-2018
Zlatko Vili Hohnjec	18-maj-2017	5	2022	Member	-

*Re-appointment

Supervisory board's nomination and remuneration committee

The nomination and remuneration committee is authorised and responsible for the performance of duties relating to the appointment of management board and supervisory board members and the remuneration system. It tasks therefore include the identification and recommendation of candidates for membership of the management board to the supervisory board with a definition of the tasks and conditions for a particular appointment, the assessment of the composition and performance of the management board, the knowledge, skills and experience of individual members of the management board and supervisory board or both bodies as a whole, and the assessment of the appropriateness of remuneration policies and practices and the drafting of proposed decisions of the management body related to remuneration, including those that impact risks and the Bank's risk management.

The committee met at seven ordinary sessions in 2018, and held two correspondence sessions.

As at 31 December 2018 the committee consisted of Monika Pintar Mesarič as chair, Marko Tišma as deputy-chair and Zlatko Vili Hohnjec.

Name and Surname	Position	Changes in 2018
Monika Pintar Mesarič	Chair	until 21-Feb-2018
	Member	from 9-Mar-2018
	Chair	from 15-Mar-2018
Marko Tišma	Deputy-chair	-
Zlatko Vili Hohnjec	Member	-

Supervisory board's audit committee

In connection with its powers of monitoring and supervision, the audit committee primarily discusses the Bank's annual and interim financial statements, the activities of the internal audit department, the organisation of 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 an external auditor, and reviews and monitors the auditor's work and impartiality.

The committee held six ordinary sessions and one correspondence session in 2018.

As at 31 December 2018 the audit committee consisted of Zlatko Vili Hohnjec as chair, Marjan Divjak as deputy-chair and Leo Knez.

Name and Surname	Position	Changes in 2018
Aleš Berk Skok	Chair	until 16-Nov-2018
Zlatko Vili Hohnjec	Member	-
	Deputy-chair	from 15-Mar-2018
	Chair	from 13-Dec-2018
Marjan Divjak	Deputy-chair	from 13-Dec-2018
Leo Knez	Deputy-chair	until 21-Feb-2018
	Member	from 9-Mar-2018

Supervisory board's risk committee

Within the scope of its powers, the risk committee primarily provides advice regarding the Bank's general risk appetite and risk management strategy, assists in the implementation of supervision of senior management with regard to the risk management strategy, checks whether risks are taken into account in incentives within the framework of the remuneration system and checks whether the prices of the Bank's products are compatible with its business model and risk management strategy.

The risk committee met at eight ordinary sessions in 2018.

As at 31 December 2018 the risk committee consisted of Leo Knez as chair, Marjan Divjak as deputy-chair and Marko Tišma.

Name and Surname	Position	Changes in 2018
Leo Knez	Chair	until 21-Feb-2018
	Member	from 9-Mar-2018
	Chair	from 15-Mar-2018
Marjan Divjak	Deputy-chair	-
Marko Tišma	Member	-
Aleš Berk Skok	Member	untill 16-Nov-2018

Management board

SID Bank's business is 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 five years, and may be reappointed. In accordance with the articles of association, the management board has a maximum of three members, one of whom is appointed president, with the precise number of management board members being determined by the supervisory board.

The management board directs the business independently and at its own liability. Its activity is governed by the rules of procedure of the management board. The management board generally sits in session on a weekly basis, where matters from all areas of SID Bank's operations are discussed. The management board regularly briefs the supervisory board on the most important issues in the Bank's operations, on its business policy, its financial position and other significant issues relating to its activity.

In 2018 the management board consisted of Sibil Svilan as president and Goran Katušin. They both meet the requirements with regard to knowledge, skills and experience and other criteria, while the management board as a whole meets the collective suitability requirement, meaning that the two management board members satisfy all the suitability assessment criteria together and without the need for additional training. In 2018 there was no need to formulate new assessments of the suitability of the management board, as no circumstances arose in connection with the board members that would require a new individual suitability assessment for a particular management board member. There was no change to the composition of the management board in 2018, and no change in the powers of the members of the management board, and no circumstances arose in connection with either member of the management board. In the annual assessment of the management body, it was found that the two members of the management board are individually and collectively suitable for performing their functions.

The management board transferred certain decision-making rights to collective decision-making bodies, such as the credit committee, the government operations committee, the distressed investment management committee and the asset-liability and liquidity management committee. The main powers and responsibilities and the methods of work of the committees are set out in the committees' rules of procedure. In addition, the management board transferred certain decision-making powers with regard to transactions to individual employees at SID Bank on the basis of the rulebook on authorisations.

Credit committee

The credit committee decides on approvals and changes to terms of investment operations that do not constitute refinancing or restructuring due to a borrower's financial difficulties, on the classification of individual investments, exposure limits to an individual customer and on the documentation when introducing new or changing existing financing programmes or individual products. The credit committee approves the conditions and procedures for selecting financial intermediaries for financing from the fund of funds, and the related business plans, and takes decisions of financial transactions and contracts of participation. The credit committee is also responsible for capital growth investment programmes for corporate equity financing. The credit committee monitors individual exposures and the quality of the credit portfolio on the basis of reports by individual organisational units, and also decides on the transfer of investments with increased credit risk to non-performing investments, and on the termination and cancellation of investment operations. The committee consists of five members, who meet at weekly sessions.

Asset-liability and liquidity management committee

Within the scope of its powers of managing the Bank's liquidity, the asset-liability and liquidity management committee manages liquidity risk and structural liquidity. To that end, it makes decisions on the raising of funding and placement of assets on the money and capital markets in Slovenia and in the rest of the world, and on the utilisation of Bank of Slovenia and ECB instruments, and approves and supervises the exchange rate and interest rate policy. The committee is also responsible for managing the free assets of financial instruments funded via the European structural and investment funds, and assets earmarked for corporate equity financing.

In the area of asset-liability management the committee sets out, modifies and monitors the implementation of the strategy and policy of the balance sheet structure, defines and monitors the implementation of the pricing, liquidity, interest rate and exchange rate policy, decides on proposals regarding asset-liability risk management, approves the financing programme and products relating to treasury operations and changes thereto, monitors the Bank's capital adequacy, approves the treasury investment policy, and monitors and discusses the stress test results. The committee also manages liquidity and manages assets and liabilities (balance sheet) in relation to SID Bank's operations under Republic of Slovenia authorisation, primarily managing liquidity risk and structural liquidity, and in the area of asset-liability management adopts the policy for contingency reserve investments and assesses the impact of new programmes of insurance up to the amount of contingency reserves.

In terms of membership, it is the largest of the Bank's committees, and consists of nine members. Sessions focusing on liquidity management are held weekly, while asset-liability management is discussed monthly.

State-related Investments Committee

The purpose of the special government operations committee is the consistent segregation of SID Bank's ordinary operations from its operations for the account of the Republic of Slovenia. The committee decides on approvals and changes to transactions that SID Bank concludes for the account of the Republic of Slovenia, including the financing of international commercial transactions from contingency reserves, insurance and reinsurance, guarantee schemes, and financial instruments funded by European structural and investment funds, and on matters related to these transactions. The government operations committee has five members, and meets in weekly sessions.

Distressed investment management committee

The distressed investment management committee, which has five members, manages problem claims with non-performing investment status, whereby it makes decisions on approvals and changes to the terms of investment operations and financial restructuring plans and on all matters associated with non-performing investments (also regarding the enforcement of rights in insolvency proceedings). The committee sits weekly.

Committee for the assessment of the suitability of members of the management body and key function holders

The committee for the assessment of the suitability of members of the management body and key function holders has three members, who are appointed by the management board, subject to the prior approval of the supervisory board. The committee is autonomous in its work and independent of the management board and the supervisory board. The committee consists of two external members with knowledge and experience of banking and financial services and of recruitment, psychology and related professional fields, and a third member who is an employee, namely the director of the compliance department, to whom the management board ensures suitable protection against potential retaliatory measures.

The committee for the assessment of the suitability of members of the management body and key function holders and the supervisory board's nomination and remuneration committee carry out the process of assessing the suitability of the members of the management body.

Members of the management body are subject to assessment by the two committees before their appointment or the commencement of their function, and also if new circumstances arise in connection with a particular member of the management body during the term of office. An annual performance assessment is also formulated for members of the management body on a separate basis from the above. The annual performance assessment for the management body is generally drawn up by the director of the compliance department. It is then discussed by the supervisory board's nomination and remuneration committee, which formulates a position on it.

In line with applicable banking legislation,[6] alongside the selection policy for members of the management body the procedure for assessing members of the supervisory board also takes account of elements deriving from the ZSIRB, the Corporate Governance Code and the Corporate Governance Code for Companies with Capital Assets of the State, and the selection policy for members of the supervisory board.

The work of the management body in 2017 was assessed by the director of the compliance department in 2018. The work of the supervisory board was assessed as positive, although it was highlighted that the composition of the supervisory board did not comply with the ZSIRB, which stipulates that the supervisory board should have seven members, while the supervisory board acted with six members in 2018, and finished the year with five members.

Owing to the end of the term of office of certain supervisory board members and a change in circumstance on the part of one supervisory board member, the two committees drafted one partial assessment and two comprehensive assessments of the suitability of candidates for supervisory board membership in 2018.

International trade promotion commission

The government has appointed an international trade promotion commission to coordinate the actions of the relevant government bodies and other 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 makes decisions on the Bank's proposals for the conclusion of insurance operations that exceed EUR 5 million, or whenever SID Bank itself is involved in a transaction. It also holds decisive powers on other matters 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;
- 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;
- the conclusion of agreements and relations with financial institutions and other institutions;
- the reprogramming, recovery and liquidation of claims;
- other operations in connection with insurance under government authorisation.

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 under the ZZFMGP for the Ministry of Finance.

As at 31 December 2018 the commission consisted of Franc Stanonik as chair, Matej Čepeljnik as deputy-chair, Jože Renar, Alenka Suhadolnik, Stanislava Zadravec Caprirolo and Jernej Tovšak.

[6] The ZBan-2, the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, other Bank of Slovenia regulations, EBA and ESMA regulations, most notably the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12) and the EBA Guidelines on internal governance (EBA/GL/2017/11) are taken into account.

6. Diversity policy

SID Bank has transposed the requirements with regard to the composition of the management body in terms of knowledge, skills and experience and also in terms of gender balance into its bylaws, including the selection policy for supervisory board members and the selection policy for management board members. The aforementioned policies stipulate that in the event of the availability of several diverse candidates who meet the conditions of appointment, whose individual suitability assessments are equally good, and who would also ensure that the collective suitability of the management body is satisfied, precedence is given to the candidate who would bring the greatest diversity to the membership of the management body.

The gender diversity criterion was not satisfied in 2018, irrespective of the definition of the criteria in the profile of members of the management body, while other criteria relating to qualifications, professional experience, skills and competencies, and age were satisfied.

Ljubljana, 5 March 2019

Management board of SID Bank

Goran Katušin
Member

Sibil Svilan, M.Sc.
President

Social responsibility

SID Bank mission statement

The mission and activities of SID Bank focus on meeting the wider social objectives defined by all three components of sustainable development in Slovenia: economic growth, social security and environmental concerns. The foundation of SID Bank's activities consists of long-term development policy in Slovenia and the EU, where priority areas are defined through societal consensus.

SID Bank contributes to ensuring economic growth that is sustainable and stable in the long term via a system of development financing and the insurance of international commercial transactions, thereby promoting Slovenia's economic and sustainable development. The financial value of services for final beneficiaries, the implementation of the development strategy and the effective implementation of its public authorisations are the foundation on which SID Bank pursues its objective of being an effective and valued development partner.

SID Bank's role is to intervene in areas where it is able to create significant social benefits:

- sustainable and balanced economic development in Slovenia;
- research and innovation, and other forms of economic development activity that increase the competitiveness and excellence of businesses in Slovenia;
- sustainable development with a high degree of protection for the environment and habitat;
- advanced public and economic infrastructure and energy efficiency;
- social progress, education and employment;
- other economic activities contributing to growth, development and prosperity.

By assessing companies over the various developmental stages of operations and providing tailored financial services, SID Bank ensures suitable financing terms and conditions where the market offer proves insufficient. To this end, it encourages the Slovenian corporate sector to take advantage of its opportunities at home and abroad, particularly with respect to SMEs with high development potential.

Socially responsible approach to customers and the environment

Effects of the Bank's activities

With its important role during the crisis, SID Bank became one of Slovenia's key financial institutions. Financing socially beneficial infrastructure projects and target groups in the economy is the primary way by which SID Bank provides support for Slovenia's sustainable development policies. Using the standardised methodology of macroeconomic multipliers, the SID Bank Group's services facilitated EUR 10.1 billion in sales by Slovenian companies, EUR 4.1 billion of GDP, EUR 4.8 billion of exports and more than 23,900 new jobs in 2018. The purpose of SID Bank's operations is to achieve not just the aforementioned economic effects, but also other social and environmental effects as a result of the projects that it supports and the development promotion programmes that it implements.

In 2018, at SID Bank's invitation, a group of economics experts at the Faculty of Economics in Ljubljana conducted a third evaluation of its activities, this time for the five-year period of 2011 to 2016. It is a case of the implementation of good international practice in the area of development banking. During this period SID Bank acted in the area of the cyclical gaps that arose during the extremely adverse situation of the macroeconomic crisis, and offered support to Slovenian companies through counter-cyclical measures. The evaluation revealed that between 2011 and 2016 SID Bank reinforced its position as the central public promotional institution in the country.

Circular economy and green economy

SID Bank provides support for the circular economy and the green economy through its existing financial programmes, either directly, or indirectly via commercial banks. Through its development promotion programmes SID Bank contributes to the development of a competitive economy, focused on SMEs, the development of a knowledge-based society and innovative entrepreneurship, the development of an environment-friendly society, and regional and social development. Via SID Bank's existing programmes it is possible to directly finance companies and their investments in projects for energy efficiency, renewables, renovation of buildings, sustainable transport, and the sustainable handling and recycling of water, wastes and other natural resources. Within the framework of the programmes for financing SMEs it is possible to obtain funds for the purchase of secondary raw materials, the coverage of labour costs in the production of secondary raw materials, the development and production of new products from secondary raw materials, the development and production of reuse, etc.

SID Bank provides indirect support for the circular economy and the green economy through systematic evaluation of the business models of its clients. In addition to financial solidity, within the framework of the credit assessment of companies SID Bank also evaluates elements of the long-term sustainability and viability of their business models, and their compliance with the purposes pursued by SID Bank within the framework of its mandates. SID Bank assesses the sustainability of a firm's business model from five perspectives: it's long-term resilience, material efficiency, concern for the natural environment, energy efficiency, and innovation and technological breakthrough. SID Bank integrates the assessment of the firm from these five perspectives into its interest rate policy, and provides more favourable financing for companies with circular business models.

In 2018 the Bank carried out a project to formulate methodology for evaluating companies from the perspective of circularity and for assessing their potential for circular transformation, and on this basis upgraded the five perspectives model.

Responsible lending and borrowing

As a member of the BAS, SID Bank complies with the principles of responsible lending, which represent guidelines and recommendations to fulfil the objective of responsibility towards clients, owners and other stakeholders. In practice SID Bank has built the concept of responsible lending into the internal decision-making process. Alongside the economic and financial position, the latter also includes an assessment of borrowers from the five perspectives. In parallel with the planned adjustment in its lending activities, SID Bank is also developing and introducing systemic solutions, and is tailoring its range of services in substantive and technical terms to the changing needs of final beneficiaries, and of commercial banks when they act as intermediaries for SID Bank's purpose-specific funding.

As a development bank SID Bank is required to ensure the long-term financial sustainability of its business model. Because it does not operate within the goal of maximising profitability, it is able to provide more favourable financial terms in its promotional programmes. In accordance with the ZSIRB, SID Bank reinvests and earmarks all profits for the additional financing of the real sector. SID Bank's role is thus not to support all transactions, but only those transactions that are economically and financially justifiable, and yet include a sustainable development component.

SID Bank realises the value-added of its services via the following levers:

- ensuring diversity and favourable terms of funding sources;
- ensuring more efficient use and allocation of funds;
- providing programmes with longer maturity and greater risk take-up;
- providing lower prices of services and other more favourable terms, in line with the allocation of permitted state aid for promoting the economy;
- stimulating the functioning of the private sector to act in the direction of sustainable development and to build capacity;
- transferring the financial benefits to final beneficiaries instead of maximising its own earnings;
- developing financial instruments tailored to the needs of the Slovenian economy;

- achieving positive developmental, social and environmental effects;
- liaising with other public promotional institutions and combining refundable and non-refundable funds;
- providing advisory services.

In its transactions with customers SID Bank devotes special attention to preventing corruption and to environmental policy. In so doing SID Bank is aware that its specific position requires it to act in a way that prevents the distortion of free competition. SID Bank's activities have therefore essentially been established within a framework that is complementary to other market participants in the area of financing.

Accessibility to services

Given its public mandates, 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 (principle of non-discrimination). Particular attention is also given to the appropriate regional allocation of development funds.

In 2018 SID Bank within its products and programmes continued to pursue the concept of covering key phases in the production chain where market gaps arise. SID Bank also contributes to the accessibility of financial services by developing new and adapting its existing products . The development of new products tailored to the needs of the real sector and economic policy primarily focuses on the areas of financing for SMEs, infrastructure, environment-friendly programmes, support for the financial and business restructuring of the economy, and capital market catalysis.

Professional commitments and cooperation

Interbank agreements and recommendations that reinforce best practices and the rules and principles of the banking profession are contributing to long-term viability, responsible lending, security and liquidity inside and outside the banking sector. The Bank therefore places great emphasis on such agreements with financial institutions at both the national and international levels, and actively participates in the exchange of information, best business practices and the establishment of professional values.

SID Bank mainly guides its activities by cooperating within the framework of the Bank Association of Slovenia and foreign banking associations. It is also a member of several international associations of financial institutions, including the European Association of Public Banks (EAPB), the European Association of Long-Term Investors (ELTI), the Network of European Financial Institutions for SMEs (NEFI) 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 the association, and to perform its activities professionally and in a financially responsible manner, while respecting the environment. With the aim of strengthening cooperation with European institutions, SID Bank is also a shareholder in the European Investment Fund (EIF). SID Bank cooperates with the European Investment Advisory Hub (EIAH), where it acts as a national access point for providing support to investment projects, primarily from the European Fund for Strategic Investments (EFSI).

SID Bank is also a signatory to the Slovenian corporate integrity guidelines, and a founder member of the Slovenian Innovation Hub, a European economic interest grouping where it cooperates with members from the corporate sector, banking, academia and regional and local organisations.

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 thus to open and transparent communication.

The primary focus of external communications is the business audience, in particular business partners. SID Bank provides comprehensive information about its programmes and opportunities to receive its funds through advanced communication channels. In addition to press releases, news on its website and online bulletins, SID Bank organised presentations of new and existing products for companies, banks and local authorities in 2018, and provided regular information to and built business relationships with firms and other commercial banks that mediate SID Bank's funds to companies.

Media communication with the business audience was further strengthened in 2018 via interviews, articles, advertisements and promo pieces, particularly in the second half of the year, and even more so from October, when the first agreements were signed with financial intermediaries for the Fund of Funds. The Bank's activities in this area are evidenced in a rise of more than 12% in the number of articles dealing with related themes.

At a traditional Knowledge hub organised by SID Bank and attended by more than 150 participants, renowned experts from Slovenia and further afield highlighted hot topics with regard to geopolitical structures and economic transformations currently taking place in the world, and their impact on the Slovenian economy.

SID Bank representatives attended and participated in various events, seminars, conferences, roundtables, etc. at 70 events throughout Slovenia, where they discussed topics of relevance to the activities of SID Bank, such as exports, development, the energy sector, the environment, the circular economy, competitive entrepreneurship, and sustainable economic growth.

Environment-friendly company

	Unit	2018	2017
Consumption of energy for heating	kWh	321,561	330,111
per employee	kWh/employee	1,811.6	1,988.6
Electricity consumption	kWh	171,592	172,605
per employee	kWh/employee	966.7	1,039.8
Consumption of water	m^3	1,168	1,109
per employee	m^3/employee	6.6	6.9
Carbon footprint/CO_2 emissions	t	246	245
per employee	t/employee	1.4	1.5
Use of office paper	t	5	6
per employee	kg/employee	27.8	33.0
Value of other office supplies	EUR	16,476	18,977
per employee	EUR/employee	92.8	114.3
Size of business premises			
per employee	m^2/employee	14.7	13.8

From the perspective of environmental protection and energy efficiency, SID Bank acts with social responsibility both inwardly and outwardly. In 2018 it continued to monitor its energy-environmental balance sheet, calculated its carbon footprint and monitored other social responsibility indicators. In this way SID Bank measures the environmental impact of its measures, and its achievement of targets in the area of social responsibility. SID Bank has put in place a system for the separate collection and disposal of waste, and measures to reduce electricity consumption in offices, has introduced paperless operations, has taken action to encourage the use of public transport, etc.

SID Bank is continuing its practice of donating money instead of giving gifts to business partners. In 2018 the majority of the funds previously intended for Christmas and new year presents were donated to set up beehives at Sostro primary school. In this way SID Bank is encouraging the development, education and work of young beekeepers in Slovenia.

SID Bank is aware that socially responsible carrying out of its activities cannot be properly implemented without enforcing the personal responsibility of all individuals at the organisation, requiring awareness of personal and social responsibility to be promoted at all levels at the Bank as the lifestyle of the individual and the organisation as a whole in all aspects of its activities.

SID Bank's social responsibility policy is a formally binding document that emphasises the importance of the entire collective working together to achieve their objectives in this area. Through the process of strategic and operational planning SID Bank pursues the continual and systematic enhancement of substantive ideas and measures that increase social responsibility.

SID Bank has adopted a governance policy based on its internal socially responsible activity conduct. The policy highlights corporate values, model codes of governance, cooperation with all stakeholders, the policy for transactions between the company and related parties, the commitment to identifying conflicts of interest, the independence of management and supervisory bodies, performance assessment, and the protection of employees' interests.

A code of ethics and professional standards sets out in detail the principles and rules by which the Bank, its bodies and its employees act in the performance of their tasks in relation to customers, other banks, the economic environment and within the Bank. The code reinforces the established practice of encouraging the right organisational culture, positive conduct and attitude on the part of employees. The code also places special emphasis on social responsibility and the attitude to the environment.

In addition to professional standards, the Bank has put in place a system for protecting whistleblowers, which is extended to the Bank's own employees and to people working with the Bank.

Internal communications

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

Various forms of notifying and communicating with employees have been put in place at the Bank. They include direct communication between the senior management and employees (e.g. regular internal meetings and meetings between employees and the management board, meetings with the trade union), access to electronic databases, internal email bulletins and the half-yearly release of *Cekin*, the in-house journal.

Responsibility to employees

SID Bank facilitates flexible working hours, making it easier to achieve work-life balance, in particular allowing parents with young children to arrange different working hours from other employees. The management board allows employees to occasionally work from home, when the nature of their work allows this and their absence does not hinder the organisation of work. Special attention is also given to the rights of employees, their health and safety, working conditions, social security, personal and professional development, social dialogue and mutual relationships.

In the area of employee health and safety, SID Bank continued the practice of organising prior targeted and periodic medical examinations for all employees. It also conducts regular professional training in the area of occupational health and safety and fire safety, which all employees are required to attend. By regularly monitoring employees' needs, implementing the recommendation of occupational medicine experts, and taking measures to promote health in the workplace, the Bank is working to provide the healthiest possible working conditions and working environment.

Valid legislation and the collective agreement for the banking sector is observed when setting salaries and determining other labour costs for employees. Remuneration for performance and advancement are governed by the company-level collective agreement, which also sets out the terms, conditions and criteria for additionally motivating key staff. In 2018 the Bank continued the practice of paying premiums for voluntary health insurance and supplementary pension insurance for employees.

SID Bank has particular concern for employee development. By upgrading the employee development system, the Bank ensures that the educational and qualifications structure is suitable for its development and its strategic objectives, thereby ensuring that each employee at the Bank has the knowledge, skills and abilities required to perform effectively in their work, raising the quality of work of individuals and teams. The incentive-based system of remuneration further helps employees to effectively adapt to changes and challenges within the organisation and in an environment that will present them with sufficient professional challenges in the future. The system of competencies for specific posts ensures quality within the framework of SID Bank's complex functional structure as a development bank.

Annual development interviews are conducted with employees, and represent the basis for assessing the development potential of individuals, the definition of key staff members and the formulation of annual training plans. The Bank is thus able to identify needs for new knowledge in a timely manner, and to plan targeted training and education programmes for individuals and groups of employees.

Promoting the acquisition of additional knowledge and skills and their practical use is one of the guidelines of SID Bank's action strategy. A total of 93% of all employees attended various forms of training in 2018. A great deal of emphasis is also placed on training in connection with the development of new products and services, the internal transfer of newly acquired knowledge, and the evaluation of these processes.

In the context of internal social responsibility, the Bank strives to implement and live by its values in the everyday life and work of employees by conducting annual interviews and holding employee meetings. The employees also attend numerous meetings and roundtables at which they promote the values of sustainable development and ethical conduct as the basis for socially responsible and sustainable banking.

The Bank encourages employees to submit suggestions for improvements to procedures and processes via a well-established system for promoting creativity and handling suggested improvements that encompasses informing employees of the importance of creativity for the viability and development of the Bank, regularly monitoring creative accomplishments, rewarding suggestions, and putting improvements into practice.

Education level	SID Bank		SID Bank Group	
	number	proportion, %	number	proportion, %
5 or less	15	8.1	26	9.4
6/1	12	6.5	19	6.9
6/2	37	20.0	58	20.9
7	92	49.7	137	49.5
8/1	24	13.0	32	11.6
8/2	5	2.7	5	1.8
Total	185	100.0	277	100.0

Recruitment was undertaken in line with the annual employment plan in 2018, and in line with guidelines from the action strategy, which is based on a new business model and on the adjustment of recruitment to growth in turnover and the development of new products, the recruitment of experts with specific skills and experience, and the retention of capable and promising employees.

SID Bank hired 23 new employees in 2018, mostly to replace employees who found new challenges outside the Bank or who took temporary leave of absence, and partly as a response to needs and challenges dictated by new tasks and the increased workload brought by the launch of new products and the transition to a new business model. SID Bank had 185 employees at the end of the year, of whom 124 were women and 61 were men. The headcount averaged 181 in 2018.

SID Bank's strategy

Strategic planning at SID Bank is based on a strategy that encompasses all of the key aspects of its medium-term operations and its long-term objectives. In 2018 SID Bank set in place its new development strategy for the period of 2019 to 2023, with a vision of strategic success over the horizon to 2025. Through the updated strategy SID Bank is ensuring that its foundations are fit for purpose in allowing the Bank to adapt to its external circumstances and for its continued evolution within the framework of the entrusted mandates.

First and foremost the strategy reflects changes in the sense of the functioning of financial markets and the banking system domestically and in the foreign environment, while taking account of the current economic situation, the medium-term macroeconomic projections and the objectives of national development policy. Accordingly, needs arose for changes to certain key internal elements of the strategy, primarily adjustments to the business model, products and services, the method of lending, and risk management.

Mission statement, 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 market, thereby promoting economic competitiveness, job creation, social inclusiveness and sustainable development. Through its actions and its dedication to its mission, SID Bank is consolidating its role as a major factor in Slovenia's sustainable development.

The vision of SID Bank's strategic success over the period to 2025 encompasses four aspects. From the aspect of key stakeholders' expectations, within the framework of its mandates SID Bank will increase the scope of its services while ensuring its ongoing financial viability. It will work proactively in formulating and implementing Slovenia's long-term development strategies, and will act as the main channel for placing government and EU funds with the real sector. From the aspect of external relations, SID Bank will play an important liaising role within the framework of Slovenia's system of public promotion. In addition, in the domestic environment it will work with development incubators, chambers and educational institutions. It will also strengthen cooperation with international financial institutions and associations active in development, and will continue to base its operations primarily on cooperation with commercial banks. From the aspect of internal processes and capabilities, SID Bank strives to provide high-tech support for its business processes, which are capable of adapting quickly to market needs and internal needs, and provide high-quality support for clients in all their development phases. The Bank will devote particular attention to monitoring the financial and developmental impact of individual transactions, which will be incorporated into its pricing policy. From the aspect of organisational structure, culture and resources, SID Bank will strive for good process management and organisation, high job flexibility with highly qualified staff, process automation, and fast and effective decision-making, while ensuring a high level of transparency both inwardly and outwardly.

SID Bank operates at all levels with transparency, efficiency and social responsibility. Great attention is accorded to employee satisfaction and development, and the promotion of internal growth. The Bank's activities rely on the responsibility, professionalism, commitment, cooperation and creativity of its employees. These values are a key element of the organisational culture, and constitute fundamental principles and guidance in employees' everyday work, and in mutual contacts with clients and other stakeholders.

Key strategic objectives

SID Bank's development strategy for the period of 2019 to 2023 pursues two fundamental objectives: high multiplier and sustainability effects in business and society , and the Bank's own performance and long-term viability. Over the upcoming medium-term period SID Bank will direct its actions into increasing the profile of its role and the scale of its activities in market gaps.

Plans for 2019

The macroeconomic situation and existing financing programmes designed to support national development policy will play a significant part in SID Bank's actions in 2019 in the form of direct financing. The focus in 2019 will nevertheless be on usage of mechanisms for including banks in various forms of co-financing in all transactions where this is possible and where the banks show suitable interest. Activities will focus on higher-risk products with longer maturities, where there are market gaps, where products will be provided primarily through instruments of financial engineering, the Fund of Funds and instruments from the centralised EU instruments.

Self-sufficiency, the operational balance, and the proactive management of all risks, which is reflected in capital stability, robust liquidity and appropriate cost-effectiveness, will all remain fundamental parts of SID Bank's activities in 2019.

In light of the change in its business model, and the increasing complexity that it faces, SID Bank will optimise certain business processes in 2019 during the gradual shift towards the digitalisation of operations. A start is envisaged to the installation of a new expanded core information system, for the purpose of providing proper support for process automation. Here the Bank's aim is to facilitate system connectivity and the digitalisation of its operations with multiple stakeholders (commercial banks, other financial intermediaries, ministries), making it easier for the justification and purpose of financing to be reviewed and for clients of direct and indirect financing and insurance to undertake reporting and to view information. Other aims in introducing the new IT system are optimising internal processes and improving their flexibility (lending, insurance, asset and liabilities management, business intelligence, etc.), making decision-making faster and more effective, making it quicker to launch new financing and insurance products, improving the quality and consistency of information, and putting in place the conditions for the Bank's future business model. The introduction of the new IT system will be carried out as a strategic project, beginning in 2019.

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Risk management

General

The main risks to which the SID Bank Group is exposed are credit risk, interest rate risk, liquidity risk, profitability risk, currency risk, operational risk, strategic risk, capital risk and reputation risk. The risk management process additionally takes 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.

The internal governance system at SID Bank is based on:

- a clear organisational structure with precisely defined, transparent and consistent internal relations with regard to responsibility that facilitates effective communication and cooperation at all organisational levels, including the adequate upward and downward flow of information;
- an effective risk management process that includes identifying, measuring or assessing, managing and monitoring risks, and internal and external reporting of risks;
- adequate internal control mechanisms that include appropriate administrative and accounting procedures; and
- suitable policies and practices of remuneration for categories of employees who have a major impact on the Bank's risk profile.

Organisational aspects of the risk management process

The risk management process is established inside the entire organisational structure and processes at SID Bank in a way that allows for business targets to be met while operations remain secure and compliant with regulations. The key objective during the implementation of risk management measures is to achieve the proper risk awareness on the part of employees at all levels of the Bank's operations, which via their actions and attitude towards risk and their proposals for additional internal control functions is reflected in their decisions with regard to the take-up and management of risks at the level of the Bank's daily activities. This way the Bank promotes and strengthens the risk management culture and the level of the Bank's standards and values relating to the awareness of its risks.

Risk identification begins in commercial organisational units, and continues with measurement and assessment of risks and formulation of risk management measures in organisational units separate from the commercial units, and proceeds all the way up to the management board, thereby ensuring the independence of the risk management function.

The management body (management board and supervisory board), regardless of the independence of the risk management function, is authorised and responsible for balancing the Bank's business objectives and business strategy with the strategy and policies for taking up and managing risk, and for ensuring relatively effective internal governance arrangements according to the nature, scale and complexity of the risks inherent in the Bank's business model. SID Bank's management body is regularly informed of and discusses all types of risk to which the Bank is exposed. At the same time it pursues and performs management and supervision through the introduction and implementation of comprehensive risk management systems in the Bank's operations, including the consideration of specific development risks, in accordance with the long-term governance objectives and the fundamental principles of SID Bank's activity. The management board and supervisory board are responsible for adopting the risk profile assessment, determining risk appetite, regularly reviewing and approving the strategy and policy for taking up and managing the risks to which the Bank is or could be exposed in its operations, including risks inherent in the macroeconomic environment in which the Bank operates, taking into account the current credit and business cycle. Once a year the management body approves the internal capital adequacy assessment process

(ICAAP) and the internal liquidity adequacy assessment process (ILAAP).

SID Bank's management board appropriately transfers certain risk management powers to the risk management function, other organisational units and the Bank's decision-making bodies.

The asset-liability and liquidity management committee thus guides, supervises and monitors risk management at the Bank aggregate level. It is responsible for managing (balancing) liquidity and managing the balance sheet in order to properly manage interest rate risk, market risk, operational risk, capital risk and profitability risk, and also any other risks, including the treatment of credit risk and various aspects of concentration of the entire credit portfolio of SID Bank, taking into account the Bank's business strategy and changes to individual categories of the Bank's balance sheet within the ratios that are normal for comparable development banks. In addition, it is responsible for liquidity and asset-liability management in relation to SID Bank's operations under Republic of Slovenia authorisation.

The credit committee is responsible for the management of credit risk for operations on behalf of and for the account of SID Bank, primarily through making decisions on proposals in individual transactions that affect exposure to credit risk. The committee monitors individual exposures and the quality of the credit portfolio and makes decisions on proposals to assign non-performing investment status and the classification of individual investments and groups of connected clients. It is also responsible for approving and modifying documentation during the introduction of new financing programmes and/or individual products, and during the modification of existing programmes and products.

The distressed investment management committee is responsible for the management of non-performing exposures that the credit committee classifies as non-performing investments, measures for the forbearance of exposures and for the cancellation and termination of an investment operation due to financial difficulties or other breaches of contractual commitments by the debtor.

The risk management function as a mandatory function of the Bank's internal controls is organised within the risk management department, which is directly accountable to the Bank's management board, and in organisational terms is segregated from the commercial units that take up risks and from other organisational units that participate in the risk management process. The risk management department is responsible for drafting the strategy and policies for taking up and managing the risks to which SID Bank is exposed in its operations. It is also responsible for drafting the relevant methodology and conducting the risk profile assessment, calculating the internal capital requirement and internal capital adequacy, drafting the plan of activities for the management of individual risks, assessing outsourcing risk and introducing new products, and, in conjunction with the treasury department, implementing the internal liquidity adequacy assessment process. The risk management department is also responsible for drafting internal and external reports for the purpose of supervising, monitoring and briefing on all types of risk at the Bank's aggregate level, while not being directly involved in the credit process or in the assessment of individual loan transactions. The director of the risk management department reports directly and independently to the Bank's management board and the supervisory board's risk committee on all material risks and circumstances that affect or could affect the Bank's risk profile. The director is also the head of the risk management function in accordance with the Banking Act, and in the event of specific risk developments has direct access to the supervisory board to enable him/her to express potential doubts or submit warnings.

SID Bank has also put in place two other mandatory internal control functions. The internal audit department regularly, independently and comprehensively audits the functioning of internal controls and the implementation of the adopted risk management measures, and provides recommendations to improve the system of internal controls and risk management procedures. The compliance department, which includes the information security function, identifies, assesses and monitors compliance risks to which SID Bank is exposed in its operations, and reports its findings to the Bank's management board and supervisory board.

A major role in the risk management process is also played by the executive director for the assessment and monitoring of credit risk and IT, who is included in the credit process within the scope of assessing and monitoring credit risk at the individual exposure level and within the process of managing non-performing investments, and who guides, coordinates and supervises the work of organisational units and directors, who are directly accountable to him/her and fall within the context of internal controls in the risk management process.

SID Bank's credit analysis department is responsible for the measurement and assessment of credit risks of individual customers and groups of connected clients, the assessment of investment projects and assessment of their economic justification, the assessment of acceptability and definition of the terms under which new investments are funded, the definition of financial commitments and cooperation in the oversight and implementation of monitoring in accordance with the internal instructions within the context of the credit process.

The monitoring of financing operations department carries out control activities in the credit process, the documentary and data monitoring of financing operations and the review of collateral, verification of terms for drawdown and the monitoring of debtors. It is also responsible for compiling watch lists for the early detection of exposures with increased credit risk (the EWS), the monitoring of credit protection and in-depth monitoring of debtors.

The key to the management of non-performing exposures and forborne exposures is the distressed investment management department, which is responsible for managing problem exposures that the credit committee has classified as non-performing investments, and for proposing solutions to prevent and minimise potential losses.

The back-office and payments department carries out daily monitoring of currency risk, liquidity risk and credit risk in treasury operations in accordance with internally set limits, in addition to making payments for SID Bank needs and carrying out operations under the authorisation of the Republic of Slovenia. It also participates in groups for the monitoring of loans under guarantee schemes and keeps analytical records of financing, borrowing and treasury operations.

Essential features of risk take-up and management

SID Bank takes up risk within the scope of the adopted overall risk appetite that the Bank is still willing to take up in order to realise its business objectives, strategies, policies and plans, having regard for the Bank's risk absorption capacity, its strategies and policies for the take-up and management of risks, and its capital, liquidity and remuneration policies. In keeping with the mandates of a development bank, the risk appetite is higher than at other commercial banks, as SID Bank operates in the realm of market gaps. The risk appetite is approved on an annual basis by the management board and supervisory board when adopting the business strategy, business policy and risk management policy within the framework of the annual operational plan. Regular monitoring of risk appetite indicators is provided for on SID Bank's management body.

In the area of risk management, SID Bank has put in place a strategy and seven policies for risk take-up and management that define the procedures for identifying, measuring or assessing, managing and monitoring all types of risks to which the bank is or could be exposed in its operations. These documents take into account the applicable legislation and regulations governing risk management and SID Bank's special features proceeding from its status as an authorised institution under the ZSIRB. The risk management strategy and the risk take-up and management policies are updated at least once a year, having regard for the adequate compliance of the Bank's business objectives and business strategy with the risk take-up and management strategy and policies.

The management boards of other companies in the SID Bank Group are primarily responsible for the management of risks that are taken up by the other companies in the SID Bank Group that carry out complementary non-banking services, within the scope of the defined risk management strategy and policies. In that respect each must pursue the strategic objectives, achieve the planned operating results and also manage risks in accordance with the applicable legislation and the guidance of the SID Bank Group. The supervisory bodies of these companies approve the risk management objectives and policies, and monitor their implementation and assess their adequacy within the scope of their powers.

The Bank assesses the risk profile on an annual basis, in a broad assessment of risk areas, business processes and the control environment. The risk profile is a tool for the comprehensive risk management process, in terms of the Bank's governance, the management of financial risks and organisation of business processes. To ensure a comprehensive and comparable overview of risks and the control environment by individual business process, the risk profile is the fundamental basis for the planning of internal auditing and compliance procedures, and serves as the basis of the internal capital adequacy assessment process. The risk profile assessment also represents one of the key strategic metrics of success in implementing SID Bank's strategy.

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

SID Bank uses a standardised approach for calculating minimum capital requirements for credit risk and a basic indicator approach for operational risk. The Bank is exposed to market risks to a limited extent, since it does not pursue trading activities. Within the scope of market risks, the Bank takes up, monitors and manages currency risk to a limited extent, and calculates a capital requirement for currency risk in accordance with the provisions of Articles 351 to 354 of the CRR.

Risk exposure in 2018

SID Bank retained its strong capital position and sound liquidity position in 2018. The Bank disclosed a high total capital ratio of 34.2% as at 31 December 2018. It also recorded a leverage ratio of 16.3%, significantly better than the prescribed regulatory figure, which allows the Bank to operate stably in the future. The good liquidity position is reflected in high liquidity ratios and a high liquidity coverage ratio (LCR), well above the regulatory limits. The latter stood at 458% at the end of 2018.

The quality of the credit portfolio improved in 2018, primarily as a result of a decline in the NPE ratio. The ratio of non-performing loans and other non-performing financial assets to classified claims and other financial assets amounted to 5.6% at the end of 2018. The coverage of NPEs remains relatively high (at 66.5% at the end of 2018), and above the average of the Slovenian banking system, which could also allow further reduction in NPEs without a major impact on the costs of risk in upcoming periods.

SID Bank has devoted particular attention to the risks inherent in loan funds or products based on financial engineering from national funds where the government covers the first loss in the agreed proportion. Increased credit risk within the framework of individual financing programmes is reflected via the financing of clients with poorer current credit ratings, the financing of high-risk segments, which is in line with role and policies of a development bank, longer moratorium periods, and poorer LTVs. When managing risks derived from loan fund transactions, SID Bank takes into account the methods and procedures for the measurement and assessment, management and monitoring of transactions used in its other operations. In addition, for the loans from the loan fund the Bank has established internal methods and procedures for the implementation of model audits of the purpose-specific use of funds and for the supervision and reporting of the quality of the credit portfolio of the loan fund.

As of 1 January 2018 SID Bank has carried out the required methodological adjustments in the creation of impairments and provisions in accordance with IFRS 9, including the provision of adequate IT support. The Bank upgraded its internal and external reporting in this area in 2018. Detailed clarifications are given in the financial report.

In the area of risk management, SID Bank has continued implementing activities focused on the further strengthening of the system established for the management of all types of risks. The key activities in the area of risk management in 2018 were as follows:

- an overhaul of internal rules for the management of problem exposures and collateral in accordance with regulatory requirements, taking account of organisational changes;
- an update of the model for assessing the credit risk of borrowers and determining credit assessments;
- an upgrade of internal and external reporting;
- intensive monitoring of non-performing exposures in accordance with the regulator's guidelines and the Bank's strategy in this area;
- the introduction of new architecture for business processes, the drafting of the methodology for modelling and documenting business processes, and on this basis the implementation of activities regarding the inventory of business processes;
- an assessment of the risk profile on the basis of the revised business process structure, followed by changes in individual elements for the assessment of the risk profile;
- the identification of the growing importance of strategic risk and the consequent preparation of new risk management policy in this area;
- the implementation of activities in connection with the upgrade of the monitoring of loss events and operational risk management.

Risk management in the coming financial year

In 2019 SID Bank will take up risk in accordance with the limits set for individual types of risk within the framework of the adopted risk appetite. The Bank is also planning to take up risk within the framework of an equity financing programme, namely the Slovene Equity Growth Investment Programme product, and new financing programmes within the framework of products on the basis of financial engineering from national funds. The Bank will also continue its activities for managing the Fund of Funds from EU cohesion policy via financial intermediaries, and its activities the form of direct financing of end users. The high risk absorption capacity (the Bank's sound capital and liquidity position) is facilitating the take-up of new risks.

In the area of risk management, SID Bank will devote particular attention in the coming year to:

- further overhauling internal risk reporting;
- optimising the process for the introduction of new products;
- managing specific risks in the Bank's new products; and
- upgrading risk management in accordance with new regulatory requirements.

As part of the upgrade of existing risk management techniques, upgrades to portfolio risk management, liquidity risk management scenarios, measurement of interest rate risk in the banking book and automation of data capture within the scope of upgrading the asset-liability management system are planned.

In credit risk take-up and management, the plans include an upgrade of the IT platform to improve the collection and flows of information that is important in decision-making, in particular with regard to customers with potentially higher repayment risk. In the assessment of borrowers' credit risk and the determination of credit ratings, in 2019 SID Bank will begin using a statistical model that will replace the point-scoring model in part of the analysis of financial statements. The model has been upgraded with a quantitative determination of the impact of soft factors on the credit rating, and takes account of limiting factors and other risk factors, which provides methodologically for the more unambiguous determination of credit ratings. The Bank will continue to actively manage NPEs in line with the adopted strategy for managing problem exposures, and will implement the new EBA guidelines on the management of non-performing and forborne exposures. The Bank will maintain the diligent implementation of the lending process and an adequate risk management culture.

With regard to the management of systemic IT risks, the Bank will further upgrade its established measures such as the business continuity plan put in place, the duplication of server infrastructure, penetration detection and prevention systems, surveillance systems, and audit trails in systems and applications.

In line with market developments, SID Bank expects the low interest rate environment in the euro area to continue to have a significant impact on profitability risk and on liquidity reserve management in particular. In the coming years the Bank intends to increase income primarily by developing and placing new products and upgrading the asset-liability management system, and also by streamlining costs by optimising processes and procedures. This will require urgent investment in IT.

The market situation will continue to impact the management of liquid assets, where the Bank will pursue a policy of investing its surplus liquidity in high-quality liquid financial instruments. It will also focus its attention on the structure and concentration of liquidity reserves, having regard for potential adverse developments on the financial markets. The Bank regularly monitors developments on the financial markets, and in the event of adverse developments adjusts its strategy for investing in liquid assets as necessary.

Risk management of operations under Republic of Slovenia authorisation

SID Bank also provides credit and investment insurance against non-marketable risks of a commercial and non-commercial nature on behalf of and for the account of the Republic of Slovenia. Income generated from these operations is recorded to the account of contingency reserves, out of which claims are paid out to policyholders.

To prevent conflicts of interest and to maximise efficiency, credit and investment insurance operations are executed in a special department that is organisationally segregated from banking operations all the way to the level of the executive director and management board, while a special committee for operations under Republic of Slovenia authorisation decides on and discusses these types of operations. The committee decides on exposure limits for individual clients, and on the payment of insurance and reinsurance claims, discusses requests to call government guarantees, and regularly monitors and oversees the execution of all operations under Republic of Slovenia authorisation. The committee also has a significant role in adopting business plans and strategic programme documents in connection with the establishment of financial instruments funded via the European structural and investment funds.

The powers to conclude operations are set out in bylaws 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 (value-at-risk technique or VaR) to calculate potential claims on the basis of data on insurance concluded on behalf of and for the account of the Republic of Slovenia, to assess whether the assets of 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. The methodology used to calculate the assessment of potential losses from the insurance portfolio is based on coefficients indicating the probability of a loss event, both for countries (sovereigns) and individual debtors. The calculation of the probability of default for a specific country or customer is based on recognised international credit assessments, and the corresponding adjusted probabilities of default.

For more on risk management, see Section 3 of the financial report.

Declaration of the management body on the adequacy of the risk management framework

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

on behalf of the management board: Sibil Svilan (president) and Goran Katušin

and on behalf of the supervisory board: Monika Pintar Mesarič (chair)

hereby confirms the adequacy of the risk management framework at SID Bank and in the SID Bank Group, which ensures that the established risk management systems comply with the Bank's risk profile and business strategy.

Within the Bank's organisational structure, the risk management function is segregated in organisational terms from the commercial units that take up risks, i.e. within the credit process up to the level of the executive director who covers the organisational unit responsible for the assessment of credit risks of individual business entities and groups of connected clients, while the risk management function at the aggregate level of the Bank is directly accountable to the management board. This ensures the appropriate implementation of the risk management framework at the level of the Bank's daily activities and the regular notification of the management board. Regular independent briefing of the supervisory board's risk committee and the supervisory board on the risks to which the Bank is exposed has also been put in place.

The risk management function is provided with direct access to the chair of the supervisory board and the chair of the risk committee for the notification of important circumstances that affect or could affect the Bank's risk profile. The regulatory framework of the risk management process, including the internal capital and liquidity adequacy assessment processes, ensures the Bank that the systems put in place for the management of identified risks comply with the Bank's profile and business strategy.

Notwithstanding the above, the Bank's management body (the management board and the supervisory board) is fully authorised and responsible for defining and adopting the risk management framework and for regularly reviewing its adequacy, including the provision of updates, depending on the effects of the Bank's internal and external environmental factors, and for overseeing the implementation of the adopted risk management strategies and policies.

Ljubljana, 5 March 2019

Management board of SID Bank

Goran Katušin
Member

Svilan Sibil, M.Sc.
President

Supervisory board

Monika Pintar Mesarič
Chair

Performance in 2018

Macroeconomic environment in 2018

International environment

The escalation of certain unfavourable factors at the global level led to a slowdown in global economic growth in the second half of the year, taking growth in 2018 to 3.7%. The major challenges facing the global economy include changes in trade policy in the wake of trade disputes and protectionist measures, geopolitical instabilities along with intensifying national oriented policies towards national interests and the erosion of respect of global norms, and uncertainties in connection with Brexit.

Rising employment, high consumer and business confidence, and the effects of expansionary fiscal policy in the USA saw advanced economies record economic growth of 2.3% in 2018. Growth slowed towards the end of the year, following the peak in the economic cycle of recent years, the gradual withdrawal of expansionary monetary and fiscal policy, and uncertainties in connection with global trade. With inflation running at more than 2%, the USA continued to tighten monetary policy in line with expectations, while the ECB is envisaging no change in interest rates until autumn 2019 at least. The situation in the international environment is being reflected in less favourable economic growth forecasts for Slovenia's main export markets.

Economic growth in developing countries was still high in 2018 at 4.6%, despite less expansionary monetary policies in the wake of support for domestic currencies, a stronger dollar, trade tensions, capital flight and volatile oil prices. Large differences have arisen in economic growth rates in developing countries. More restrictive credit standards and higher bank funding costs had a significant limiting impact on the availability of financial resources. Rising leverage in numerous countries has led to increased vulnerability along with a rise in interest rates or an adverse economic situation. Economic growth in China began to slow in 2018 with the tightening of financial regulations, overleveraging in the public and private sectors, a trade dispute with the USA and an expected cyclical slowdown.

Economic growth in the euro area stood at 1.8% in 2018, having slowed in the second half of the year, primarily as a result of weaker growth in foreign and domestic demand and sector-specific factors (car industry). Growth was supported by monetary policy stimulus, improvements in household wealth, strengthened consumption in the context of the buoyant labour market, and higher inflation expectations. The European economy could face a number of interrelated risks given the uncertain impact of the economic policies of individual countries, the UK's anticipated exit from the EU, and trade tensions.

Growth in investment varies greatly between euro area countries. Investment is being supported by favourable growth in corporate loans, which were encouraged by looser credit standards and low interest rates, despite higher yields on corporate bonds. The Juncker Plan has also been a factor in the growth in investment.

The need for corporate deleveraging has diminished. The continuing growth in investment, albeit slower, was conditioned by high capacity utilisation, favourable corporate earnings, satisfactory confidence indicators in the first half of the year, and the need for additional modernisation of production infrastructure. Labour productivity remains modest in the wake of further growth in employment and lower growth in GDP. Growth in consumption, as the main engine of future growth, derives from increased disposable income as a result of wage growth. Growth in consumption is also acting to encourage the ongoing favourable situation in the housing market, and with it construction activity.

Inflation in the euro area stood at 1.5% last year, with a decline late in the year, primarily as a result of a fall in oil prices. The anticipated decline in foreign demand will reduce upward pressure on inflation, assuming no change in commodity prices. The ECB intends to leave monetary policy unchanged until the autumn, or until inflation reaches close to 2%.

The structural deficit in the euro area declined to 0.7% of GDP in 2018, while gross government debt in the euro area increased only slightly to end the year at 87% of GDP, despite the prevailingly low interest rates and the consequent decline in interest expenditure. The differences between yields on government bonds in the euro area widened again, given the issues in individual countries.

Slovenian economy

As the Slovenian economy passed into a mature phase of the economic cycle, forecasts for the main economic indicators were revised slightly downwards. GDP growth was still high in 2018 at 4.5%. Growth was broadly based: growth in household consumption stood at 2.2%, growth in investment at 10.6% and growth in exports at 7.2%. Given the uncertainties in international markets, the dependence on foreign demand is the main challenge facing the Slovenian economy, alongside imbalances in the real estate market and rising cost pressures in the context of the positive output gap.

The situation on the labour market was favourable in 2018: the surveyed unemployment rate stood at just over 5%. Employment reached record levels in 2018: it stood at 1.03 million according to the national accounts methodology. A labour shortage in certain sectors was compensated for by the hiring of foreign workers who are less qualified on average, which alongside the curbs on inflation acted to slow real growth in the average gross wage. Inflation averaged 1.9% in 2018, only slightly above the euro area average, but up 0.3 percentage points on 2017. Wage growth is therefore not significantly outpacing productivity growth, and has thus not yet been reflected in a significant deterioration in external cost competitiveness. Sustainable economic development requires a rise in potential output via sustained long-term (non-cyclical) growth in productivity through investment in technological progress in the form of investment in research and development, in training and education, and in other productive areas.

High employment saw annual household disposable income increase by almost 6% in nominal terms, which allowed for a saving rate of 15%. This is high, despite the adverse situation for saving and favourable consumption, that was also supported by high growth in consumer loans. Volume is declining on the real estate market as prices continually rise, thereby reducing housing affordability. Growth in real estate prices remained high in 2018, as supply and demand remained mismatched. Year-on-year growth in housing loans has remained at almost 5%.

The strong contribution made to economic growth by investment in 2018 was attributable to domestic and foreign demand, growth in corporate earnings, high capacity utilisation and favourable financing conditions. The structure of investment deteriorated from the perspective of the output potential of the economy as growth in investment in buildings increased and growth in investment in machinery and equipment slowed. Despite the high prices on the real estate market, growth in investment in residential buildings was significantly lower than growth in investment in other buildings, where public investment related to the disbursement of EU funds is a notable factor.

Exports increased by 7.2% in 2018, as price and cost competitiveness were maintained. The trade surplus has reached just over 7% of GDP, which is enabling a reduction in the net debt to the rest of the world via current domestic saving.

High economic growth brought an improvement in the public finances in 2018 and an upgrade in the outlook at one of the rating agencies from stable to positive. There was a budget surplus of 0.7% of GDP, while the public debt declined to 70.1% of GDP in the wake of high revenues and a significant decline in interest expenditure as a result of active debt management. The government debt servicing burden fell to 9% of annual general government revenues, or to 2% of GDP. The required yield on 10-year government bonds fluctuated around 1%.

Banking environment

The two important challenges facing the Slovenian banking system remain income risk and the maturity mismatch between assets and liabilities. Growth in interest income remains slow. The banks' liquidity position remains very favourable. The quality of the credit portfolio is continuing to improve, as a result of corporate deleveraging and upgraded credit ratings, and also as a result of the still-favourable economic growth. The capital adequacy of the Slovenian banking system remains solid, albeit with sizeable variations from bank to bank, and remains level with the euro area average.

Strengthened lending activity is bringing an increase in the banks' capital requirements, but is also generating internal capital via profitability. Bank profitability improved slightly in 2018 with positive growth in interest, and particularly in non-interest income, while operating costs were unchanged and there was a further net release of impairments. The gradual improvement in profit is also attributable to funding costs, which remain very low, given the large proportion of sight deposits and the low interest rates. For the first time since the crisis, quantity effects (the stock of assets and liabilities) prevailed over price effects in the movement in net interest income in 2018.

There has been a consolidation process in the banking system in recent years aimed at achieving synergies and greater resilience in business models. The government sold a 65% stake in NLB in 2018, and the most notable new owners are Brandes Investment Partners, an American fund manager, and the EBRD. Slovenski državni holding intends to continue the privatisation process, in light of the commitments made to the European Commission, which means that the remaining stake in NLB (up to 75% minus one share) will be sold by the end of 2019. Abanka, the third largest Slovenian bank, which is under 100% government ownership, must also be privatised in 2019. The sale process was begun in 2018. Nova KBM was sold to Apollo, an American fund, and the EBRD in June 2015.

The continuing decline in the banks' non-performing claims, which now account for 4% of total claims, is having a favourable impact on performance, as non-performing claims do not contribute to income generation and are a burden on the balance sheet. The figure is still high in international terms, although the decline was among the largest, and coverage of non-performing claims by impairments and by capital is among the highest in the euro area. The proportions of non-performing claims in real estate activities, in construction, and in wholesale and retail trade and accommodation and food service activities are significantly above the average for the non-financial corporations sector. Less than two-thirds of non-performing claims are classed as forborne, while a quarter have again fallen more than 90 days past due after forbearance.

Growth in deposits is sufficient to fund the increase in loans. The LTD ratio has stabilised at just under 80%, in the wake of a significant decline in the proportions of funding accounted for by debt securities and by banks in the rest of the world. The proportion accounted for by liabilities to the Eurosystem also remains small. Funding stability is primarily exposed to the risk of a rise in deposit interest rates and the migration of sight deposits to fixed-term deposits. The increase in corporate deposits in 2018 was significantly smaller than in previous years, but they nevertheless remain the second most important source of bank funding, accounting for almost 17% of total liabilities. Interest rates on corporate deposits remain very low, and are actually below the euro area average.

The proportion of fixed-rate loans is increasing for all types of loan. The banks must therefore address their interest rate risk management. Over 15% of the stock of corporate loans consists of fixed-rate loans. The banks are redirecting to household lending, and now hold more than quarter of their total assets in this segment. Consumer loans are growing in importance. Corporate loans increased by just over 2.2% in year-on-year terms, and now account for 22% of total assets.

Non-financial corporations' total financial liabilities have begun increasing again in the last two years. Equity financing is increasing as debt financing declines, which in the context of favourable valuation effects is further reducing non-financial corporations' leverage. The saving-investment gap in the non-financial corporations sector remains positive, although it is narrowing, and for the moment is still allowing non-financial corporations to finance themselves to a certain extent. Changes in ownership structure mean that financing via trade credits is gaining in importance, as in certain cases new owners are partly taking over financing within groups, which has also acted to reduce the importance of short-term bank financing in recent years. Interest rates on corporate loans remain favourable at Slovenian banks, although those on long-term loans to SMEs are higher than those applying to large enterprises. Interest rates are also higher in the sectors of construction and trade, which are notable for their high proportions of non-performing claims and high sectoral risk.

According to Bank of Slovenia survey, the banks recorded an 8% year-on-year increase in 2018 in demand for loans for current operations, for investment purposes and, above all, for refinancing existing loans under more favourable terms related to lower interest rates and longer repayment terms. The rate of excess demand remains highest for loans for investment purposes. The banks are maintaining relatively high credit standards, while firms are frequently citing non-acceptance of terms among the reasons for a failure to sign a loan agreement.

Impact of the external environment on the performance of SID Bank and the SID Bank Group

SID Bank's operations in 2018 were marked by the still-favourable trends in the domestic macroeconomic environment, and by a very slow increase in corporate lending by banks, and rising uncertainty in the international economic situation. Economic growth was based on high growth in exports and investment, which need to be supported by appropriate financing to ensure their sustainability. SID Bank therefore carries out supplementary measures according to the activities of financial intermediaries, ensuring its presence in the area of market gaps, and thereby preventing its activities from crowding commercial banks out of the functioning segments of the market. In these circumstances SID Bank is focusing on financial support for sustainable economic development: support for research, development and business innovation, support for long-term business investment projects, support for infrastructure and environmental protection projects, financial instruments for strengthening the capital position of non-financial corporations and support for SMEs. Great emphasis is also given to the preparation and promotion of financing programmes from the Fund of Funds, where SID Bank strives to use EU cohesion policy funds in efficient and timely fashion. Given the rising uncertainty and the slowing economic growth in the international environment, in the second half of the year the Bank also drew up certain initiatives to ensure readiness for more expansionary lending to the real sector in the event of a deterioration in the economic situation in Slovenia.

Given the prevailing high liquidity in the banking system, the low deposit interest rates and high level of saving, including in the corporate sector, the mediation of development funds into the real economy has been hampered to a great extent. Under these conditions most banks have a very low demand for external funding, and therefore a low appetite for SID Bank's purpose-specific funding. One of the financial advantages of SID Bank's funding is thus the long maturity of funds that are provided for promoting purpose-specific financing. Given the level of investment activity in the country, corporate demand for such financing at banks is very limited. In recent years SID Bank has further expanded its range of services in this segment of financing and developed various new development programmes. However, these programmes cannot compensate for the decline in loans from the period of the Bank's crisis-related activity. The Bank is endeavouring to take over part of the administrative tasks in connection with purpose-specific funds, and to adjust the credit lines to the new pricing terms. The stock of purpose-specific funds for mediating to the real economy via commercial banks thereby began rising again in 2018.

Performance of SID Bank

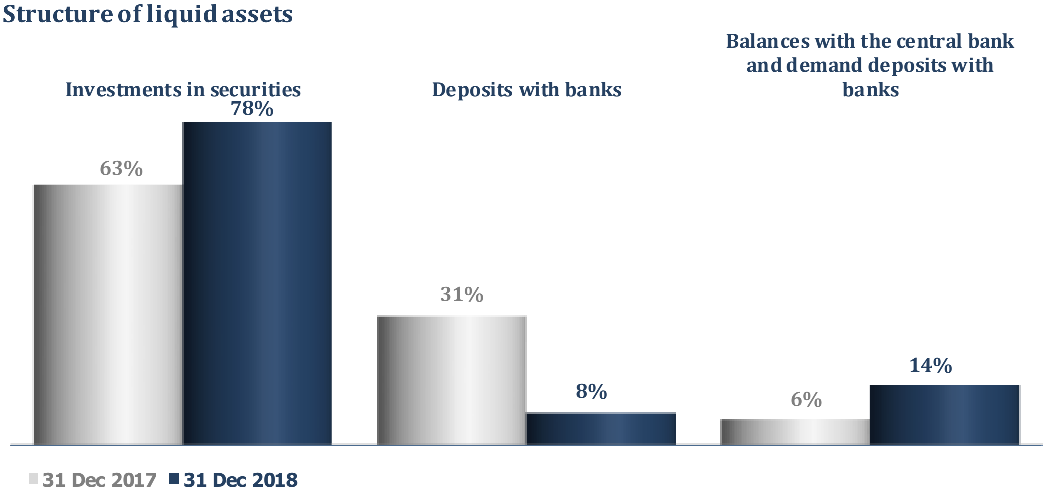
Funding and liquidity

In 2018 SID Bank continued to maintain an appropriate level, quality and structure of liquid assets for covering its expected and unexpected liquidity outflows and for business continuity in all circumstances.

The Bank's liquidity reserves amounted to EUR 836,519 thousand at the end of 2018 (2017: EUR 1,139,911 thousand). The main reason for the decline in liquidity reserves was the repayment of a maturing 3-year bond in the nominal amount of EUR 289,835 thousand in August 2018.

Investments in debt securities (EUR 650,871 thousand) accounted for the largest proportion of liquid assets at the end of 2018, followed by balances at the central bank and sight deposits at banks (EUR 121,184 thousand) and short-term interbank deposits (EUR 64,464 thousand).

Structure of liquid assets

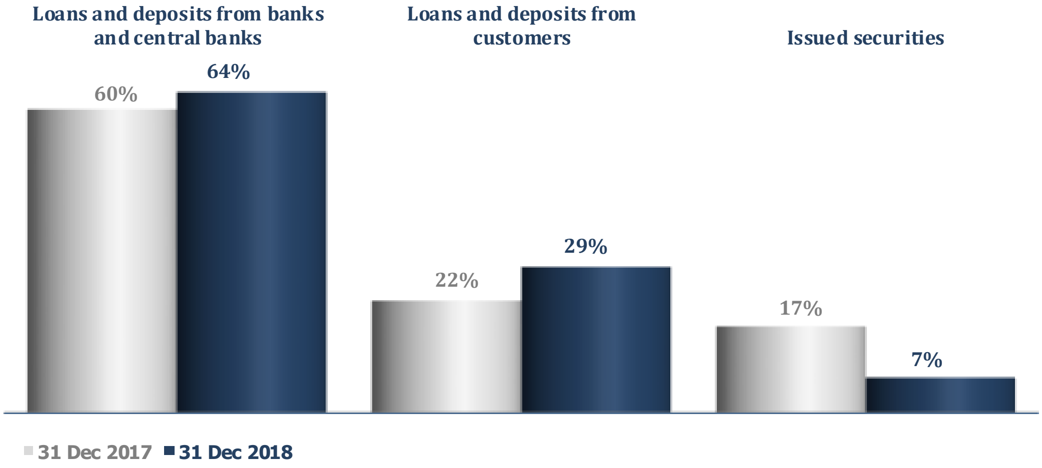


The Bank manages investments in securities for the purposes of liquidity provision, asset-liability management, and stabilisation of the interest margin. In investing liquid assets in securities the Bank follows a conservative and prudent strategy, as the majority of the portfolio consists of marketable, liquid debt securities eligible as collateral at the central bank, ensuring adequate diversification with regard to the type and location of the issuer and the credit rating.

The structure of the securities portfolio shifted in 2018 towards securities with lower credit risk, most notably sovereign issuers, while the average maturity of the portfolio lengthened from 3 years to 3.4 years.

The main challenge in the management of liquid assets is the investment of assets in a demanding market situation, namely the low interest rate environment.

Structure of financial liabilities



SID Bank obtained funding on the domestic and international financial markets, for the purpose of diversifying its funding, particularly from the perspective of investor type, geography, and the type of financial instrument, which ensures that SID Bank has stable access to funding. Accordingly SID Bank actively worked again with banks and other institutional investors in the international environment in 2018.

With the aim of generating new value for the target groups of final beneficiaries, the Bank's credit lines also include long-term dedicated financing from the European Investment Bank, the KfW bank, the Council of Europe Development Bank and the MEDT, in addition to other sources of funding. SID Bank signed a new contract in 2018 on long-term borrowing in the amount of EUR 50 million with the Council of Europe Development Bank for financing infrastructure and environmental projects.

The Bank partly replaced a maturing bond in August 2018 with new issuance. In December 2018 SID Bank became the first Slovenian issuer to issue 5-year green bonds on the international capital market, in the amount of EUR 75 million. The bond is listed on the Vienna bourse. SID Bank obtained an opinion for the issuance of its green bonds from the internationally recognised firm Sustainalytics, which confirmed their full compliance with the Green Bond Principles of the International Capital Market Association. SID Bank will earmark the proceeds of the green bond issue for financing green projects and circular economy models, thereby contributing to the achievement of Slovenia's sustainable development goals. SID Bank is one of the first issuers of green bonds in this part of Europe. The bond was issued under favourable terms: the spread over Slovenian government bonds of comparable maturity at issue was 25 basis points, which is a reflection of international investors' confidence in SID Bank and the quality of the government guarantee.

In individual months SID Bank undertook limited short-term borrowing on the interbank market, thereby exploiting the favourable market situation in the low interest rate environment.

Financing

Financing of clients is based on established instruments such as purpose-specific loans to commercial banks, loans with or without the status of state aid, purchase of receivables, accession to debt and other forms of risk take-up, project financing and export credits. The scope and method of financing by SID Bank is complementary by nature given the identified market gaps, market needs and activity of other financial institutions.

An important innovation in 2018 was the initial offering of the first financial instruments from the Fund of Funds in the amount of EUR 253 million from EU cohesion policy.

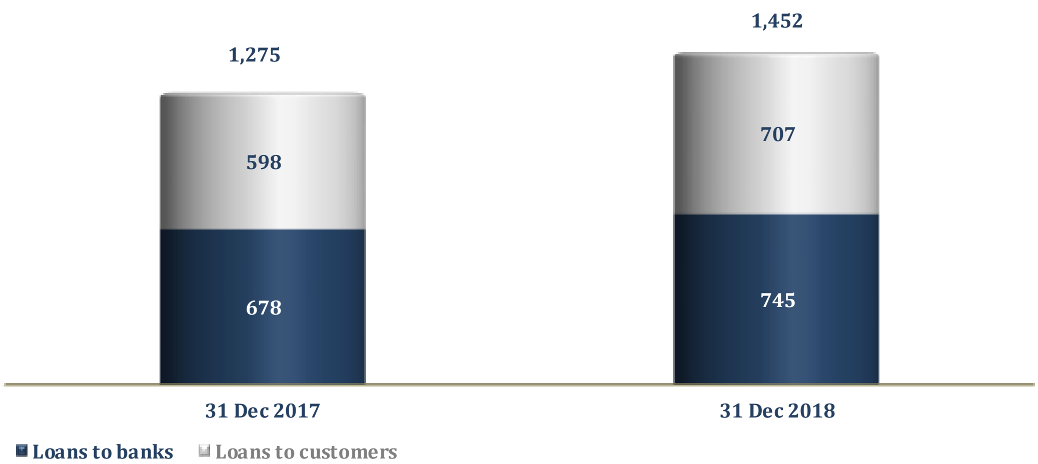
SID Bank's activity in 2018 was focused on development financing and more complex schemes. In the mediation of funding via banks and savings banks, in line with the aforementioned changes the Bank adjusted its range of services and strengthened its function of providing administrative technical assistance to intermediaries (simplifications, consultancy, workshops, development of software support). It strengthened its partnerships with other stakeholders in the development and implementation of major export projects and in the opening of new markets for the Slovenian economy, promoted the strengthened capitalisation of SMEs via development loans, and joined initiatives focusing on the circular economy, environmental protection and energy efficiency.

In 2018 SID Bank strengthened its activities in the financing of strategic investments as one of the most important objectives of Slovenia and the EU. To this end it created a project financing department, which will fill gaps at the national level from the perspective of investment assessment and the preparation of their financial constructions. Technical assistance was also obtained within the framework of the Investment Plan for Europe, based on which the project financing department will strengthen the local EIAH in 2019 and will facilitate the preparation and realisation of strategic investments important to Slovenia's development.

The total net stock of loans granted stood at EUR 1,451,673 thousand at the end of 2018 (2017: EUR 1,275,366 thousand), up 13.8% on the stock at the end of 2017.

The structure of SID Bank's credit portfolio in terms of maturity reflects its focus on activities under the ZSIRB and the ZZFMGP. Almost all loans are long-term with a variable interest rate. The proportion of short-term loans and fixed-rate loans is negligible.

Loan portfolio (EUR million)



In 2018 the financing of final beneficiaries was also carried out primarily on the basis of long-term purpose-specific financing via banks and savings banks. Commercial banks and savings banks in the role of intermediaries thus remain the most important partners in financing final beneficiaries, while public funds are also involved in intermediation. In this way SID Bank is further strengthening its role as the central public financial institution for promoting economic development and financing of the economy, in collaboration and partnership with commercial banks, savings banks and public funds.

Loans to banks and savings banks accounted for 51% of SID Bank's credit portfolio at the end of 2018 (2017: 53%). The stock amounted to EUR 744,886 thousand, up 10.9% on the end of 2017.

Within the framework of direct lending to corporates and other customers, SID Bank mostly carried out financing either within the framework of the notified state aid schemes or in the form of the co-financing of corporates together with other banks. In 2018 direct financing was carried out in the form of specialised credit lines for the promotion of technological and development projects, research, development and innovations, investment and employment, and energy efficiency, to increase capitalisation and development of SMEs and environment-friendly public investments at the local level.

Loans to customers amounted to EUR 706,787 thousand at the end of 2018, up 18.2% on the end of 2017. They accounted for 49% of the credit portfolio, up 2 percentage points on 2017.

Target groups of final beneficiaries

SID Bank funds were approved for EUR 463.8 million of loans in 2018, made via intermediary banks to 258 final beneficiaries and directly via SID Bank to 154 borrowers established in Slovenia. There were 1,324 final beneficiaries and 604 direct borrowers established in Slovenia being financed by SID Bank as at 31 December 2018. The funds were earmarked primarily for the promotion of research, development and innovations, job preservation and job creation, corporate growth (primarily SMEs), internationalisation of business, better infrastructure, energy efficiency, reduction of pollution and increased environmental protection.

In terms of the primary purpose, development of economic competitiveness accounted for 63.4% of new loans in terms of total value, regional development for 28.6%, development of a society of knowledge and innovative enterprise for 7.8%, and development of an environment-friendly society for 0.2%. In terms of corporate size, a total of 374 SMEs established in Slovenia (89.5% of all borrowers) received support in the amount of EUR 169.5 million (36.6% of loans), of which 78 were sole traders (20.9% of all SMEs), who received EUR 9.2 million.

Distribution of loans by region and economic sector

In the regional breakdown of new loans approved for borrowers established in Slovenia, borrowers from Central Slovenia accounted for the largest proportion (48.9%), followed by borrowers from Savinjska (10.8%), Podravska (5.2%), Gorenjska (5%), and other regions (30.1%).

Firms in the manufacturing sector were prevalent among borrowers (35.6% of new loans in value terms), followed by wholesale and retail trade, repair of motor vehicles and motorcycles (13.9%), professional, scientific and technical activities (5.3%), and other sectors.

Development programmes via commercial banks and savings banks

SID Bank continued to enhance its cooperation with commercial banks in 2018, which given the regulatory framework included the adjustment and optimisation of existing services, the simplification of implementation, and the strengthening of administrative technical support for financial intermediaries.

Credit lines that are mediated via commercial banks and savings banks are adjusted to the method of financing and to the specific conditions of purpose-specific financing. The terms for final beneficiaries are also formulated accordingly.

On the basis of existing long-term borrowing at the development banks KfW and the EIB and other bank funding, SID Bank continued the programme for the intermediation of long-term financing for SMEs and Mid-Caps in the total amount of EUR 150 million.

In its financing activities, SID Bank also places great emphasis on non-financial content, such as:

– activities for maintaining and expanding the circle of financial intermediaries and increasing their intermediation role (number of final beneficiaries, scope of sub-credits);
– marketing activities to strengthen the profile of SID Bank financing (presence at regional events, advertisements, online, etc.);
– a suitable combination of pricing terms, maturity, and purposes of use, and transfer of the financial advantages to final beneficiaries;
– administrative and technical support for banks (preparation of model questions and answers, assistance in the resolution of individual cases, monitoring of effects of specific investments, workshops with banks' customer relationship managers);
– activities aimed at upgrading software support in order to simplify monitoring and reporting.

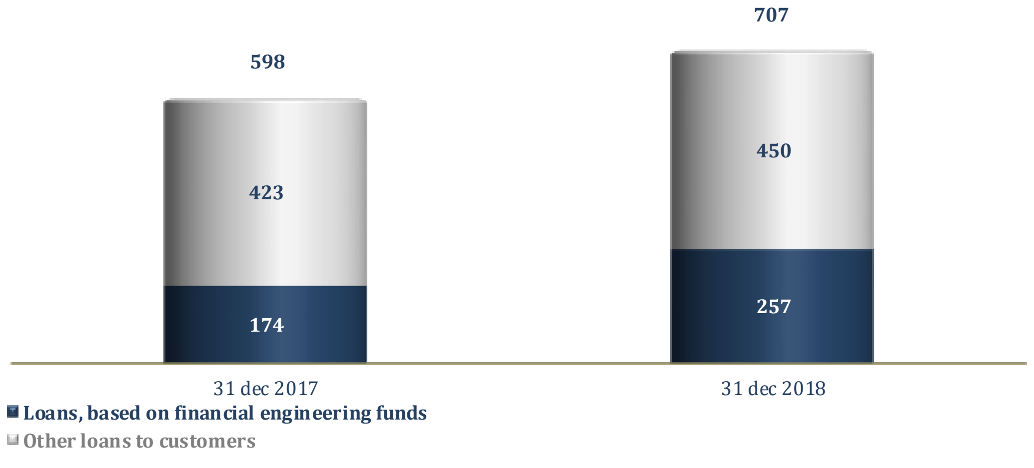
The adjustment of financial instruments will significantly impact the preservation and stimulation of the placement of SID Bank funds via commercial banks and savings banks, especially in terms of its role as the operator of the Fund of Funds, the instruments within the Fund of Funds and the implementation of financial engineering instruments.

Products based on financial engineering from national funds

For the implementation of financial measures of national and European public policies (Fund of Funds financial instruments), SID Bank provides a package of financial instruments that are based on refundable forms of promotion with a combination of own, budgetary and other favourable sources of funding.

Through these products SID Bank and the MEDT secure long-term resources for financing SMEs and development projects that are based on in-house research and development activities by firms to increase their innovative and competitive capacities. Measures in the past were prepared as SID Bank's response to the economic and financial crisis, and as such were coordinated with the responsible ministry.

Loans to customers (EUR million)



In 2018, the Bank and the MEDT implemented seven financial engineering measures in the form of seven specialised credit lines whose funds could be obtained by firms directly at SID Bank. SID Bank expanded its toolkit of financial engineering measures in 2018, introducing four new measures:

- a credit line for financing SMEs with a maturity of 3 to 10 years, a maximum moratorium period of half of the loan maturity, and loan amounts of EUR 100 thousand to EUR 5 million; the funds are earmarked for financing property, plant and equipment, intangible assets, materials, services, supplies, merchandise and labour costs;
- a credit line for financing investment projects, which is earmarked for financing investments in property, plant and equipment and intangible assets in Slovenia; a maximum loan amount of EUR 10 million with a maturity of 6 to 20 years, with a maximum moratorium period of half of the loan maturity, but no more than five years; using loans of this type firms can expand and technologically update their production and service capacities, thereby strengthening their competitiveness;
- a credit line for financing investments in the forestry and wood manufacturing chain, which is earmarked for financing the construction of new wood processing plants or technological modernisation of existing wood processing plants in line with the best available technology, financing the development of new materials from wood, the processing of all forms of wood residue and scrap wood, financing the development of products with high value-added and increased diversification of production into new wood products, and financing significant changes in the whole production process in wood processing; loan amounts of EUR 100 thousand to EUR 5 million, loan maturity of 6 to 12 years, and a maximum moratorium period of half of the loan maturity;
- a credit line for financing investment in sustainable growth in Slovenian tourism, which is earmarked for financing investments in property, plant and equipment and intangible assets in Slovenia in the areas of accommodation capacity, sports, entertainment or cultural infrastructure, cable cars, marinas or tourist resorts; a maximum loan amount of EUR 20 million, a maturity of 6 to 30 years, but no more than the useful life of the property, plant and equipment, with a maximum moratorium period of half of the loan maturity, but no more than five years.

In addition to the newly introduced credit lines, clients were also given access to financing for various projects via existing credit lines as follows in 2018:

- a credit line for financing technological development projects in the form of loans of EUR 100 thousand to EUR 15 million, with a maturity of 6 to 12 years and a moratorium period; SID Bank used this credit line to finance projects that included research and development activity to develop innovations in terms of technology, processes and organisational changes; funds were earmarked for financing wages, contractual research, advisory and other services, and materials, instruments and equipment used on the project; the credit line was withdrawn in the final quarter of 2018;
- a credit line for financing the operations and capitalisation of SMEs and a credit line for financing the investments and capitalisation of SMEs; the credit lines earmarked for strengthening the capital of SMEs in the total amount of EUR 200 million are based on the principle of favourable long-term loans of 6 to 12 years with a moratorium period of half of the loan maturity; loan amount of EUR 100 thousand to EUR 5 million; in addition to the typical development effects given the Bank’s target areas (investments, research, development, innovations, non-current working capital), the main purpose of the product is to enable firms with low capital adequacy to improve the maturity structure of their debt, to gradually strengthen their capital position and to introduce a (new) business model with good prospects.

The aforementioned credit lines generally contain elements of state aid that are reflected in favourable interest rates on loans. The weighted average maturity of the loans was 9.1 years, while the weighted average premium over the benchmark interest rate was 2.34 percentage points. Funding from the MEDT played a key part in reducing financing costs for final beneficiaries. EUR 3.8 of primary lending potential was available for each euro of ministry financing.

A total of EUR 112.9 million in new loans was placed in 2018 within the scope of financial engineering funds. The net stock of loans granted in that respect amounted to EUR 257.1 million at the end of 2018.

Through using refundable forms of financing and combined funding, SID Bank is providing more favourable lending terms for the Slovenian economy (maturity, interest rate, collateral) and a multiplier and revolving effect on state budget funds.

Programme for the financing of municipalities

In 2018 SID Bank continued the promotion of investments in local public infrastructure, local measures regarding efficient use of energy, utilities connections and the provision of a public-owned housing fund. Funds from the loan could be used to finance at most 85% of the entire project, while the remaining 15% had to be provided by the municipality.Municipalities often acquire most of the funds from non-refundable government and EU funding, using SID Bank's loans to obtain the other required funds.

SID Bank earmarked EUR 100 million for these purposes from funding raised at development-focused international financial institutions. Municipalities were able to obtain the loans directly from SID Bank, or in the form of co-financing with one of the commercial banks. The loan amount that could be raised by the municipalities under this programme was between EUR 34 thousand and EUR 17 million, with a maturity of 5 to 20 years and a moratorium period allowed.

Infrastructure financing

In order to improve the logistics, utilities and other commercial and public infrastructure in Slovenia, SID Bank financed investments in this type of infrastructure, in cooperation with commercial banks or independently, thus contributing to more balanced and faster regional development. In addition, the Bank also used funds from loans from the development-focused international financial institutions, thereby securing long-term funds under favourable terms for the development of infrastructure projects.

Export financing

In 2018 SID Bank continued its promotion of international commercial and development cooperation and international commercial transactions, in particular for promoting long-term business transactions that allow participants to enter and operate in foreign markets, including support for related import transactions, the preparation of international commercial transactions, investments and support for long-term growth in exports and the internationalisation of the economy. It also participated in activities focused on support for joint ventures in third markets with domestic, foreign or international entities.

Equity financing programme

SID Bank concluded two investment transactions in 2018 in accordance with the Slovene Equity Growth Investment Programme, which it runs in conjunction with the EIF. An investment in the amount of EUR 10 million for the equity financing of Slovenian firms was approved in the form of a capital contribution to a private equity fund focusing on investments in firms in central and eastern Europe and south-eastern Europe via primary fund investment. An equity investment in the amount of EUR 5.5 million in a Slovenian energy firm was approved for projects in Slovenia via co-investment. Half of the available funds were provided by SID Bank in both cases.

A tender for Slovenian operators of private equity funds was held in 2018; the execution of the tender was taken over by the EIF. Four potential private equity funds responded to the tender. The EIF chose two in December 2018, and began its due diligence in January 2019 (a legal, financial, HR and strategy review). The signing of memorandums of understanding with the private equity fund operators is expected in the first quarter of 2019.

Other financing

By using long-term financing, independently and in cooperation with other banks, SID Bank complements the range of services of commercial banks in all areas for which it can provide support in accordance with the ZSIRB, i.e. in particular in the areas of energy efficiency, environmental protection, provision of housing for vulnerable population groups, promotion of internationalisation, competitiveness, employment, technological development, research and innovation. Therefore SID Bank uses various financing instruments, such as loans to commercial banks, syndicated loans, independent direct financing, purchase of receivables, accession to debt and other forms of risk participation, project financing, etc.

Information support

Some important innovations at SID Bank in 2018 were the upgrade of the portal for financial intermediaries' reporting (also for the needs of the Fund of Funds), and the introduction of a new digital platform for reporting by direct financing clients. This has simplified clients' dealings with the Bank, and is also allowing the Bank to carry out the related work processes more efficiently from the perspective of controlling labour costs while increasing the volume of business. The Bank also launched a new-look website in 2018 to improve understandability, transparency and the level of information for clients.

During the year the Bank implemented all new regulatory requirements relating to reporting to the regulator (in particular AnaCredit reporting), and replaced the application support for ITS reporting (replacement of an external application with an application developed in-house).

The Bank thoroughly overhauled its Bonsis rating system (application support for assessing client credit risk) and upgraded its IT support for liquidity risk and interest rate risk management. It began upgrading the technical platforms of application support for loans and guarantees and for the main ledger, with the aim of reducing operational risk. In light of rising cyber threats in the environment, and aware of the importance of protecting clients' data, the Bank successfully introduced several protective systems such as ATP (Advanced Threat Protection) and SIEM (Security Information and Event Management).

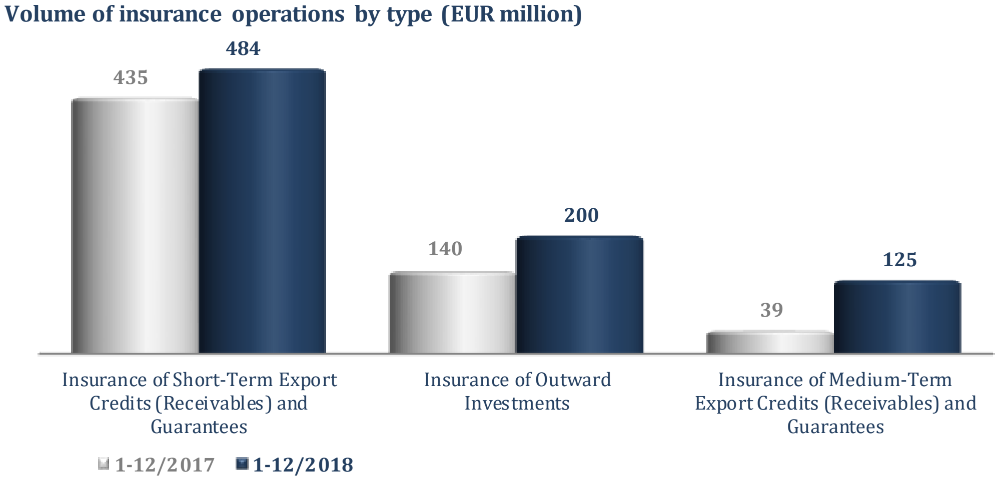
Operations under Republic of Slovenia authorisation

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 those commercial and non-commercial or political (non-marketable) risks that, in light of their nature and level of risk, the private sector in general is not willing to take up or has limited capacity to take up. EU regulations class commercial and political risks with a maturity of more than 2 years in OECD or EU countries and all risks in countries outside the OECD and the EU as non-marketable. The role of SID Bank is crucial in the area of insuring 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 higher value-added.

Volume of insurance operations

The volume of operations amounted to EUR 807,919 thousand in 2018, up 31.8% on the previous year. The increase in volume was evident in short-term and medium-term operations alike. There was a notable increase in insurance of medium-term loans, insurance of export preparation loans and investment insurance.



The realised volume in 2018 was equivalent to 6.1% of the limit on new annual liabilities set out in the ZZFMGP. Reinsurance of short-term export credits (renewable insurance of non-marketable risks) accounted for the largest proportion of the realised volume of insurance operations (56% of the total), followed by insurance of outward investments (24.7%), while the remainder was accounted for by insurance of short-term and medium-term loans (10.4%), guarantees (2.2%), and export preparation loans (6.7%).

There was no significant change in the breakdown of insurance by country. The largest proportion in 2018 related to insurance operations in Russia (39.7%), followed by the USA (13.7%), Belarus (12.6%), Croatia (10.9%), Ukraine (4.3%), Bosnia and Herzegovina (3.7%), Serbia (4%), Uzbekistan (2.1%), Kazakhstan (1.5%) and Georgia (1%).

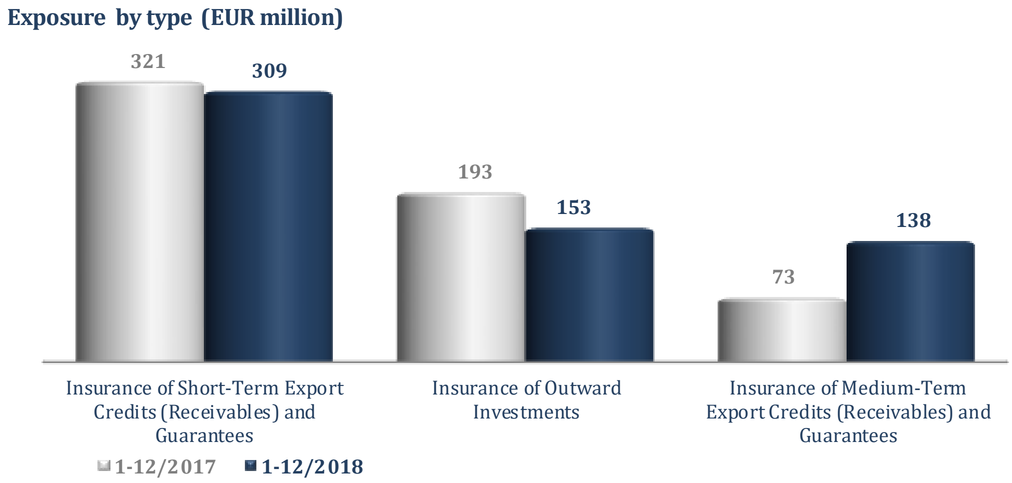
Having regard for firms' responses, the largest opportunities lie in the area of export financing insurance, although this is relatively demanding from the perspective of the structuring of the operations and risk assessment, for which reason the number of realised projects remains low, albeit rising. There is also awareness of this at commercial banks, which have begun strengthening their export financing departments. There is a trend of diminishing rigidity in risk take-up, at banks and firms alike, and consequently a larger number of higher-value operations and project financing operations can be expected.

It remains a challenge to provide insurance support for SME exporters, which SID Bank will encourage to engage in joint export ventures in order to generate the required financial strength.

The largest insurance and financing operations are still concluded for Slovenian firms' projects in the countries of the former Soviet Union and the former Yugoslavia. In connection with new markets for insurance and financing, much attention is being focused on identifying the right banks with a local presence in individual African countries, via which Slovenian firms' project financing would proceed. Projects of smaller value would be better suited to this area, as it is primarily SMEs with growth potential that are interested in business in this part of the world. Activities in connection with the opening of the Iranian market shut down after the introduction of sanctions against Iran by the USA, which was mainly related to the complete withdrawal of Slovenian exporters from the country. SID Bank is considering the establishment of new insurance lines with banks in eastern Europe and north Africa, with which it would promote Slovenian firms' export business. There are also opportunities in the area of factoring and forfaiting insurance, including operations of longer maturity for customers from western countries.

Exposure

Exposure from current insurance policies amounted to EUR 582,774 thousand at the end of 2018. Exposure from firm insurance commitments, which under the ZZFMGP is included in the total net exposure, amounted to EUR 17,549 thousand. Total exposure from insurance operations for the account of the state and from issued firm insurance commitments amounted to EUR 600,323 thousand, up 2.3% on the end of 2017. The increase in exposure was primarily attributable to the increase in the volume of insurance operations.



The exposure amount is equivalent to 28.6% of the limit defined in the State Budget 2018 Implementation Act (ZIPRS) and 1.5% of the limit defined in the ZZFMGP.

The largest exposures in the insurance portfolio in 2018 were disclosed against Russia, Belarus, Croatia, the USA, Ukraine, Bosnia and Herzegovina, Serbia, Kazakhstan, France and North Macedonia.

Other insurance-technical provisions

in EUR thousand	31 Dec 2018 or 1-12/2018	31 Dec 2017 or 1-12/2017	Index 2018/2017
Premiums	8,624	3,560	242.2
Potential claims	639	2,453	26.1
Claims under consideration	1,531	2,226	68.8
Claims paid	(979)	(15,302)	6.4
Recourse	207	1,142	18.1
Technical result	7,290	(11,228)	-
Surplus of income	8,378	(9,982)	-

Premiums and fees from insurance against non-marketable risks amounted to EUR 8,624 thousand in 2018, 2.4 times higher than in 2017. The increase in insurance premium is attributable to the increase in the volume of insurance operations, and the structure of insurance products. Insurance of medium-term loans accounts for largest proportion of paid premium, followed by reinsurance and insurance of short-term export credits and investment insurance. The premium rates for short-term insurance are lower than those for medium-term insurance, and consequently premiums are also lower. Income from processing fees is negligible, because SID Bank includes the amount in the premium in the case of individual export operations or investments in accordance with its business policy and current price lists.

Claims paid amounted to EUR 979 thousand in 2018, down significantly on the previous year (2017: EUR 15,302 thousand). The largest proportion consisted of claims paid on a short-term export preparation loan, while the remainder relates to claims paid on the reinsurance of short-term credits. The amount includes recovery costs for claims paid in previous years.

Claims under consideration (claims filed) amounted to EUR 1,531 thousand as at 31 December 2018, down EUR 695 thousand on the end of 2017.

At EUR 639 thousand, potential claims in 2018 were down by EUR 1,814 thousand on the 2017 figure, while the majority of potential claims relate to the reinsurance of short-term credits.

The technical result in 2018 was positive, in the amount of EUR 7,290 thousand, in contrast to the previous year (2017: loss of EUR 11,228 thousand). The surplus of income over expenses amounted to EUR 8,378 thousand, compared with a surplus of expenses over income in the amount of EUR 9,982 thousand in 2017.

Contingency reserves

The contingency reserves constitute a significant capacity for SID Bank and for the Republic of Slovenia in insurance against non-marketable risks, before claims are paid out from the state budget.

With a contribution by the Ministry of Finance in the amount of EUR 13,737 thousand in December 2018, the contingency reserves stood at EUR 154,281 thousand at the end of 2018, up 16.7% on the end of 2017.

Insurance against non-marketable risks by type of insurance

Insurance of short-term export loans/credits and guarantees

Short-term insurance in the reinsurance and insurance of export credits, guarantees and export preparation amounted to EUR 483,535 thousand at the end of 2018, up 11.3% on the previous year.

The majority of short-term insurance relates to reinsurance of short-term revolving export credits on the basis of reinsurance contracts that SID Bank has signed with SID-PKZ and Zavarovalnica Triglav. Only a small proportion relates to insurance of individual export transactions.

The volume of short-term insurance operations realised in 2018 primarily related to export transactions in Russia, Ukraine, Serbia, Uzbekistan, Kazakhstan, and Bosnia and Herzegovina. Exposure from these operations, including commitments, stood at EUR 309,419 thousand at the end of 2018, down 3.5% on the end of 2017 (EUR 320,528 thousand).

The increase in the volume of short-term insurance operations was not tracked by realised insurance premium, which amounted to EUR 1,947 thousand, down 4.7%. This was attributable to the market in short-term insurance, which requires primary insurers to continue agreeing lower prices with their policyholders. Despite an increase in the amount of insured receivables, the number of exporters fell, while insurance operations were concluded with an increasing number of foreign debtors, resulting in increased diversification of risks taken-up from the perspective of insurance of receivables.

SID Bank assesses that demand for the reinsurance of short-term export credits will increase, which can be attributed to a rise in interest among exporters in placing their goods on so-called non-traditional or new markets, such as Russia and the countries of the former Soviet Union, where higher returns can be generated. The expectations of higher exposure also derive from a higher volume associated with the sharing of risks with the private market (50:50), which is permitted by the reinsurance contract between SID Bank and SID-PKZ, which entered into force on 1 January 2019.

Further growth in Slovenian exports is expected in 2019, which will have a positive impact on the volume of reinsurance operations of primary insurers concluded with SID Bank. Here it should be noted that most export growth will nevertheless be realised on the developed markets of EU and OECD countries, although the non-marketable markets are also expected to grow.

Insurance of medium-term export credits

The largest proportion of insured medium-term export credits, bank guarantees and export preparation loans in 2018 related to exports of communications and other electrical appliances, tools and machinery, manufacturing of motor vehicles, and engineering and technical consultancy services. The largest share of medium-term operations was insured for receivables from customers from Belarus, the USA, the UAE, Saudi Arabia, Ukraine and Croatia. The stock of insured medium-term export credits varies from year to year, due to the small number of annually realised projects and their size.

The volume of insurance operations realised for medium-term export transactions (export credits, bank guarantees and export preparation loans) in 2018 was up significantly on the previous year and stood at EUR 124,506 thousand (2017: EUR 39,020 thousand). The export financing insurance product is useful to exporters, but is still complex and time-consuming from a documentary perspective. In the past exporters consequently opted for various modifications to transactions that were simpler for contractual partners. Irrespective of the complexities, the market situation, in particular the expectations of foreign customers, is increasingly convincing Slovenian exporters to opt for the product in the way that it was designed. The assessment is that future business trends will move in this direction.

The interest of commercial banks in becoming active in the area of export financing in Slovenia is slowly increasing, but the banks still remain cautious, and given their lack of experience would like to finance export transactions in conjunction with SID Bank. Positive shifts in this area are expected in the future.

Exposure from the insurance of medium-term export credits, bank guarantees and export preparation loans (concluded insurance policies and commitments) amounted to EUR 137,890 thousand as at 31 December 2018, Belarus accounting for 80.9% of the total exposure. Premiums from this insurance amounted to EUR 5,404 thousand in 2018. Claims paid from the insurance of medium-term export credits amounted to EUR 19 thousand in 2018.

In 2019 there is expected to be further growth in insurance of medium-term operations, which will be smaller in relative terms than those realised in 2018. The operations will be in Soviet successor states and the former Yugoslav republics, while a breakthrough is also anticipated in African markets.

Insurance of outward investments

The volume of insured outward investments reached EUR 199,879 thousand in 2018, up 43.4% on the previous year. Newly insured outward investments and renewals of investments insured in previous years that in terms of content can be deemed newly insured investments are included among the volume of insurance.

The majority of operations were realised in the non-shareholder loan insurance scheme, while demand for insurance of investments declined almost in its entirety. This is a result of reduced risks in the former Yugoslav republics, which are acceding to EU structures. These countries represented the largest target market for investments by Slovenian firms. An even more significant factor in the decline in this class of insurance is that Slovenian firms underestimate the political risks inherent in investing in foreign markets.

Croatia accounts for the largest proportion of insured investments, followed by the USA, and Bosnia and Herzegovina. Premiums from investment insurance in 2018 were up 24.1% on the previous year at EUR 1,250 thousand.

Exposure from investment insurance amounted to EUR 153,013 thousand at the end of 2018, down 20.8% on the end of the previous year. Insurance of non-shareholder loans also accounts for the largest proportion of the exposure. The current insurance arrangements are expiring in accordance with the signed loan agreements and insurance policies. The insured non-shareholder loans are being adequately serviced, for which reason exposure also declined in 2018 without new insurance.

The target for 2019 is for the realisation of insurance of new investments to exceed the value of maturing annuities and other existing insurance arrangements. The expectations lie primarily in the insurance of non-shareholder loans for Slovenian firms' business in the former Yugoslav republics.

Fund of Funds

In line with the objectives of the Operational Programme for the Implementation of the EU Cohesion Policy 2014-2020, under the aegis of the Fund of Funds, for which an agreement on funding in the amount of EUR 253 million was signed with the MEDT in 2017, SID Bank is to provide financial products that it will offer to Slovenian firms and municipalities via financial intermediaries (primarily commercial banks, savings banks and public funds). The financial intermediaries for the first financial instruments that have been developed have already been chosen, and the range of financial instruments will be further strengthened in 2019 through the development and launch of new products and through the expansion of the circle of financial intermediaries.

In addition to the funds from European cohesion policy, the financial intermediaries will have to secure additional funds from other sources of funding because of the leverage requirement. Given the requirement for the reuse of repaid EU cohesion policy funds, the financial intermediaries will provide additional funds in the amount of around EUR 150 million, which means that a total of more than EUR 400 million will be available to firms and other final beneficiaries.

By establishing the Fund of Funds, Slovenia took an important step towards transitioning from non-refundable to refundable forms of support modelled on foreign practices. These are significantly more effective than grants, primarily on account of higher leverage, multiplier effects, and the revolving effect on state budget funds.

SID Bank pushed ahead in 2018 with its activities under the aegis of the Fund of Funds. The first financial instruments were developed for investments related to research, development and innovation, and for microloans. The financial intermediaries were also chosen for these instruments (a bank, a savings bank and a public fund). In line with the legal framework, the financial intermediaries were chosen on the basis of public tenders, while given the novelty in the Slovenian context, SID Bank offered the requisite legal and administrative technical support to the intermediaries during the development phase and during implementation itself. The first loans are now available to final beneficiaries.

In 2018 loans of up to EUR 10 million with a maturity period of up to 9 years, with longer moratorium periods of up to 3 years, and with no collateral terms or less stringent collateral terms were available to firms of all sizes (start-ups, sole traders, MSMEs, large enterprises) for research, development and innovation, via the chosen financial intermediary (a commercial bank).

Microloans of up to EUR 25,000 with a maturity period of up to 5 years, with longer moratorium periods of up to 2.5 years, and less stringent collateral terms were available to start-ups, sole traders, and micro and small enterprises, via a financial intermediary (a savings bank). Late in 2018 SID Bank signed a financial agreement for the area of microloans with a public fund, which has already announced its first call for applications.

The purpose of the Fund of Funds created in this manner is the promotion and financing of sustainable economic growth and development, investments in innovation, and current operations, through debt and equity financing.

The financial instruments are designed in four areas where there are market gaps in financing:
- research, development and innovation,
- competitiveness of SMEs,
- energy efficiency, and
- urban development.

The main advantages of the financial instruments of the Fund of Funds are as follows:

- creation of instruments in areas of identified market gaps;
- attraction of private equity (required leverage);
- multiplier effects;
- market appraisal of projects built into the very process;
- better financial discipline and greater impact from supported projects;
- sustainable and revolving funds (reuse of funds);
- more effective allocation of government development funds;
- reduced possibility of misuse of funds and distortion of competition effects.

The financial instruments of the Fund of Funds provide final beneficiaries with a range of benefits, from the perspective of capital and reduced interest rates, and also from the perspective of longer maturities, reduced or zero collateral requirements, and longer moratorium periods.

Management of emission allowances and Kyoto units

Pursuant to Article 127 of the Environmental Protection Act, in 2018 SID Bank continued its function as the official auctioneer of greenhouse gas emission allowances in accordance with Commission Regulation (EU) No 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and the Council establishing a scheme for greenhouse gas emission allowances trading within the Community, as amended by Commission Regulation (EU) 1210/2011.

In auctions organised by the joint auctioning system of EU members (the European Energy Exchange), SID Bank sells emission allowances on behalf of the Republic of Slovenia as 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.

The Bank participated in 139 auctions as an official auctioneer of emission allowances (EUAs) in 2018, at which a total of 4,290 thousand allowance units were sold for a consideration of EUR 66,190 thousand.

Four auctions for EU aviation allowances (EUAA) were also held in 2018. A total of 6,500 thousand units were sold for a consideration of EUR 124 thousand.

Other transactions under authorisation

In line with its legal authorisations, in 2018 SID Bank again actively managed its recovery portfolio from the guarantee scheme laws (ZJShemRS, ZJShemFO and ZPFIGD).

The Bank did not address any changes to loan terms or receive any new requests for guarantee calls in 2018 for loans approved under the ZJShemRS. At the end of 2018 there were seven loan agreements secured by government guarantee still active at the commercial banks (2017: 13 loan agreements), the stock of principal amounting to EUR 11.7 million as at 31 December 2018 (2017: EUR 15.2 million).

The Bank did not any receive new requests for guarantee calls in 2018 for loans approved under the ZJShemFO. There were 89 loans in the stock as at 31 December 2018 (2017: 99), while the total loan principal amounted to EUR 3.2 million (2017: EUR 3.7 million).

The stock of all loans supported by a government guarantee under the ZPFIGD amounted to EUR 1.1 million at the end of 2018 (2017: EUR 10 million). Within this amount the government guarantee amounted to EUR 0.8 million (2017: EUR 5.4 million).

Activity EUR thousand	Income	Expenses
Insurance against non-marketable risks	1,740	(1,576)
Fund of funds	1,780	(1,462)
Auctions of emission allowances	20	(20)
Other transactions under authorisation	16	(73)

The table discloses SID Bank's total (direct and indirect) income and expenses for its individual activities pursued in 2018. The income for an individual activity under Republic of Slovenia authorisation consists of the fees that SID Bank receives for pursuing a particular activity on the basis of contracts with the Republic of Slovenia or statutory powers. The indirect expenses for an individual activity are determined on the basis of criteria set out in a bylaw, the Criteria for allocating indirect costs of activities under Republic of Slovenia authorisation.

Separate financial statements are compiled for insurance against non-marketable risks and the activities of the Fund of Funds, in which the Bank also manages assets allocated for management.

Performance of the SID Bank Group

SID – Prva kreditna zavarovalnica d.d., Ljubljana

EUR thousand	31 dec 2018 or 1-12/2018	31 dec 2017 or 1-12/2017	Index 2018/2017
Total assets	56,442	54,079	104.4
Equity	26,386	26,119	101.0
Gross claims paid	4,920	24,603	20.0
Claims ratio	34.5%	163.4%	
Net profit	967	1,159	83.4

The countries that have a material impact on the operations of SID-PKZ continued to record economic growth in 2018, which brought an increase in insurance business and more favourable claims developments for the majority of policyholders. Owing to market activity by competitors and also by insurance intermediaries (pressure to reduce premium rates, cancellations of contracts), SID-PKZ again operated in a very competitive environment in 2018, which had an impact on its sales activities and the quest for new approaches in the sale and monitoring of insurance operations, and in the development of products and SID-PKZ's future strategy.

The influence of the environment and SID-PKZ's prompt response were reflected in an increase in insurance business and a fall in premium rates. The growth in insurance business was largely attributable to an increase in business with existing policyholders, and also to business with new policyholders and an increasing focus on sales and on servicing existing policyholders. Alongside the competitive environment, the decline in premium rates and thus in premium was also attributable to more favourable claims ratios in recent years, which SID-PKZ took into account when setting its premium rates. Owing to the above, SID-PKZ saw a decline of 5.2% in its premium relative to the previous year (gross premium written in 2018: EUR 14,279 thousand).

Claims were in line with expectations in 2018, compared with the situation in 2017, when several major claims with high reinsurance were paid. Fewer claims were registered and resolved in 2018 than in previous years. There were also no large claims. As a result, the claims ratio (gross claims to gross premium written) declined from 163.4% in 2017 to 34.5% in 2018. Gross claims in 2018 were down 80% on 2017 at EUR 4,920 thousand. Net claims expenses amounted to EUR 2,528 thousand in 2018, down 13.5% on 2017. Net premium income exceeded net claims expenses by EUR 3,186 thousand in 2018 (2017: EUR 3,019 thousand), an increase of 5.5%.

Net profit amounted to EUR 967 thousand in 2018, down EUR 192 thousand on 2017, but above the forecast in the plan for 2018.

Income from reinsurance commission was down EUR 53 thousand or 1.8% on 2017. Although SID-PKZ was entitled to a slightly higher percentage commission in 2018 than in 2017 on the basis of its international reinsurance contract, there was a decline in income from reinsurance commission, as a result of lower premiums transferred to reinsurers.

Income from investments was down by EUR 49 thousand or 15.4% on 2017. The decline in interest income was primarily attributable to persistently low market interest rates, and to a low average stock of investments relative to the previous year. SID-PKZ invests exclusively in Slovenian bank deposits and debt financial instruments. Securities issued by the Slovenian government or other EU member states and securities covered by guarantees issued by these governments accounted for 71.8% of the total stock of investments in 2018 (2017: 69%).

Operating costs in 2018 were up EUR 65 thousand or 1.3% at EUR 4,888 thousand. The cost ratio[7] stood at 34.2% (2017: 32%). Labour costs accounted for the majority of costs (65.7% in 2018, compared with 64.7% in 2017). The increase in labour costs was primarily attributable to a rise in the headcount in 2018, and to promotions.

SID-PKZ is forecasting that its gross premium written in 2019 will be at a similar level to 2018, despite the anticipated ongoing decline in premium rates. The expectation that premium will be maintained is thus primarily based on planned growth in insurance business. The 2019 financial plan forecasts that the claims ratio will be slightly higher than that realised in 2018, but lower than that of 2017. SID-PKZ is forecasting that it will maintain stability in the claims ratio because of the expectations of a relatively favourable economic and political situation in its markets of importance, and because of the quality of its system for transferring risk to reinsurance.

Prvi Faktor Group

Prvi faktor, Ljubljana EUR thousand	31 Dec 2018 or 1-12/2018	31 Dec 2017 or 1-12/2017	Index 2018/2017
Total assets	1,544	2,534	60.9
Equity	151	882	17.1
Net profit or loss	(731)	1,180	-

Prvi Faktor Group EUR thousand	31 Dec 2018 or 1-12/2018	31 Dec 2017 or 1-12/2017	Index 2018/2017
Total assets	11,880	14,391	82.6
Equity	5,674	5,960	95.2
Net profit or loss	(203)	5,598	-

[7] Ratio of operating costs to gross insurance premium written.

Orderly wind-down activities continued at the Prvi Faktor Group in 2018, where the focus was on liquidating the portfolio, cutting costs and setting limits on operations in accordance with the outlined plans.

An examination of subsequent optimisations of liquidation proceedings was undertaken in parallel for the purpose of concluding operations faster and more efficiently, in particular the possibility of outsourced management and/or sales. There were no purchases of receivables in 2018.

On the basis of the finalisation of unresolved relations and the liquidated portfolio, taking into account the planned costs for the period 2017 to 2021 and the balances in accounts, the group's companies repaid EUR 2.2 million of loans to shareholders in 2018.

The group's total assets at consolidated level amounted to EUR 11,880 thousand as at 31 December 2018, down 17.4% on the end of the previous year. In terms of total assets, the largest company in the Prvi Faktor Group is Prvi faktor, Zagreb (in liquidation), whose total assets amounted to EUR 7,058 thousand. It is followed by Prvi faktor, Beograd (in liquidation) with total assets of EUR 3,282 thousand, Prvi faktor, Ljubljana (in liquidation) with total assets of EUR 1,544 thousand and Prvi faktor, Sarajevo (in liquidation) with total assets of EUR 16 thousand.

The Prvi Faktor Group ended 2018 with losses of EUR 203 thousand, primarily as a result of a decline in income, costs, and the creation of new impairments. The companies that recorded a profit were Prvi faktor, Beograd (in liquidation) with a profit of EUR 360 thousand, and Prvi faktor, Zagreb (in liquidation) with a profit of EUR 183 thousand. Losses were recorded by Prvi faktor, Ljubljana (in liquidation), in the amount of EUR 731 thousand, and Prvi faktor, Sarajevo (in liquidation), in the amount of EUR 15 thousand.

The Prvi Faktor Group's shareholder equity was positive in the amount of EUR 5,674 thousand. The group companies all recorded positive equity at the end of the year.

Centre for International Cooperation and Development (CMSR)

EUR thousand	31 Dec 2018 or 1-12/2018	31 Dec 2017 or 1-12/2017	Index 2018/2017
Operating revenues	516	466	110.7
Gross profit/loss	4	27	14.8
Total assets	4,067	2,980	136.5

The CMSR works with SID Bank on the preparation of country risk analysis, surveys of firms, data processing, and the preparation of market gap analysis.

The CMSR performed in line with its financial plan in 2018, and generated a surplus of revenues over expenses.

Under its contracts for co-financing its programme in connection with international development cooperation, the CMSR realised all of the funding available for state grants. The CMSR informed co-financers of projects of international development cooperation of its cost-effective, high-quality execution, the results of the projects, and the importance of providing bilateral development aid to promote economic development in Slovenia.

The CMSR continued to publish the *International Business Law* journal in 2018. The content has been upgraded and is now marketed in the form of consultations, legal analysis and market analysis, while the journal is also a key reference in attracting business via public tenders. The CMSR also issued a promotional business publication, *Doing Business in Slovenia*, in 2018, while the online version is regularly updated on the Slovenian Business Portal (www.poslovniportal.si).

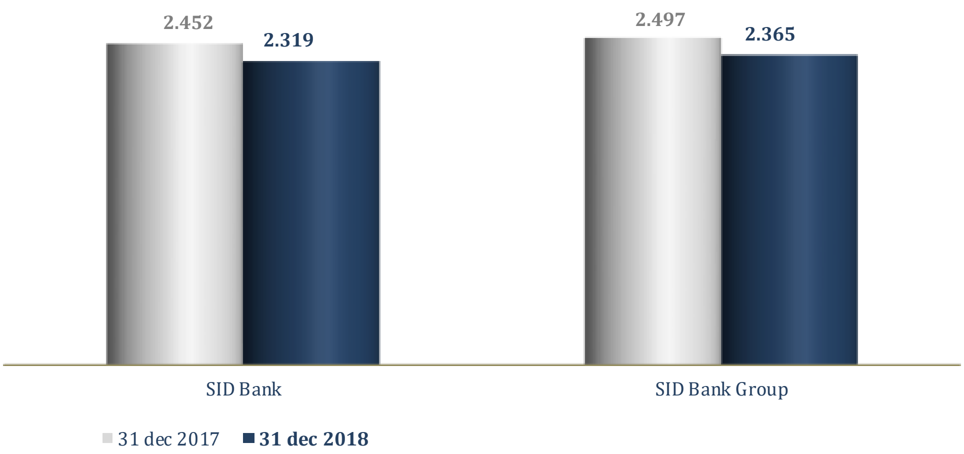
The CMSR continued its work with SPIRIT, a public agency, in producing analysis of legal regimes in various countries of the world, and in preparing information about the legal regime in Slovenia.

Financial position

Total assets

SID Bank's total assets at the end of 2018 stood at EUR 2,318,834 thousand, equivalent to 94.6% of its total assets in 2017. Total assets were down EUR 132,807 thousand on 2017. Loans and advances to banks and investments in securities recorded the largest declines on the asset side of the statement of financial position, while issued securities recorded the largest decline on the liability side.

Total assets (EUR million)



In light of SID Bank's overwhelming controlling interest in the SID Bank Group, the nature of the group and the mutual relations within it, the SID Bank Group's total assets were only EUR 45,707 thousand or 2% higher than SID Bank's total assets.

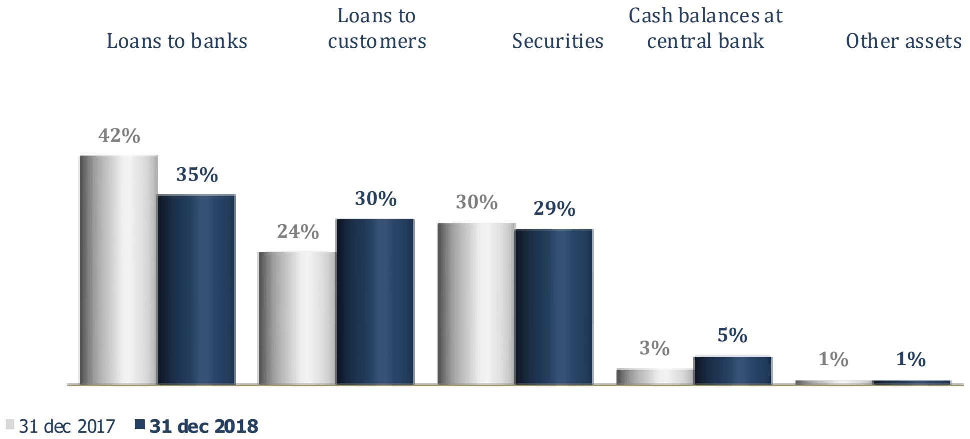
The SID Bank Group's total assets amounted to EUR 2,364,541 thousand at the end of 2018, down EUR 132,761 thousand or 5.3% on the end of 2017.

Assets of SID Bank and the SID Bank Group

	SID Bank		Index	SID Bank Group		Index
in EUR thousand	31 Dec 2018	31 Dec 2017	2018/2017	31 Dec 2018	31 Dec 2017	2018/2017
Loans to banks	809,350	1,032,179	78.4	809,350	1,037,431	78.0
Loans to customers	706,787	597,740	118.2	706,787	597,740	118.2
Securities	662,688	730,521	90.7	662,688	750,004	88.4
Cash balances at central bank	121,184	71,071	170.5	121,184	75,950	159.6
Other assets	18,825	20,130	93.5	64,532	36,177	178.4
Total assets	2,318,834	2,451,641	94.6	2,364,541	2,497,302	94.7

Assets of SID Bank

Assets structure



Loans and advances to banks accounted for the largest proportion (34.9%) of the Bank's assets in 2018 (2017: 42.1%). Loans and advances to banks, which includes loans and deposits, totalled EUR 809,350 thousand at the end of 2018, down EUR 222,829 thousand or 21.6% on the end of 2017. The decline was the result of a decline in the stock of bank deposits, which were down EUR 290,089 thousand. The decline in deposits was primarily attributable to the payment of maturing bank bonds in August 2018. Deposits accounted for 8% of loans and advances to banks. Long-term loans, which accounted for 92% of total loans and advances to banks, increased by EUR 67,260 thousand in 2018 to EUR 744,886 thousand.

Loans and advances to customers were up EUR 109,047 thousand or 18.2% in 2018. The stock of these loans amounted to EUR 706,787 thousand at the end of the year, or 30.5% of SID Bank's total assets (2017: 24.4%). The largest increase was in loans and advances to non-financial corporations, primarily loans in loan funds.

For more on lending, see the section entitled Financing.

Investments in securities amounted to EUR 662,688 thousand at the end of 2018, of which investments in debt securities amounted to EUR 650,871 thousand and investments in equities to EUR 11,817 thousand. The stock was down EUR 67,833 thousand on the end of 2017, primarily as a result of a decline of EUR 63,416 thousand in the stock of debt securities. The proportion of the Bank's total assets accounted for by investments in securities stood at 28.6% at the end of 2018 (2017: 29.8%).

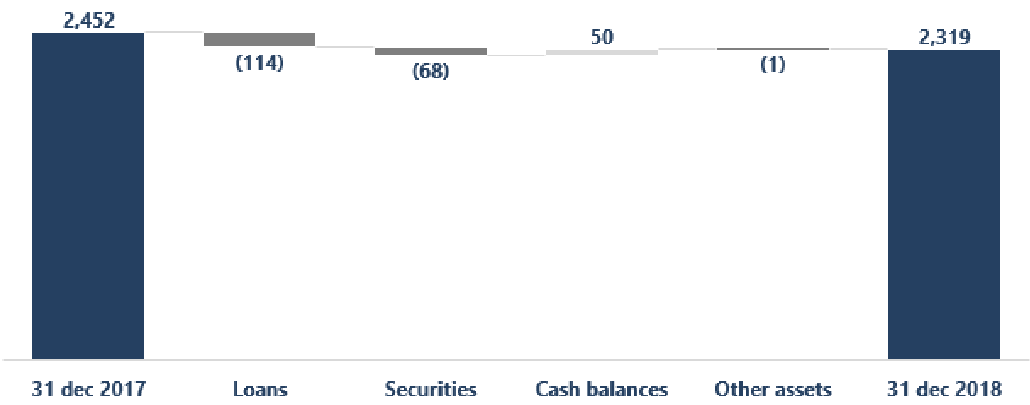
For more on debt securities, see the section entitled Funding and liquidity, and section 3 of the Financial Report (Risk management).

SID Bank held EUR 121,184 in balances at the central bank and at commercial banks at the end of 2018, up EUR 50,113 thousand on the previous year. The proportion of the Bank's total assets that they account for increased from 2.9% at the end of 2017 to 5.2% at the end of 2018.

Other assets in the amount of EUR 18,825 thousand comprised:

- non-current assets held for sale and discontinued operations in the amount of EUR 8,413 thousand, which consist of an investment in the subsidiary SID-PKZ; in 2017 this investment was classed under investments in subsidiaries, associates and joint ventures;
- property, plant and equipment and intangible assets in the amount of EUR 5,921 thousand, up EUR 125 thousand on the end of 2017;
- corporate income tax assets in the amount of EUR 2,271 thousand (2017: EUR 4,086 thousand);
- other financial assets in the amount of EUR 1,853 thousand (2017: EUR 1,553 thousand); and
- all other assets in the amount of EUR 367 thousand (2017: EUR 282 thousand).

Movements in assets in 2018 (EUR million)



Assets of the SID Bank Group

The assets of the SID Bank Group are the same as the assets of SID Bank, with the exception of the items of other financial assets and non-current assets held for sale and discontinued operations. The SID Bank Group's other financial assets were EUR 4 thousand lower at EUR 1,849 thousand. The difference is attributable to intragroup relations eliminated in the consolidation process. The SID Bank Group's non-current assets held for sale and discontinued operations amounted to EUR 54,124 thousand. Intragroup relations have been eliminated from the item, while all the assets of the subsidiary have been included. In light of the intended sale of the subsidiary SID-PKZ, the consolidated financial statements have not been compiled according to the traditional method, but are instead disclosed in accordance with IFRS 5. Under the aforementioned standard, all assets of the subsidiary excluding intragroup balances are disclosed under non-current assets held for sale and discontinued operations.

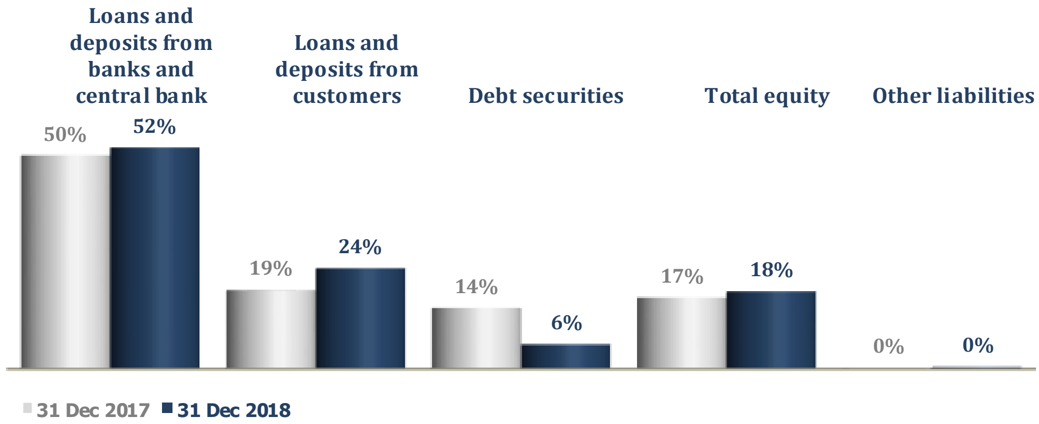
Equity and liabilities of SID Bank and of the SID Bank Group

	SID Bank		Index	SID Bank Group		Index
in EUR thousand	31 Dec 2018	31 Dec 2017	2018/2017	31 Dec 2018	31 Dec 2017	2018/2017
Loans and deposits from banks and central bank	1,206,244	1,230,807	98.0	1,206,244	1,230,807	98.0
Loans and deposits from customers	548,452	454,828	120.6	548,452	454,828	120.6
Debt securities	132,601	350,320	37.9	132,601	350,320	37.9
Total equity	422,051	409,893	103.0	437,706	427,600	102.4
Other liabilities	9,486	5,793	163.7	39,538	33,747	117.2
Total liabilities and equity	2,318,834	2,451,641	94.6	2,364,541	2,497,302	94.7

Equity and liabilities of SID Bank

SID Bank's equity and liabilities comprised liabilities in the amount of EUR 1,896,783 thousand and shareholder equity in the amount of EUR 422,051 thousand at the end of 2018. Liabilities accounted for 81.8% of total equity and liabilities (2017: 83.3%), while equity accounted for 18.2% (2017: 16.7%).

Liabilities structure



At 52% (2017: 50.2%), deposits and loans from banks and liabilities to the central bank again accounted for the largest proportion of total equity and liabilities at the end of 2018. Liabilities to banks and the central bank amounted to EUR 1,206,244 thousand, down EUR 24,563 thousand or 2% on the previous year.

Liabilities to customers stood at EUR 548,452 thousand at the end of 2018, up EUR 93,624 thousand or 20.6% on the end of the previous year. The proportion of total equities and liabilities that they account for increased from 18.6% in 2017 to 23.7% at the end of 2018.

Debt securities declined by EUR 217,719 thousand or 62.1% in 2018, primarily as a result of a maturing bond with a nominal value of EUR 289,835 thousand. The Bank issued a new bond with a nominal value of EUR 75,000 thousand in December. The proportion of total equities and liabilities that they account for declined from 14.3% in 2017 to 5.7% at the end of 2018. The stock of issued securities stood at EUR 132,601 thousand at the end of 2018.

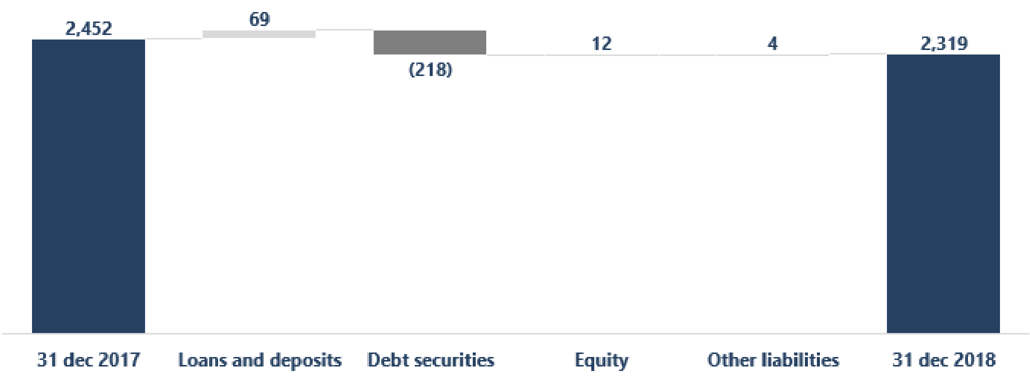
For more on the liability side, see the section entitled Funding and liquidity.

Provisions in the amount of EUR 1,130 thousand at the end of 2018 were down EUR 1,816 thousand on the end of the previous year. Provisions for off-balance-sheet liabilities declined by EUR 1,950 thousand in 2018 to EUR 420 thousand, while provisions for liabilities to employees amounted to EUR 710 thousand, up EUR 134 thousand on the end of 2017.

Other liabilities in the total amount of EUR 8,356 thousand comprised:
- other financial liabilities in the amount of EUR 2,024 thousand (2017: EUR 2,191 thousand);
- corporate income tax liabilities in the amount of EUR 3,294 thousand (2017: EUR 447 thousand);
- hedging derivatives in the amount of EUR 2,898 thousand (2017: EUR 93 thousand); and
- all other liabilities in the amount of EUR 140 thousand (2017: EUR 116 thousand).

SID Bank's shareholder equity increased by EUR 12,158 thousand or 3% in 2018, to end the year at EUR 422,051 thousand. Profit reserves were up EUR 14,144 thousand, accumulated other comprehensive income was down EUR 11,713 thousand, and retained earnings, including net profit for the financial year, were up EUR 9,727 thousand on the previous year.

Movements in liabilities and equity in 2018 (EUR million)



Equity and liabilities of the SID Bank Group

The SID Bank Group's liabilities are the same as SID Bank's liabilities, with the exception of liabilities associated with non-current assets held for sale and discontinued operations. The latter amounted to EUR 30,052 thousand at the level of the Group. The item includes all the liabilities of the subsidiary SID-PKZ, less intragroup relations. In light of the intended sale of the subsidiary SID-PKZ, the consolidated financial statements have not been compiled according to the traditional method, but are instead disclosed in accordance with IFRS 5. Under the aforementioned standard, all assets of the subsidiary excluding intragroup balances are disclosed under the aforementioned item.

The SID Bank Group's shareholder equity amounted to EUR 437,706 thousand as at 31 December 2018, an increase of EUR 10,106 thousand or 2.4% on the end of 2017. Profit reserves were up EUR 6,920 thousand, accumulated other comprehensive income was down EUR 11,830 thousand, and retained earnings, including net profit for the financial year, were up EUR 15,016 thousand on the previous year.

Financial results

	SID Bank		Index	SID Bank Group		Index
in EUR thousand	1-12/2018	1-12/2017	2018/2017	1-12/2018	1-12/2017	2018/2017
Net interest income	22,986	20,294	113.3	22,986	20,294	113.3
Net non-interest income	7,969	2,641	301.7	7,344	(765)	-960.0
Operating costs	(14,151)	(13,246)	106.8	(14,151)	(13,240)	106.9
Impairments and provisioning	715	6,535	10.9	715	6,535	10.9
Profit before tax	17,519	16,224	108.0	16,894	12,824	131.7
Income tax	(3,205)	(2,268)	141.3	(3,205)	(2,268)	141.3
Net profit from continuing operations	14,314	13,956	102.6	13,689	10,556	129.7
Net profit/(loss) after tax from discontinued operations	-	-	-	(1,308)	1,206	-
Net profit for financial year	14,314	13,956	102.6	12,381	11,762	105.3

Financial results of SID Bank

SID Bank generated a pre-tax profit of EUR 17,519 thousand in 2018, which was reflected in a return on equity of 4.2% (2017: 4%). The figure was up EUR 1,295 thousand on 2017. Net profit for the financial year amounted to EUR 14,314 thousand, up EUR 358 thousand on the previous year.

Net interest

SID Bank generated net interest income in the amount of EUR 22,986 thousand in 2018, up 13.3% on 2017 (2017: EUR 20,294 thousand). Interest income amounted to EUR 31,122 thousand in 2018, up 6.9% on the previous year (2017: EUR 29,119 thousand), while interest expenses amounted to EUR 8,136 thousand, down 7.8% on 2017 (2017: EUR 8,825). The increase in interest income and net interest was attributable to extraordinary interest income from repayments from the bankruptcy estates of four customers, and to the reclassification of one customer from non-performing to performing exposures and the payment of the customer's liabilities from interest from previous years, and to the increase in the credit portfolio and the associated change in its structure. The Bank recorded a net interest margin of 1% in 2018 (2017: 0.8%). Net interest accounted for 74.3% of total net income (2017: 88.5%).

Non-interest income

Net non-interest income amounted to EUR 7,969 thousand in 2018, up EUR 5,328 thousand on 2017 (2017: EUR 2,641 thousand).

The Bank received dividends in the amount of EUR 618 thousand in 2018 (2017: EUR 3,440 thousand) from its investment in the EIF and its investment in the subsidiary SID-PKZ.

Net fees and commission amounted to EUR 291 thousand in 2018 (2017: loss of EUR 227 thousand).

Net gains on financial assets not measured at fair value through profit or loss in the amount of EUR 3,218 thousand (2017: loss of EUR 1,523 thousand) comprise net gains on financial assets measured at fair value through other comprehensive income in the amount of EUR 1,076 thousand, net gains on financial assets measured at amortised cost in the amount of EUR 115 thousand and net gains on financial liabilities measured at amortised cost in the amount of EUR 2,027 thousand (2017: net loss of EUR 4,989 thousand). This item includes revaluation income from negative performance by loan funds. Under the contract each positive/negative financial result increase/decreases SID Bank's liabilities to the MEDT.

Other net gains amounted to EUR 658 thousand, and other net losses to EUR 49 thousand. The Bank recorded expenses of EUR 129 thousand from changes in fair value in hedge accounting in 2018.

Other net operating gains relate to income from business activities under Republic of Slovenia authorisation in the amount of EUR 3,558 thousand (2017: EUR 1,893 thousand) and other net operating expenses in the amount of EUR 196 thousand (2017: EUR 161 thousand). The increase in income from business activities under Republic of Slovenia authorisation is primarily the result of a start having been made to the management of the Fund of Funds.

The Bank's financial intermediation margin stood at 1.3% in 2018 (2017: 0.9%), up on the previous period, as a result of increases in interest income and non-interest income alike.

Operating costs

The Bank's operating costs amounted to EUR 14,151 thousand in 2018, up 6.8% on 2017. The increase in costs was primarily attributable to the Bank's development activities and recruitment. Labour costs amounted to EUR 9,978 thousand, up 12.7% on 2017. Costs of materials and services amounted to EUR 3,292 thousand, down EUR 249 thousand or 7% on the previous year. Costs of materials were up EUR 16 thousand on the previous year, while costs of services were down EUR 265 thousand on the previous year. Amortisation and depreciation were up 3.4% at EUR 881 thousand.

Impairments and provisions

The Bank generated net income from impairments and provisions in the amount of EUR 715 thousand in 2018 (2017: EUR 6,535 thousand). Net income from impairments amounted to EUR 1,037 thousand, while net expenses for provisions amounted to EUR 322 thousand.

Composition of profit before tax (EUR million)

Financial results of the SID Bank Group

The SID Bank Group's gross profit from continuing operations was EUR 625 thousand less than SID Bank's gross profit. Dividends in the amount of EUR 582 thousand and other net operating gains in the amount of EUR 43 thousand have been eliminated from the consolidated financial result. Other items are the same as those for SID Bank. The SID Bank Group's net profit for the financial year was reduced by net losses after tax from discontinued operations in the amount of EUR 1,308 thousand, taking the Group's net profit in 2018 to EUR 12,381 thousand (2017: EUR 11,762 thousand), EUR 1,933 thousand less than SID Bank's net profit for the financial year.

The net losses after tax from discontinued operations comprise the overall operating result of the subsidiary SID-PKZ after the elimination of intragroup relations in the amount of EUR 1,249 thousand, less current corporate income tax in the amount of EUR 239 thousand and the expected loss on disposal in the amount of EUR 2,318 thousand. In light of the intended sale of the subsidiary SID-PKZ, the consolidated financial statements have not been compiled according to the traditional method, but are instead disclosed in accordance with IFRS 5. In line with the aforementioned standard, the company's overall result after the elimination of intragroup relations is disclosed in a single row under net profit/(loss) after tax from discontinued operations.

Highlights of 2018

Having upgraded its outlook for Slovenia from stable to positive, Standard & Poor's revised its outlook for SID Bank from stable to positive in June 2018. SID Bank's rating remains unchanged.

SID Bank signed a sale and purchase agreement for the sale of its entire holding in its subsidiary SID-PKZ in September 2018. The transfer of ownership and receipt of the consideration is expected in the first half of 2019.

In December 2018 SID Bank became the first Slovenian issuer to issue 5-year green bonds on the international capital markets, in the amount of EUR 75 million. SID Bank will earmark the proceeds of the green bond issue for financing green projects and circular economy models, thereby contributing to the achievement of Slovenia's sustainable development goals.

On the basis of a financing agreement with the MEDT, SID Bank pushed ahead in 2018 with its activities under the aegis of the Fund of Funds, developing the first financial instruments and selecting the first financial intermediaries. The first loans are now available to final beneficiaries.

SID Bank expanded its toolkit of financial engineering measures in 2018, introducing four new measures in conjunction with the MEDT:
- a credit line for financing SMEs;
- a credit line for financing investment projects in the real sector;
- a credit line for financing investments in the forestry and wood manufacturing chain;
- a credit line for financing investment in sustainable growth in Slovenian tourism.

Events after the reporting period

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

FINANCIAL REPORT

Management board's declaration on the financial statements of SID Bank and the SID Bank Group

On 5 March 2019 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 2018. The financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU.

The management board believes that SID Bank and the SID Bank Group have sufficient resources to operate as going concerns.

The senior 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 judgements,
- 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 board must do everything possible to safeguard the assets of SID Bank and the SID Bank Group, and must undertake all 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.

Ljubljana, 5 March 2019

Management board of SID Bank

Goran Katušin
Member

Sibil Svilan, M.Sc.
President

Independent auditor's report on the financial statements of SID Bank and the SID Bank Group

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of SID banka, d.d., Ljubljana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the SID banka, d.d., Ljubljana (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers (expected credit losses)

In its financial statements for the year ended 31 December 2018 the Company presented loans and advances to customers in the amount of EUR 727.5 million and total expected credit loss in the amount of EUR 36.4 million.

Key audit matter	How the matter was addressed in our audit
Measurement of impairment allowances for expected credit losses on loans to non-bank customers is deemed a key audit matter since high level of significant judgements is applied by Management as well as the use of complex models.	Based on our risk assessment and industry knowledge, we have examined the impairment allowances for expected credit loss for loans and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

Additionally, from 1 January 2018, the Bank has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes '2.3.11 – Financial instruments', '2.4.5 - Financial assets measured at amortised costs', '2.5.12 - Impairments' and '3.1 - Credit risk' to the financial statements. Information regarding the transitional effect of IFRS 9 are disclosed in note '2.3.27 Disclosure upon the introduction of IFRS 9' including the impact on shareholders' equity and retained earnings at 1 January 2018.	We performed following audit procedures with respect to area of loans: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration

	borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

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

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

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

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

From the matters communicated Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 3 July 2015. Our total uninterrupted engagement has lasted 4 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Yuri Sidorovich, certified auditor.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 25 March 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of SID banka, d.d., Ljubljana

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the company SID banka, d.d., Ljubljana and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers (expected credit losses)

In its financial statements for the year ended 31 December 2018 the Company presented loans and advances to customers in the amount of EUR 727.5 million and total expected credit loss in the amount of EUR 36.4 million.

Key audit matter	How the matter was addressed in our audit
Measurement of impairment allowances for expected credit losses on loans to non-bank customers is deemed a key audit matter since high level of significant judgements is applied	Based on our risk assessment and industry knowledge, we have examined the impairment allowances for expected credit loss for loans and evaluated the methodology applied as well as the assumptions made according to the description of

by Management as well as the use of complex models. Additionally, from 1 January 2018, the Group has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes '2.3.11 – Financial instruments', '2.4.5 - Financial assets measured at amortised costs', '2.5.12 - Impairments' and '3.1 - Credit risk' to the financial statements. Information regarding the transitional effect of IFRS 9 are disclosed in note '2.3.27 Disclosure upon the introduction of IFRS 9' including the impact on shareholders' equity and retained earnings at 1 January 2018.	the key audit matter that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans: • Reviewing the Group's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the

	calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Group.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the consolidated financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

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

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

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

Supervisory Board and Audit Committee are responsible for overseeing the Group's financial reporting process and for approving audited annual report.

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

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

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

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

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

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

From the matters communicated with Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 3 July 2015. Our total uninterrupted engagement has lasted 4 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Yuri Sidorovich, certified auditor.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 4 April 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

1. Financial statements of SID Bank and the SID Bank Group

1.1 Statement of financial position

		SID Bank		SID Bank Group	
(EUR thousand)	Note	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Cash, cash balances at central banks and other demand deposits at banks	2.4.1	121,184	71,071	121,184	75,950
Non-trading financial assets mandatorily at fair value through profit or loss	2.4.2	15,667	n.a.	15,667	n.a.
Financial assets measured at fair value through other comprehensive income	2.4.3	662,688	n.a.	662,688	n.a.
Available-for-sale financial assets (under IAS 39)	2.4.4	n.a.	730,521	n.a.	750,004
Financial assets measured at amortised cost	2.4.5	1,502,323	n.a.	1,502,319	n.a.
Loans and advances to banks		809,350	n.a.	809,350	n.a.
Loans and advances to customers		691,120	n.a.	691,120	n.a.
Other financial assets		1,853	n.a.	1,849	n.a.
Loans and advances (under IAS 39)	2.4.6	n.a.	1,631,472	n.a.	1,636,725
Loans and advances to banks		n.a.	1,032,179	n.a.	1,037,431
Loans and advances to customers		n.a.	597,740	n.a.	597,740
Other financial assets		n.a.	1,553	n.a.	1,554
Investments in subsidiaries, associates and joint ventures	2.4.8	0	8,413	0	0
Property, plant and equipment	2.4.7	4,922	4,992	4,922	7,476
Intangible assets	2.4.7	999	804	999	1,281
Corporate income tax assets	2.4.9	2,271	4,086	2,271	4,513
Current tax assets		0	4,086	0	4,513
Deferred tax assets		2,271	0	2,271	0
Other assets	2.4.10	367	282	367	21,353
Non-current assets held for sale and discontinued operations	2.4.11	8,413	0	54,124	0
TOTAL ASSETS		**2,318,834**	**2,451,641**	**2,364,541**	**2,497,302**
Financial liabilities measured at amortised cost	2.4.12	1,889,321	2,038,146	1,889,321	2,039,017
Deposits by banks and central banks		43,293	25,264	43,293	25,264
Deposits by customers		39,210	0	39,210	0
Loans from banks and central banks		1,162,951	1,205,543	1,162,951	1,205,543
Loans from customers		509,242	454,828	509,242	454,828
Debt securities		132,601	350,320	132,601	350,320
Other financial liabilities		2,024	2,191	2,024	3,062
Hedging derivatives	2.4.13	2,898	93	2,898	93
Provisions	2.4.14	1,130	2,946	1,130	27,137
Corporate income tax liabilities	2.4.9	3,294	447	3,294	569
Current tax liabilities		3,294	0	3,294	0
Deferred tax liabilities		0	447	0	569
Other liabilities	2.4.15	140	116	140	2,886
Liabilities associated with non-current assets held for sale and discontinued operations	2.4.11	0	0	30,052	0
TOTAL LIABILITIES		1,896,783	2,041,748	1,926,835	2,069,702
Share capital		300,000	300,000	300,000	300,000
Share premium account		1,139	1,139	1,139	1,139
Accumulated other comprehensive income		3,731	15,444	4,238	16,068
Profit reserves		102,149	88,005	114,779	107,859
Treasury shares		(1,324)	(1,324)	(1,324)	(1,324)
Retained earnings (including net profit for financial year)		16,356	6,629	18,874	3,858
Equity attributable to owners of controlling bank		422,051	409,893	437,706	427,600
TOTAL EQUITY	2.4.16	422,051	409,893	437,706	427,600
TOTAL EQUITY AND LIABILITIES		**2,318,834**	**2,451,641**	**2,364,541**	**2,497,302**

The notes are an integral part of the financial statements.

1.2 Statement of profit or loss

		SID Bank		SID Bank Group	
(EUR thousand)	Note	2018	2017	2018	2017
Interest income recognised at effective interest rate		31,122	29,119	31,122	29,119
Interest income		31,122	29,119	31,122	29,119
Interest expenses		(8,136)	(8,825)	(8,136)	(8,825)
Net interest	2.5.1	22,986	20,294	22,986	20,294
Dividend income	2.5.2	618	3,440	36	87
Fee and commission income		591	232	591	232
Fee and commission expenses		(300)	(459)	(300)	(459)
Net fees and commission	2.5.3	291	(227)	291	(227)
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	2.5.4	3,218	(1,523)	3,218	(1,523)
Net gains/(losses) on financial assets and liabilities held for trading		(6)	385	(6)	385
Net gains on non-trading financial assets mandatorily at fair value through profit or loss	2.5.5	655	n.a.	655	n.a.
Changes in fair value in hedge accounting	2.5.6	(129)	21	(129)	21
Net foreign exchange (losses)	2.5.7	(8)	(1,186)	(8)	(1,186)
Net gains/(losses) on derecognition of non-financial assets		3	(5)	3	(5)
Other net operating gains	2.5.8	3,362	1,732	3,319	1,679
Administrative expenses	2.5.9	(13,270)	(12,394)	(13,270)	(12,388)
Depreciation and amortisation	2.5.10	(881)	(852)	(881)	(852)
Net (losses) on change in repayment terms		(35)	n.a.	(35)	n.a.
Provisions	2.5.11	(322)	(917)	(322)	(917)
Impairments	2.5.12	1,037	7,452	1,037	7,452
Net gains on non-current assets held for sale and associated liabilities		0	4	0	4
Profit from continuing operations		17,519	16,224	16,894	12,824
Corporate income tax on continuing operations	2.5.13	(3,205)	(2,268)	(3,205)	(2,268)
Net profit from continuing operations		**14,314**	**13,956**	**13,689**	**10,556**
Net profit/(loss) after tax from discontinued operations	2.5.14	0	0	(1,308)	1,206
Net profit for financial year		**14,314**	**13,956**	**12,381**	**11,762**
Attributable to owners of bank		14,314	13,956	12,381	11,762
Continuing operations		14,314	13,956	13,689	10,556
Discontinued operations		0	0	(1,308)	1,206
Basic earnings per share / diluted earnings per share, EUR	2.5.15	**4.61**	**4.50**	**3.99**	**3.79**

The notes are an integral part of the financial statements.

1.3 Statement of comprehensive income

		SID Bank		SID Bank Group	
(EUR thousand)	Note	2018	2017	2018	2017
Net profit for financial year after tax		14,314	13,956	12,381	11,762
Other comprehensive income after tax		(10,317)	2,108	(10,436)	2,030
Items that will not be reclassified to profit or loss		2,952	0	2,979	7
Actuarial gains associated with defined-benefit pension plans		0	0	30	8
Gains associated with fair value changes of equity instruments measured at fair value through other comprehensive income		3,645	n.a.	3,645	n.a.
Corporate income tax associated with items that will not be reclassified to profit or loss	2.4.9	(693)	0	(696)	(1)
Items that may be reclassified subsequently to profit or loss		(13,269)	2,108	(13,415)	2,023
(Losses) associated with cash flow hedges (effective portion)		(2,150)	0	(2,150)	0
Valuation (losses) taken to equity		(2,275)	0	(2,275)	0
Transfer to profit or loss		125	0	125	0
(Losses) associated with investments in debt instruments at fair value through other comprehensive income	2.4.3	(14,230)	n.a.	(14,410)	n.a.
Valuation (losses) taken to equity		(13,154)	n.a.	(13,334)	n.a.
Transfer to profit or loss		(1,076)	n.a.	(1,076)	n.a.
Gains associated with available-for-sale financial assets (under IAS 39)	2.4.4	n.a.	2,603	n.a.	2,498
Valuation gains taken to equity		n.a.	5,787	n.a.	5,671
Transfer to profit or loss		n.a.	(3,184)	n.a.	(3,173)
Corporate income tax associated with items that may be reclassified subsequently to profit and loss	2.4.9	3,111	(495)	3,145	(475)
Total comprehensive income for financial year after tax		3,997	16,064	1,945	13,792
Attributable to owners of bank		3,997	16,064	1,945	13,792
Continuing operations		3,997	16,064	1,097	12,711
Discontinued operations		0	0	848	1,081

The notes are an integral part of the financial statements.

1.4 Statement of changes in equity

SID Bank

2018 (EUR thousand)	Share capital	Share premium account	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for financial year)	Treasury shares	Total equity
OPENING BALANCE as at 1 Jan 2018 (before adjustment)	300,000	1,139	15,444	88,005	6,629	(1,324)	409,893
Effects of changes in accounting policies (IFRS 9)	0	0	(1,396)	0	9,557	0	8,161
OPENING BALANCE as at 1 Jan 2018	300,000	1,139	14,048	88,005	16,186	(1,324)	418,054
Net profit for period	0	0	0	0	14,314	0	14,314
Other comprehensive income	0	0	(10,317)	0	0	0	(10,317)
Total comprehensive income for financial year after tax	0	0	(10,317)	0	14,314	0	3,997
Allocation of net profit to profit reserves	0	0	0	14,144	(14,144)	0	0
CLOSING BALANCE as at 31 Dec 2018	**300,000**	**1,139**	**3,731**	**102,149**	**16,356**	**(1,324)**	**422,051**

The notes are an integral part of the financial statements.

2017 (EUR thousand)	Share capital	Share premium account	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for financial year)	Treasury shares	Total equity
OPENING BALANCE as at 1 Jan 2017	300,000	1,139	13,335	70,531	10,148	(1,324)	393,829
Net profit for period	0	0	0	0	13,956	0	13,956
Other comprehensive income	0	0	2,108	0	0	0	2,108
Total comprehensive income for financial year after tax	0	0	2,108	0	13,956	0	16,064
Allocation of net profit to profit reserves	0	0	0	17,474	(17,474)	0	0
CLOSING BALANCE as at 31 Dec 2017	**300,000**	**1,139**	**15,444**	**88,005**	**6,629**	**(1,324)**	**409,893**

The notes are an integral part of the financial statements.

SID Bank Group

2018 (EUR thousand)	Share capital	Share premium account	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for financial year)	Treasury shares	Equity attributable to owners of controlling bank	Total equity
OPENING BALANCE as at 1 Jan 2018 (before adjustment)	300,000	1,139	16,068	107,859	3,858	(1,324)	427,600	427,600
Effects of changes in accounting policies (IFRS 9)	0	0	(1,396)	0	9,557	0	8,161	8,161
OPENING BALANCE as at 1 Jan 2018	300,000	1,139	14,672	107,859	13,415	(1,324)	435,761	435,761
Net profit for period	0	0	0	0	12,381	0	12,381	12,381
Other comprehensive income	0	0	(10,436)	0	0	0	(10,436)	(10,436)
Total comprehensive income for financial year after tax	0	0	(10,436)	0	12,381	0	1,945	1,945
Allocation of net profit to profit reserves	0	0	0	11,856	(11,856)	0	0	0
Transfer of profit reserves to retained earnings	0	0	0	(4,936)	4,936	0	0	0
Other*	0	0	2	0	(2)	0	0	0
CLOSING BALANCE as at 31 Dec 2018	**300,000**	**1,139**	**4,238**	**114,779**	**18,874**	**(1,324)**	**437,706**	**437,706**

* transfer of actuarial gains to retained earnings

The notes are an integral part of the financial statements.

2017 (EUR thousand)	Share capital	Share premium account	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for financial year)	Treasury shares	Equity attributable to owners of controlling bank	Total equity
OPENING BALANCE as at 1 Jan 2017	300,000	1,139	14,039	83,187	16,766	(1,324)	413,807	413,807
Net profit for period	0	0	0	0	11,762	0	11,762	11,762
Other comprehensive income	0	0	2,030	0	0	0	2,030	2,030
Total comprehensive income for financial year after tax	0	0	2,030	0	11,762	0	13,792	13,792
Allocation of net profit to profit reserves	0	0	0	24,672	(24,672)	0	0	0
Other*	0	0	(2)	0	2	0	0	0
CLOSING BALANCE as at 31 Dec 2017	**300,000**	**1,139**	**16,068**	**107,859**	**3,858**	**(1,324)**	**427,600**	**427,600**

* transfer of actuarial gains to retained earnings

The notes are an integral part of the financial statements.

1.5 Statement of cash flows

	SID Bank		SID Bank Group	
(EUR thousand)	**2018**	2017	**2018**	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Pre-tax profit	17,519	16,224	15,586	14,168
Depreciation and amortisation	881	852	881	1,267
(Reversal of impairments) of investments in debt instruments measured at fair value through other comprehensive income	(789)	n.a.	(789)	n.a.
(Reversal of impairments) of loans and other financial assets measured at amortised cost	(248)	(7,731)	(248)	(7,731)
Impairments of property, plant and equipment (including impairments of investment property), intangible assets and other assets	0	0	0	91
Impairments of investments in subsidiaries, associates and joint ventures	0	279	0	279
Net (gains) on investments in subsidiaries, associates and joint ventures	n.a.	(3,353)	n.a.	0
Net foreign exchange losses	8	1,186	8	1,185
Net losses on change in repayment terms of debt financial instruments	35	n.a.	35	n.a.
Net (gains)/losses on sale of property, plant and equipment	(3)	5	(3)	5
Other (gains) from investing activities	(618)	(87)	(36)	(87)
Net unrealised (gains) on non-current assets held for sale and discontinued operations and associated liabilities	0	(4)	0	(4)
Other adjustments in pre-tax profit	(90)	447	(90)	329
Cash flows from operating activities before changes in operating assets and liabilities	**16,695**	**7,818**	**15,344**	**9,502**
Decrease in operating assets (excluding cash equivalents)	**220,663**	**30,389**	**221,078**	**31,874**
Net decrease in financial assets held for trading	0	73	0	73
Net decrease in non-trading financial assets mandatorily at fair value through profit or loss	3,007	n.a.	3,007	n.a.
Net decrease in financial assets measured at fair value through other comprehensive income	58,037	n.a.	58,037	n.a.
Net decrease in available-for-sale financial assets	n.a.	48,503	n.a.	52,303
Net (increase)/decrease in loans and other financial assets measured at amortised cost	159,704	(18,210)	159,704	(17,330)
Net decrease in available-for-sale non-current assets	0	0	415	0
Net (increase)/decrease in other assets	(85)	23	(85)	(3,172)
(Decrease) in operating liabilities	**(182,455)**	**(107,300)**	**(180,293)**	**(106,331)**
Net (decrease) in financial liabilities held for trading	0	(4)	0	(4)
Net increase in deposits and loans measured at amortised cost	34,832	16,372	34,832	16,513
Net (decrease) in issued debt securities measured at amortised cost	(217,508)	(110,280)	(217,508)	(110,280)
Net increase in hedging derivatives	201	143	201	143
Net increase in liabilities associated with non-current assets held for sale	0	0	2,162	0
Net increase/(decrease) in other liabilities	20	(13,531)	20	(12,703)
Cash flows from operating activities	**54,903**	**(69,093)**	**56,129**	**(64,955)**
(Paid)/refunded corporate income tax	**1,963**	**(9,981)**	**1,963**	**(10,887)**
Net cash flow from operating activities	**56,866**	**(79,074)**	**58,092**	**(75,842)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Inflows from investing activities	**625**	**3,442**	**43**	**89**
Proceeds from sale of property, plant and equipment	7	2	7	2
Other inflows from investing activities	618	3,440	36	87
Outflows from investing activities	**(1,003)**	**(840)**	**(1,003)**	**(1,527)**
(Acquisition of property, plant and equipment)	(494)	(279)	(494)	(829)
(Acquisition of intangible assets)	(509)	(282)	(509)	(419)
(Acquisition of investments in subsidiaries, associates and joint ventures)	0	(279)	0	(279)
Net cash flow from investing activities	**(378)**	**2,602**	**(960)**	**(1,438)**

(EUR thousand)	SID Bank 2018	SID Bank 2017	SID Bank Group 2018	SID Bank Group 2017
Effect of foreign exchange differences on cash and cash equivalents	250	(125)	250	(125)
Net increase/(decrease) in cash and cash equivalents	**56,488**	**(76,472)**	**57,132**	**(77,280)**
Opening balance of cash and cash equivalents	**71,071**	**147,668**	**75,950**	**153,355**
Closing balance of cash and cash equivalents	**127,809**	**71,071**	**133,332**	**75,950**

The notes are an integral part of the financial statements.

Cash equivalents

(EUR thousand)	SID Bank 31 Dec 2018	SID Bank 31 Dec 2017	SID Bank Group 31 Dec 2018	SID Bank Group 31 Dec 2017
Bank deposits	6,625	0	6,625	0
Cash, cash balance in settlement account at central bank	120,871	70,778	120,871	70,778
Sight deposits at banks	313	293	313	5,172
Cash and cash equivalents of discontinued operations	0	0	5,523	0
Total	**127,809**	**71,071**	**133,332**	**75,950**

Cash flows from interest and dividends

(EUR thousand)	SID Bank 2018	SID Bank 2017	SID Bank Group 2018	SID Bank Group 2017
Cash flows from interest and dividends				
Interest received	43,115	45,166	43,115	45,749
Interest paid	(10,358)	(11,418)	(10,358)	(11,418)
Dividends received	618	3,440	36	87
Total	**33,375**	**37,188**	**33,375**	**34,418**

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

Pre-tax profit served as the basis for the preparation of the cash flow of SID Bank and the SID Bank Group.

Under the indirect method, the net cash flow from operating activities is determined by adjusting pre-tax profit for the effects of changes in operating receivables and liabilities, the effects of non-cash items such as depreciation and amortisation, provisions, impairments, fair value changes in hedge accounting, and foreign exchange differences, and the effects of cash flows from investing activities. SID Bank and the SID Bank Group include the effects of changes in issued debt securities in net cash flows from operating activities.

Cash flows from investing activities are determined by the direct method, and include dividends received under inflows from investing activities and proceeds from the sale of property, plant and equipment, while outflows from investing activities include acquisitions of property, plant and equipment, acquisitions of intangible assets, and acquisitions of investments in joint ventures.

2 Notes to the financial statements

Sections 1.1 to 1.5 of the financial report present the statement of financial position as at 31 December 2018, the statement of profit or loss for the 2018 financial year, the statement of other comprehensive income for the 2018 financial year, the statement of changes in equity for the 2018 financial year and the statement of cash flows for the 2018 financial year for SID Bank (separate statements) and for the SID Bank Group (consolidated statements). Figures for the position as at 31 December 2017 and for the 2017 financial year are disclosed in the aforementioned financial statements for the purposes of comparison.

The abbreviation "n.a." (not applicable) is used in tables when an item is not relevant to the period in question. As a general rule, "n.a." is used for changes in financial statement categories and the corresponding changes in the structure of the reporting of financial instruments, and the related disclosures deriving from the initial application of IFRS 9.

Henceforth where the figures for the Bank and the Group are identical, they are only presented once.

2.1 Basic information

The SID Bank Group (also referred to simply as "the Group") comprises SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana (hereinafter: SID Bank or "the Bank") as the controlling company, a subsidiary, joint ventures and an associate. A detailed presentation of the Group is given in section 2.4.8.

The SID Bank Group provides banking services under authorisations obtained from the Bank of Slovenia, and undertakes transactions under the authorisation of the Slovenian state (the Republic of Slovenia) and insurance of receivables. The granting of loans to promote development, environmental protection and energy projects accounts for the majority of its banking activities. A more detailed description of the services under authorisation is given in section 2.3.21.

SID Bank's registered office is at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia.

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

2.2 Statement of compliance

The financial statements of SID Bank and the SID Bank Group have been compiled in accordance with the International Financial Reporting Standards and the corresponding interpretations as approved by the EU (the IFRS), having regard for the Companies Act, the Banking Act and Bank of Slovenia regulations.

2.3 Significant accounting policies

The significant accounting policies that provide the basis of measurement for the compilation of the financial statements of SID Bank and the SID Bank Group and other accounting policies that are of significance in the interpretation of the separate and consolidated financial statements are given below.

In light of their immateriality, the accounting policies relating to insurance contracts are not disclosed in detail.

In compiling the financial statements for 2018 the Bank applied the same accounting policies as those used in compiling the financial statements for 2017, with the exception of the accounting standards and other changes effective as of 1 January 2018 and approved by the EU.

2.3.1 Basis for compiling the financial statements

The financial statements of SID Bank and the SID Bank Group have been compiled on a going-concern basis, on an original cost basis, with the exception of financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets held for trading, hedging derivatives 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 and judgements and material uncertainties

The compilation of the financial statements in accordance with the IFRS at SID Bank and the 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 the SID Bank Group. Estimates and judgments were applied to the following:
- impairments of financial assets measured at amortised cost, provisions for contingent liabilities and impairments of financial assets measured at fair value through other comprehensive income (see note in section 2.3.11 Impairments of financial assets and provisions),
- estimates of the fair value of financial assets and liabilities (see note in section 2.3.11 Principles applied in valuation at fair value),
- valuation of derivatives (see notes in section 2.3.12 Derivatives and hedge accounting),
- depreciation and amortisation period of property, plant and equipment and intangible assets (see notes in section 2.3.14 Property, plant and equipment and intangible assets),
- potential tax items (see notes in section 2.3.22 Taxes), and
- provisions for commitments to employees (see notes in section 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

Undertakings included in consolidation

The following are included in the consolidated financial statements:

- full consolidation method: the controlling company SID Bank, and the subsidiary SID - Prva kreditna zavarovalnica d.d., Ljubljana, and
- equity method: the Prvi Faktor Group (joint venture).

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

Consolidation of the subsidiary has been undertaken not in the traditional method, but rather in accordance with IFRS 5 given the intended sale of the subsidiary. This means that intragroup stocks and transactions are first eliminated from the subsidiary's financial statements, then the total assets that remain are disclosed under non-current assets held for sale and discontinued operations, while the total liabilities that remain are disclosed under liabilities associated with non-current assets held for sale and discontinued operations. In profit or loss, the undertaking's overall result after the elimination of intragroup relations is disclosed in a single row under net profit/(loss) after tax from discontinued operations.

For the sake of the comparability of the net profit with the figures for the previous year, the SID Bank Group's net profit has been restated in the same manner in line with the requirements of standards.

A joint venture is a company jointly controlled by the SID Bank Group on the basis of a contractual agreement. In the consolidated financial statements, investments in joint ventures are accounted under the equity method. The pertaining profit or loss of the joint venture is recognised in the consolidated statement of profit or loss. The pertaining effects included in other comprehensive income of the joint venture are recognised in other comprehensive income. Investments in joint ventures are adjusted to the recognised effects. When the loss exceeds the investment value in the consolidated statement of financial position, the loss is no longer recognised, unless a liability derives from it that would have to be settled by the SID Bank Group. The SID Group re-recognises its share of the profits from the investment in a joint venture only after its share of the profits equals the amount of unrecognised loss.

Undertakings excluded from consolidation

Given its immateriality to a true and fair picture of the financial statements, SID Bank does not include the associate, the Centre for International Cooperation and Development (CMSR), in consolidation. SID Bank is a co-founder of the CMSR, in which it does not have any financial stake, but holds 33% of the voting rights.

An associate is a company in which SID Bank directly or indirectly holds 20% or more of the voting rights, and exercises significant influence on it but does not control it.

The total assets of the CMSR amount to less than 1% of SID Bank's total assets. On the basis of the aforementioned indicator, the CMSR is immaterial to the SID Bank Group, and is therefore excluded from consolidation.

Assessments concerning control decisions

The principles of management and the assessment of the following factors are used as the basis for consolidation: the purpose and structure of the investee, relevant activities and associated decision-making, whether it is able to direct important activities based on existing rights, whether the investor is exposed to variable returns and whether the investor may influence the returns.

2.3.4 Functional and reporting currency

The financial statements of SID Bank and the SID Bank Group have been compiled in euros, which is the reporting currency of the SID Bank Group, and the functional currency of SID Bank.

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

2.3.5 Translation of transactions and items in foreign currency

All transactions in foreign currency are converted into the functional currency at the exchange rate on the transaction date. Foreign exchange differences are recognised in profit or loss as foreign exchange gains/losses.

Assets and liabilities denominated in foreign currencies are converted in the Bank's and Group's financial statements using the reference European Central Bank exchange rate applicable on the reporting date. Translation effects are disclosed in profit or loss as foreign exchange gains/losses.

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

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

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

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

2.3.6 Cash equivalents

Cash equivalents in the statement of cash flows include cash-on-hand and balances in settlement accounts and business accounts at banks, and deposits at and loans to banks, and securities measured at fair value through other comprehensive income with an original maturity of no more than three months.

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

2.3.7 Interest income and expenses

Interest income and interest expenses include income and expenses for interest on loans granted and received, interest on derivatives, interest on financial assets measured at fair value through other comprehensive income and other interest.

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

Accrued interest relating to impaired loans is excluded from income and is only recognised in the event of payment.

For financial assets measured at fair value through other comprehensive income, interest income calculated on the basis of amortised cost using the effective interest rate method is calculated on the basis of yield-to-maturity.

2.3.8 Fees and commission received and granted

Fee and commission income primarily includes fees and commission on guarantees and loans granted, which are not included in the effective interest rate. Fee and commission expenses comprise fees and commission for loan borrowings, and for stock exchange transactions and other transactions in securities.

Fees and commission are recognised in profit or loss when a service has been rendered.Fees and commission included in the calculation of the effective interest rate of a financial asset or financial liabilities are disclosed under interest income or interest expenses.

2.3.9 Dividend income

Dividend income is recognised in profit or loss when the right to receive dividends is acquired, and it is probable that the economic benefits associated with the transaction will flow to the undertaking.

2.3.10 Other net operating gains/losses

Other net operating gains/losses recognised in profit or loss include revenues for non-banking services, income from insurance operations and expenses for insurance operations.

Revenues for non-banking services include revenues for credit assessment information, fees for services provided under authorisation and other services.

Revenue is recognised when the contractual obligation has been performed, i.e. when the goods and services have been transferred to the customer. It is recognised in an amount that reflects the consideration to which the undertaking expects to be entitled.

2.3.11 Financial instruments

Classification and measurement of financial instruments in accordance with IFRS 9

Business model

Classification and measurement of financial assets in the financial statements is determined by the selected business model within which financial assets are managed, and the characteristics of their contractual cash flows.

Upon their initial recognition, each financial asset is classified into one of the following business models:
1. a model whose purpose is the collection of contractual cash flows (hold to collect model: measurement at amortised cost),

2. a model whose purpose is the collection of contractual cash flows and sale (hold to collect and sell model: measurement at fair value through other comprehensive income),
3. other models (measurement at fair value through profit or loss and through other comprehensive income).

SID Bank assesses the purpose of the business model under which the financial asset is classified on a portfolio basis, as this is the method used for the management of operations and the submission of information to the management. Given its role and framework of operation, SID Bank manages financial assets under the first two basic business models, and only classifies financial assets under the third business model when they fail to meet the conditions of one of the first two business models.

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.

SID Bank's basic business activity involves lending operations executed either via commercial banks or in cooperation with them, or via direct lending to final beneficiaries. The aim of lending activities is to collect contractual cash flows, and accordingly these transactions are classified under the first business model.

The purpose of treasury transactions is to manage liquidity, interest rate risk and currency risk, and to provide funding for the purposes of financing. The purpose of deposit and credit operations is the collection of contractual cash flows, and they are therefore classified under the first business model. Transactions in debt securities may be concluded to collect contractual cash flows or also with the eventual aim of sale, and on this basis they can be classified under the first or second business models.

According to the requirements of the standard, all equity instruments may only be classified under the third business model. Given that these financial instruments are not traded by the Bank, it decides, upon initial recognition of an individual equity or a group of equities, whether it will use the alternative option of measurement under other comprehensive income. Financial assets that fail the SPPI test are also classified under this business model.

Assessment of whether contractual cash flows comprise solely payments of principal and interest (SPPI test)

SID Bank carries out an SPPI test for debt instruments assigned to the hold to collect model and the hold to collect and sell model. For the purpose of this assessment, the principal is defined as the fair value of financial assets upon initial recognition. Interest is defined as a compensation for the time value of money, the credit risk associated with the unpaid principal and other lending risks and costs (liquidity risk and administrative expenses) and the profit margin.

The Bank assesses whether contractual cash flows are comprised solely of payments of principal and interest on the basis of the contractual characteristics of the financial instrument. This assessment also involves a judgment of whether the financial asset contains contractual provisions that may change the time and amount of the contractual cash flows so that this condition would no longer be met. In so doing, the Bank takes account of:

- potential events that could change the time and amount of contractual cash flows;
- the possibility of early repayment or extended loan repayment;
- conditions that restrict the Group's cash flows of some assets (e.g. subordination of payments);
- characteristics that change the understanding of the time value of money (e.g. periodic repricing of interest rates).

If a debt instrument fails the SPPI test, it has to be measured at fair value, i.e. under the third business model.

Categories of financial assets

Based on the business model and the SPPI test carried out for the first and second business models, financial assets are assigned to the following categories:

Financial assets measured at amortised cost

Financial assets are measured at amortised cost if they are assets under the hold to collect business model, for which the contractual provisions stipulate the payment of certain time-dependent cash flows that constitute solely the payment of the principal and interest on the unpaid principal.

The Bank includes in this category loans and other financial assets such as trade receivables, and debt securities that it has determined that it does not intend to sell. The effects of interest, foreign exchange differences and impairments are recognised in profit or loss.

Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if they are financial assets under the hold to collect and sell business model, for which the contractual provisions stipulate the payment of certain time-dependent cash flows that constitute solely the payment of the principal and interest on the unpaid principal.

The Bank includes debt securities in this category.

These assets are recognised at fair value in the statement of financial position. The effects in profit or loss are the same as in the case of measurement at amortised cost, i.e. interest, foreign exchange differences from the amortised cost of the financial assets and impairments. The difference between the amortised cost and the fair value, taking account of the creation of impairments for expected credit losses, is recorded under other comprehensive income.

Upon derecognition the accumulated effect of the measurement is transferred from other comprehensive income to profit or loss.

The Bank also valuates equities at fair value through other comprehensive income. The Bank does not trade in equities and it acquires them either through the conversion of non-performing claims or as a strategic investment, and in each individual case chooses the option of measuring them at fair value through other comprehensive income. In this case only dividend income is recognised in profit or loss. Effects accumulated under other comprehensive income are never transferred to profit or loss, even upon derecognition.

Financial assets at fair value through profit or loss

If financial assets are not measured at amortised cost or fair value through other comprehensive income, they are measured at fair value through profit or loss.

This category primarily includes financial assets mandatorily at fair value through profit or loss and financial assets designated for measurement at fair value through profit or loss.

Financial assets mandatorily at fair value through profit or loss include any debt instruments that are otherwise managed under the first and second business models, but owing to the characteristics of the contractual cash flows did not pass the SPPI test, and derivatives otherwise used for hedging other on-balance sheet items but that do not meet all of the conditions to be classified as hedging derivatives.

The Bank would classify debt instruments that passed the SPPI test but that were defined as hedging instruments upon initial recognition under financial assets designated for measurement at fair value through profit or loss, if such classification would materially reduce or eliminate accounting discrepancies that occur due to the use of different valuation methods. The Bank currently has no such financial assets.

The aforementioned categories of financial assets have replaced the categories for the measurement of financial assets under IAS 39.

Derecognition of modified financial assets

IFRS 9 maintains the provisions of IAS 39 according to which financial assets are derecognised when the contractual rights to the cash flows expire, or the asset is transferred and the transfer qualifies for derecognition, but it fails to provide any guidance on how to apply this criterion in the event of changed or modified financial assets.

In defining whether a change in financial assets results in derecognition and the recognition of a new financial asset, or the existing financial asset remains recognised and its gross carrying amount is adjusted by a gain or loss arising from the change, SID Bank applies the criteria below:

The primary criteria for derecognition are:

- when the net present value of modified contractual cash flows of a financial asset differs by more than 10% from the net present value of the residual cash flows prior to the modification, it is recognised as a material change resulting in derecognition;
- notwithstanding the 10% criterion, the Bank may derecognise an asset in the event that the change in repayment terms (e.g. a change in maturity, currency and/or interest rate) did not occur as the result of the debtor's inability to repay debt under the originally agreed terms, but for commercial and/or market-related reasons, and the original exposure was classified as stage 1 for the purpose of creating allowances and/or provisions for credit losses, prior to the change in repayment terms;
- when the change results in the reclassification of an on-balance sheet exposure and a transition to measurement at fair value;
- a new debtor replaces the original debtor in the credit relationship by virtue of a new contract based on which the original debtor's debt is repaid. The aforementioned rule does not apply if the new debtor is part of a group of connected clients that includes the original debtor;
- consolidation of several financial assets into a single or modified structure of new financial assets with a new cash flow scheme;
- a change in contractual currency;
- partial conversion of debt to equity.

Upon derecognition, all costs and fees are disclosed in profit or loss upon derecognition of the original financial asset, and the new financial asset is recognised at fair value, i.e. less expected credit losses as appropriate.

Write-off of investment operations

The Bank writes off receivables from investment operations when recovery has failed (generally after the exhaustion of all legal remedies and after the end of the statute-barring periods), or in the event that the customer no long possesses any assets with which the debt from the investment operation could be repaid. In so doing the Bank takes account of Article 32 of the Bank of Slovenia's regulation on credit risk management at banks and savings banks, which regulates the write-off of problem exposures for reason of failed recovery.

The previous paragraph notwithstanding, the write-off of an exposure in full nevertheless occurs on the basis of a final court order on the completion of bankruptcy proceedings administered against the customer.

Should it be assessed in the recovery procedure that an on-balance-sheet exposure will not be repaid, and that the conditions for derecognising the exposure from the statement of financial position have been met in accordance with the IFRS, the procedure for derecognising the outstanding exposure from the statement of financial position and transferring it to the off-balance-sheet records in full is begun even before a final court order on the completion of bankruptcy proceedings is obtained, in the following cases:

a) for unsecured exposures, when bankruptcy proceedings are initiated against the customer and the order initiating bankruptcy proceedings is final,
b) for secured exposures, when a period of more than the following has passed since the order initiating bankruptcy proceedings became final:
   - seven years for exposures secured by real estate,

- five years for exposures secured by movable property or other forms of credit protection (e.g. guarantees, securities, monetary claims, and the aforementioned assets have not been liquidated in the interim. If the exposure is secured by collateral of various types, the longer of the periods regarding the other assets is taken into account.

The write-off of an exposure may also occur:

a) if an extra-judicial forbearance agreement or extra-judicial settlement is concluded between SID Bank and the customer,
b) on the basis of the sale of SID Bank's receivables, in the amount representing the difference between SID Bank's exposure as at the reporting date and the selling price achieved,
c) on the basis of a final court order approving compulsory composition or simplified compulsory composition or a financial restructuring agreement, in the amount in which SID Bank's right to exercise payment from the customer in judicial or other proceedings was extinguished.

Financial liabilities

Financial liabilities are measured either at amortised cost or at fair value through profit or loss.

At 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, under which derivatives not used to hedge against risk are classified, and
- hedging derivatives, which include derivatives that meet the conditions for hedge accounting.

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

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

Principles applied in valuation at fair value

Fair value is the price that would be received when selling an asset or paid when transferring a liability in a transaction between market participants at the measurement date under current market terms, regardless of whether the price can be directly observed or estimated using a valuation technique. The price on the most advantageous market is not adjusted for transaction costs.

The fair value of a financial instrument at initial recognition is the same as the transaction price. Should one of the following conditions be met, the fair value is not equal to the transaction price:

- the transaction is executed under duress, or the vendor is compelled to accept a price in the case of financial difficulties;
- the transaction is executed between related parties;
- the transaction is executed in a market that is not the most advantageous;
- the transaction price includes transaction costs.

The valuation methods and the assumptions applied are additionally disclosed in section 3.7. The aforementioned note also describes and discloses the fair value hierarchy.

In comparison with IAS 39, IFRS 9 replaces the incurred loss model with the expected credit loss model, where in addition to historical data on recoverability it is necessary to take account of forward-looking information and other internal and external factors that indicate the debtor's solvency in the future.

Estimated expected credit losses need to be estimated for the following financial instruments:
- financial assets measured at amortised cost;
- debt securities classified as financial assets measured at fair value through other comprehensive income;
- lease receivables;
- off-balance-sheet exposures from loan commitments given and financial guarantee contracts.

In essence IFRS 9 distinguishes between the recognition of expected credit losses during a 12-month period, and lifetime expected credit losses. SID Bank classifies financial assets subject to impairment or provisions in accordance with IFRS 9 into stages as follows:
- financial assets where there has not yet been a significant increase in credit risk, and for which impairments and/or provisions for credit losses are measured on the basis of expected credit losses over a 12-month period are classified as stage 1. Interest income from these financial instruments is calculated on the basis of the gross carrying amount;
- financial assets where there has been a significant increase in credit risk in the period between initial recognition and the date for which the Bank is estimating the expected credit losses, and purchased or originated credit-impaired financial assets (POCI items) once they have become a performing exposure, are classified as stage 2. Allowances and provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime of the financial asset. Interest income from these financial instruments is calculated on the basis of the gross carrying amount;
- financial assets where there has been a default event on the part of the debtor, and purchased or originated credit-impaired financial assets (POCI items) while still a non-performing exposure, are classified as stage 3. Allowances and provisions for credit losses are measured on the basis of on expected credit losses over the entire lifetime of the financial instrument. Interest income from these financial instruments is calculated on the basis of the net carrying amount;

The Bank classifies a financial instrument as stage 1 upon initial recognition, except in the case of purchased or originated credit-impaired financial asset (POCI item), which is classified as stage 3. Upon subsequent measurement, the Bank assesses whether there has been a significant increase in the credit risk of the financial instrument in the period between initial recognition and the date for which the Bank is estimating expected credit losses. If the credit risk has not increased significantly, the financial instrument remains classified as stage 1. If there has been a significant increase in credit risk but the financial instrument has not been yet defined as a non-performing exposure, the financial instrument is classified as stage 2. If a purchased or originated credit-impaired financial asset (POCI item), becomes a performing exposure, it is classified as stage 2.

The requirements of IFRS 9 with regard to the assessment of expected credit losses are complex and require critical assessments by the management, and estimates and assumptions in the following areas in particular described in detail below:
- assessment of a significant increase in credit risk since initial recognition;
- inclusion of forward-looking information in the assessment of expected credit losses.

Measurement of expected credit loss

The Bank must measure expected credit losses of a financial instrument in a manner that takes account of:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and

- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Definition of default

In determining the default of a debtor, SID Bank applies the definition of a default of a debtor set out in Article 178 of the CRR, namely:
- the debtor is past due more than 90 days on any material credit obligation to SID bank or any of its subsidiaries, and/or
- it is unlikely that the debtor will settle its credit obligations to SID Bank or any of its subsidiaries in full, without recourse by the Bank to actions such as liquidation of collateral or other procedures.

Significant increase in credit risk

SID Bank assesses on each reporting date whether the credit risk inherent in a financial instrument has increased significantly since initial recognition. SID Bank assesses significant increases in credit risk using reasonable and supportable information at the level of the individual financial instrument, taking into account the following criteria:
- a change in credit rating with respect to initial recognition;
- a change in weighted lifetime probability of default with respect to initial recognition;
- the number of days past due at the level of the financial asset is more than 30 days,
- the financial instrument becomes a performing forborne exposure;
- the fair value is lower (by a specified percentage) than the amortised cost of a marketable debt security throughout a specified period.

SID Bank does not take account of the exemptions referred to in Article 5.5.10 of IFRS 9 with regard to the consideration of exposures with low credit risk.

Inputs used to calculate expected credit losses

SID Bank calculates expected credit losses on the basis of the following methodologies:
- methodology for stages 1 and 2,
- methodology for stage 3 (estimate of cash flows),
- methodology for stage 3 (estimate of collateral).

The inputs used to calculate expected credit losses on the basis of the methodology for stages 1 and 2 are as follows:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD);
- discount factor.

SID Bank defines the probability-of-default curve (PD curve) and loss-given-default curve (LGD curve) for individual homogeneous groups defined internally on the basis of internally developed methodologies.

Probability of default for two main homogeneous PD groups: SID Bank determines exposures to large enterprises in Slovenia and exposures to SMEs in Slovenia on the basis of modelled transition matrices. The input data in the model consists of microdata from the AJPES database for the period of 2006 to 2017. For the purposes of determining the probability of default for other main homogeneous PD groups, SID Bank uses the data of the rating agency Fitch Ratings, which is microdata to which SID Bank applies regression methods in survival analysis for modelling.

In the determination of loss given default, SID Bank applies the adjusted parameters contained in the Guidelines for calculating default rate and loss rate issued by the Bank of Slovenia, where forward-looking information is also taken into account.

SID Bank determines exposure at default with respect to the exposure of a financial instrument on the date of calculation of expected credit losses and the future contractual cash flows from the financial instruments. When calculating exposure at default for off-balance-sheet exposures, SID Bank takes account of the regulatory conversion factors set out in the CRR.

The effective interest rate determined at initial recognition or an approximation thereof is used as a discount factor. In the case of a purchased or originated credit-impaired financial asset (POCI item), the credit-adjusted effective interest rate determined at initial recognition is used for discounting. In connection with financial guarantee contracts and financial instruments for which the effective interest rate cannot be determined, SID Bank uses the weighted interest rate of performing exposures in its credit portfolio.

SID Bank calculates the expected credit losses on financial instruments classified as stage 3 on the basis of the methodology of cash flow estimation or collateral estimation, taking into account forward-looking information.

In the case of a purchased or originated credit-impaired financial asset (POCI item) that is defined as a non-performing exposure, SID Bank calculates the expected credit losses on the basis of the stage 3 methodologies. In the case of a purchased or originated credit-impaired financial asset (POCI item) that becomes a performing exposure, SID Bank calculates the expected credit losses on the basis of the stage 2 methodology.

Forward-looking information

In the determination of probability of default, SID Bank takes account of forward-looking information on the basis of the correlation between the default rate and a macroeconomic indicator derived from GDP growth.

In the determination of loss given default, SID Bank takes account of forward-looking information concerning the parameter of recovery rate for an unsecured exposure and the parameter of haircut in the form of factors of macroeconomic forecasts.

When determining the dependence of the parameter of recovery rate for an unsecured exposure on the state of the economy, SID Bank examined the recovery rates for unsecured exposures depending on the value of a macroeconomic indicator derived from GDP growth.

In order to calculate the factors of macroeconomic forecasts for the haircut parameter, SID Bank divided collateral into two groups:

- real estate collateral (commercial and residential real estate);
- other types of collateral (securities, movable property and receivables).

In order to identify the dependence of real estate values on the state of the economy, SID Bank took account of the correlation between the index of the Surveying and Mapping Authority of the Republic of Slovenia and a macroeconomic indicator derived from GDP growth, and the correlation between the collateral values from the Bank's portfolio and a macroeconomic indicator derived from GDP growth for other types of collateral.

SID Bank takes account of standard factors of macroeconomic forecasts to calculate expected credit losses for the entire portfolio. The factors of macroeconomic forecasts are taken into account in the calculation of individual points on the LGD curve for financial instruments classified in stages 1 and 2, and in the calculation of estimated repayments for financial instruments classified in stage 3.

In the calculation of expected credit losses, SID Bank takes into account three scenarios of macroeconomic forecasts, and may take account of more in the event of expected major shocks. In general the scenarios comprise the baseline, favourable and adverse projections of major macroeconomic factors. The gap between the favourable and adverse scenarios reflects the internally evaluated risk in the domestic and foreign macrofinancial environments.

	Annual GDP growth, %							
	Slovenia				Euro area			
	2018	2019	2020	2021	2018	2019	2020	2021
Baseline scenario	4.4	3.7	3.4	3.1	2.0	1.8	1.7	1.7
Favourable scenario	4.5	4.2	3.8	3.5	2.2	2.0	2.0	1.9
Adverse scenario	4.2	-0.1	0.6	1.4	1.8	0.5	0.5	1.0

Forborne loans

Forborne loans are loans arising as a result of the debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract or by signing a new contract under which the contracting parties agree the partial or total repayment of the original debt.

In the forbearance of loans, financial difficulties and the ability to repay a debt are assessed by the Bank at the level of the debtor. All related undertakings in the Group subject to consolidation for accounting purposes are classed as debtors. The debtor's ability to repay the debt is assessed by the Bank, in addition to the possibility of the acceptance of other assets or repayment via the liquidation of loan collateral, primarily from the perspective of the impact of the forbearance on the sufficiency of cash flows from the debtor's operations or from the perspective of the possibility of controlling those related undertakings that are capable of generating cash flows from operations.

The Bank forbears financial loans vis-à-vis debtors by undertaking one or more activities that it would not normally decide to undertake were the debtor in a normal economic and financial position. The potential activities that can be undertaken individually or in combination are determined by an implementing regulation issued by the Bank of Slovenia, namely:

- an extension of the deadline or a deferral of the repayment of the receivables,
- a reduction in the interest rate and/or other charges,
- a reduction in the amount of the receivables as a result of contractually agreed debt forgiveness and/or ownership restructuring,
- conversion of the debt into an equity investment in the debtor,
- acceptance of other assets (including the liquidation of credit protection) for the partial or full repayment of the receivables; and
- other activities.

All differences resulting from forbearance are recognised in profit or loss.

The Bank documents all decisions regarding the forbearance of loans whose value exceeds EUR 100,000 with an appropriate analysis of alternative solutions with their economic effects (from the liquidation of collateral, the sale of financial assets, the termination of the contract, and any other activities).

The Bank provides analytical records for forborne loans in its books of account, including information about the method of forbearance (via an annex or a new contract), the types of forbearance, the dates of forbearance, and effects that change the value of loans, including the effects of write-offs and derecognition from the statement of financial position, a change in the probability of loss, a change in the debtor's credit rating and any changes in the performance status of the forborne loans.

Hedge accounting

New developments in hedge accounting include the abolition of the measurement of hedge effectiveness, time value of options and forward points, determination of the total exposure of hedged items, the possibility of hedging separate components of risk, and prohibition of voluntary discontinuation of hedging relationships.

Eligible hedging instruments are:

- derivatives measured at fair value through profit or loss;
- non-derivative financial assets or non-derivative financial liabilities measured at fair value through profit or loss; and
- contracts with parties external to the Group and/or the Bank.

Undertakings may use hedge accounting in accordance with IAS 39 until the new standard on macro-hedging is published by the IASB. SID Bank uses this option.

Accounting policies for financial instruments in comparative statements

The Bank's accounting policies changed significantly with the introduction of IFRS 9 (effective as of 1 January 2018). In line with the transitional provisions of IFRS 9, data for the previous year (2017) is not restated in accordance with the new standard, therefore the on-balance sheet items in the financial statements for the previous year are presented in accordance with the accounting templates that were in force in the previous year.

IFRS 9 changed the categories for the classification of financial assets that applied under IAS 39. Under IFRS 9 financial assets held for trading are classified as financial assets mandatorily at fair value through profit or loss, loans and receivables are classified as financial assets measured at amortised cost, and available-for-sale financial assets are classified as financial assets measured at fair value through other comprehensive income, unless the business model of measurement at fair value through profit or loss applies to them. There were no changes in the classification and measurement of financial liabilities.

Detailed accounting policies with regard to financial instruments (classification, measurement, recognition, derecognition, principles used in valuation at fair value, gains and losses, and impairments of financial assets) in accordance with IAS 39 are stated in the 2017 annual report of SID Bank and the SID Bank Group (available on the Bank's website: https://www.sid.si/sites/www.sid.si/files/documents/sid_bank_annual_report_2017.pdf) on pages 108 to 112.

2.3.12 Derivatives and hedge accounting

The Bank makes use of the option to apply IAS 39 to hedge accounting, and does not yet apply IFRS 9 to these instruments.

Derivatives are classified as financial instruments held for trading and financial instruments used for hedging. They are recognised in the statement of financial position as assets when the fair value is positive, and as a liability when the fair value is negative.

SID Bank classifies derivatives such as foreign exchange forward contracts that serve for hedging against the currency risk that the Bank faces in its daily operations on the financial markets as financial instruments held for trading.

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

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

Hedge accounting means the booking of a hedge relationship between the hedging instrument (usually a derivative) and the hedged item (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 profit or loss, which would otherwise not be recognised in profit or loss simultaneously. In so doing the hedge relationship should be formally noted and appropriately documented.

When hedging is introduced, the Bank must produce a formal document that describes the relationship between the hedged item and the hedging instrument, the purpose of risk management, the valuation methodology and the hedging strategy. In addition, it has to document the assessment of the performance of hedging instruments when faced with exposure to changes in the fair value of the hedged item. These are the conditions that must be met for hedging relationships to be eligible. The bank assesses hedging performance at the conclusion of a transaction and then during the hedging relationship, and the hedging performance must fall within a range of 80% to 125%. Hedge accounting is discontinued when the hedging instrument expires or is sold, and when the hedging no longer qualifies for hedge accounting as described above.

Changes in the fair value of derivatives used as a fair value hedge are recognised in profit or loss in conjunction with the change in fair value of the hedged item that is attributable to the hedged risk. With an effective hedge, the fair value changes of the hedging instrument and associated hedged items are disclosed in profit or loss under the item of changes in fair value in hedge accounting.

2.3.13 Non-current assets held for sale

Non-current assets held for sale are assets whose carrying amount will be settled primarily through sale and not through further use. This condition is satisfied only when a sale is highly likely and the asset is available for immediate sale in its current condition.

Non-current assets are allocated to the aforementioned category when the owner has expressed in writing the intention to sell the asset, and a timetable of the sale process is enclosed. The sale must be made within one year of the asset being classified in this category.

Non-current assets held for sale are measured at the carrying amount before classification or at the fair value less cost to sell, whichever is the lower. The effects of the sale are disclosed in profit or loss as net gains/losses on non-current assets held for sale and the associated liabilities.

2.3.14 Property, plant and equipment and intangible assets

Property, plant and equipment

Property, plant and equipment comprise real estate, equipment and supplies.

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 of maintenance and repairs in connection with an item of property, plant and equipment are disclosed as costs in profit or loss. Investments in existing property, plant and equipment that increase the future economic benefits increase the value of the aforementioned assets.

After initial recognition a cost model is applied, which means that items of property, plant and equipment are disclosed at original cost, less the accumulated depreciation and accumulated impairment loss.

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

Property, plant and equipment become subject to depreciation once the asset is available for use. Depreciation is charged on a straight-line basis.

Depreciation rates in 2018 and 2017:

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

Property, plant and equipment are impaired when their carrying amount exceeds the recoverable amount. The impairment loss is recognised as an expense in profit or loss. The existence of indications of impairment is assessed at the end of each financial year, on the reporting date. 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 determinable useful life

This item includes investments in software and other property rights. In 2018 and 2017, software was subject to amortisation at a rate of 20% to 25%, and other property rights at a rate of 12% to 20%. Amortisation is charged on a straight-line basis.

Intangible assets with determinable useful life are impaired when their carrying amount exceeds the recoverable amount. The impairment loss is recognised as an expense in profit or loss. The existence of indications of impairment is assessed at the end of each financial year, on the reporting date. 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 determinable 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, 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 the value in use.

2.3.15 Long-term investments in subsidiaries and joint ventures

Interests in subsidiaries and joint ventures are recognised in separate financial statements at original cost (cost method), and dividends are recognised in profit or loss when the right to receive the dividend arises.

When there is evidence of the need for the impairment of an investment in a subsidiary or joint venture, the Bank assesses the recoverable amount for each investment separately. In the case of investments in subsidiaries where there is no goodwill at the time of acquisition, an assessment is made of whether there is any indication of impairment on the reporting date, and if there is such indication, an impairment test is conducted. In the case of investments in a joint venture, an impairment test is carried out on the basis of a goodwill impairment test of cash-generating units that includes goodwill. In the case of consolidated financial statements, a goodwill impairment test is carried out at each reporting date for cash-generating units.

Investment impairment tests are made in accordance with the commercial expectations of the individual investment.

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

2.3.16 Other assets

Receivables arising from insurance contracts, prepayments, tax assets and advances are included in other assets.

Other assets are recognised in the amounts arising from the relevant documents, on the assumption that they will be recovered. The fair value, i.e. recoverable amount, is examined for other assets in various ways on the reporting date. If there is objective evidence of other assets disclosed at amortised cost having undergone an impairment loss, it is disclosed as impairments in connection with other assets; the carrying amount of the other assets is reduced by the conversion in the value adjustment subsidiary account.

2.3.17 Provisions for liabilities and costs

Provisions are created for contingent losses in connection with risks inherent in off-balance-sheet liabilities (approved but unused loans and credit lines, guarantees), for termination benefits at retirement and for jubilee benefits, and for liabilities from insurance contracts.

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. Provisions are reversed when excessive provisions are established or when contingent losses in connection with risks are reduced.

SID Bank recognises provisions for off-balance-sheet liabilities on the basis of the procedures cited in section 2.3.11 under the title Impairments of financial assets and provisions

Provisions for commitments under insurance contracts arise from credit insurance held by the subsidiary SID-PKZ. Insurance technical provisions include unearned premium, provisions for claims outstanding, provisions for bonuses and rebates. Provisions for unearned premium comprise the unearned portion of premium written. They are calculated for each account separately (i.e. the invoice issued by the policyholder to its customer). The calculation of unearned premium takes account of the estimated time distribution of the probability of a loss event occurring. Provisions for claims outstanding are created in the amount of the estimated liabilities that the insurer is obliged to pay on the basis of insurance contracts in respect of which an insurance claim will occur before the end of the accounting period, irrespective of whether the insurance claim has already been reported, including all costs borne by the insurer on the basis of the contracts. Provisions for bonuses are created for insurance contracts that include a clause on the repayment of part of the premium. They are calculated across individual insurance contracts with regard to earned premium in an individual contract year and with regard to the estimated claims ratio prior to the reporting date.

2.3.18 Other liabilities

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

2.3.19 Shareholder equity

Shareholder equity consists of share capital, share premium, profit reserves, accumulated other comprehensive income, the equity adjustment (shares held in treasury) and net profit for the financial year.

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

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

Profit reserves are recognised when created by the body that compiles the annual report or by a resolution of the competent body, and are used in accordance with the articles of association and the law.

Reserves under the articles of association may be used to cover net loss during the financial year, to cover net losses brought forward, to increase the share capital, to create reserves for treasury shares and to cover major damage incurred during operations or extraordinary business events. Other profit reserves are intended to strengthen capital adequacy.

Accumulated other comprehensive income includes revaluation in association with investments in debt financial instruments measured through other comprehensive income.

Own shares held in treasury are disclosed as a deduction to equity in the amount of the consideration therefor.

2.3.20 Contingent liabilities and financial commitments given

Financial and service guarantees, approved undrawn loans and credit lines and unpaid capital are disclosed under assumed financial commitments.

Financial commitments given for sureties comprise irrevocable commitments for when a customer fails to meet its liabilities to third parties.

The risks related to contingent liabilities and financial commitments given are assessed on the basis of current accounting policy and internal regulations in connection with risk management described in section 2.3.11 Impairments of financial assets and provisions. Any increase in liabilities dependent on risk is reflected in the item of provisions.

2.3.21 Operations for the account of the Republic of Slovenia

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

The insurance operations that SID Bank provides on behalf of and for the account of the Republic of Slovenia are disclosed under 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.

Operations on its own behalf and for the account of the Republic of Slovenia

The operations of the Fund of Funds that SID Bank manages on its own behalf and for the account of the Republic of Slovenia are recorded as separate items. The assets and liabilities relating to the Fund of Funds are not included in the Bank's statement of financial position.

Explanations of the operations under Republic of Slovenia authorisation are given in the section of the business report entitled Operations under Republic of Slovenia authorisation.

2.3.22 Taxes

Corporate income tax is accounted at the undertakings in the 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 are 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 an available taxable profit will arise against which it will be possible to apply deductible temporary differences.

Deferred taxes in connection with the valuation of financial instruments measured at fair value through other comprehensive income are disclosed directly in other comprehensive income.

2.3.23 Employee benefits

Employee benefits include current and non-current employee benefits.

Current employee benefit commitments are recognised in an undiscounted amount, and are disclosed as expenses when the work of the employee is performed in respect of the specific current benefit.

Non-current employee benefits include provisions for termination benefits at retirement and jubilee benefits.

Legislation stipulates that employees generally retire after 40 years of service, and are then entitled to a one-off termination benefit at retirement, provided that the stipulated conditions are met. Employees are also entitled to jubilee benefits in accordance with the collective agreements of individual undertakings in the Group. The aforementioned commitments and all corresponding gains/losses are included in profit or loss, except actuarial gains and losses from termination benefits, which are recognised in the statement of comprehensive income.

The requisite provisions on this basis are calculated in the amount of the present value of future expenses, having regard for the specific assumptions. 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 the average wage of employees in the final quarter. Provisions of this type are calculated every year except in the Prvi Faktor Group, where they are calculated for a three-year period.

2.3.24 Calculation of net earnings per share

Net earnings per share are calculated as the ratio of the net profit disclosed by the Bank in the statement of profit or loss to the number of shares making up its share capital. Own shares held in treasury are not included in the calculation.

2.3.25 Reporting by operating segment

Allocation and disclosure by operating segment is carried out on the basis of the attributes of individual business activities within the SID Bank Group. Under IFRS 8, the SID Bank Group has two operating segments, namely banking and insurance of receivables.

The banking segment constitutes 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

Initial application of the latest amendments to existing standards and interpretations that are effective as of 1 January 2018 and were issued by the International Accounting Standards Board (IASB) and adopted by the EU:

- IFRS 15 Revenues from Contracts with Customers, as adopted by the EU on 22 September 2016 and effective for annual periods beginning on or after 1 January 2018. The standard sets out how and when revenue is recognised, but does not affect the recognition of revenue in connection with financial instruments within the framework of IAS 39 or IFRS 9.
- IFRS 15 (amendment) Clarifications to revenues from contracts with customers, as adopted by the EU on 31 October 2017 and effective for annual periods beginning on or after 1 January 2018. The amendment clarifies how to identify the performance obligation in the contract, how to determine whether an undertaking is the customer, and whether revenue from an issued licence is recognised currently or over a longer period. In addition to clarifications, the amendment includes two expedients to reduce the cost and complexity for undertakings applying the new standard for the first time.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration, as adopted by the EU on 28 March 2018 and effective for annual periods beginning on or after 1 January 2018. The interpretation addresses the use of exchange rates in transactions that include the receipt or payment of advance consideration in a foreign currency.
- IFRS 2 (amendment) Classification and measurement of share-based payment transactions, as adopted by the EU on 26 February 2018 and effective for annual periods beginning on or after 1 January 2018. The amendment clarifies how to treat certain types of share-based payment transactions.
- IFRS 4 (amendment) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, adopted by the EU on 3 November 2017 and effective for annual periods beginning on or after 1 January 2018. The amendment addresses issues deriving from the application of the new standard on financial instruments (IFRS 9) before the introduction of the new replacement standard (IFRS 4).
- IAS 40 (amendment) Transfers of investment property, as adopted by the EU on 14 March 2018 and effective for annual periods beginning on or after 1 January 2018. The amendment clarifies the requirements during transfer to or from investment property.
- Annual Improvements to the IFRS 2014-2016, adopted by the EU on 7 February 2018 and effective for annual periods beginning on or after 1 January 2018. The improvements consist of minor changes that clarify, revise or delete excessive text in standards. The improvements effective as of 1 January 2018 relate to two standards: IFRS 1 First-Time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures.
- IFRS 9 Financial Instruments, adopted by the EU on 22 November 2016 and effective for annual periods beginning on or after 1 January 2018.

With the exception of the introduction of IFRS 9, the adoption of these new standards, amendments to existing standards and interpretations did not lead to any material changes in the financial statements of SID Bank or the SID Bank Group. The Bank primarily generates income from financial instruments that fall under the IFRS 9 framework, and thus the introduction of IFRS 15 did not have a significant impact on its financial statements. The impact of the introduction of IFRS 9 is disclosed in detail in section 2.3.27 Disclosures upon the introduction of IFRS 9.

On the day that these financial statements were approved, the following new standards and amendments to existing standards had been issued by the IASB and adopted by the EU, but were not yet effective:

- IFRS 16 Leases, approved by the EU on 31 October 2017 and effective for annual periods beginning on or after 1 January 2019. The standard regulates the obligation to recognise, measure, present and disclose leases, and replaces the existing IAS 17

Leases. The new accounting model requires lessees to recognise all assets and liabilities relating to lease agreements. This means that the distinction between finance leases and operating leases (as in the predecessor IAS 17) is no longer applicable for the lessee. IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17.

- IFRIC 23 Uncertainty over Income Tax Treatments, as adopted by the EU on 23 October 2018 and effective for annual periods beginning on or after 1 January 2019. The interpretation clarifies the accounting of income taxes when it is perhaps uncertain how tax legislation should be applied to a specific transaction or circumstance, and whether a tax authority will accept an undertaking's tax treatment.
- IFRS 9 (amendment) Prepayment features with negative compensation, as adopted by the EU on 22 March 2018 and effective for annual periods beginning on or after 1 January 2019. The amendment allows an undertaking to measure financial assets with prepayment features that permit a contracting party to receive or demand the payment of reasonable compensation for early contract termination (known as "negative compensation" for the holder of a financial asset) at amortised cost or at fair value through other comprehensive income.

New standards and amendments to existing standards issued by the IASB but not yet adopted by the EU:

- IAS 28 (amendment) Long-term interests in associates and joint ventures, effective for annual periods beginning on or after 1 January 2019. The amendment clarifies that IFRS 9 applies to long-term interests in an associate or joint venture that form part of the "net investment" in the associate or joint venture but to which the equity method is not applied.
- Annual improvements 2015-2017. The improvements are effective for annual periods beginning on or after 1 January 2019. The improvements consist of substantive amendments and clarifications, and relate to IFRS 3, IFRS 11, IFRS 12 and IAS 23.
- IFRS 14 Regulatory Deferral Accounts is a non-mandatory standard, and is effective for annual periods beginning on or after 1 January 2016. The European Commission opted not to begin proceedings to approve this interim standard, but will wait until the publication of the final version. The standard allows entities adopting the IFRS for the first time to largely continue accounting regulatory deferral accounts in line with previous generally accepted accounting principles.
- IFRS 17 Insurance Contracts. The standard is effective for annual periods beginning on or after 1 January 2021. It provides a comprehensive framework for the measurement and presentation of all insurance contracts.
- Amendments to IFRS 10 and IAS 28. The IASB has indefinitely deferred the effective date. The amendments address conflicts between the requirements of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures.
- IAS 19 (amendment) Plan amendment, curtailment or settlements, effective for annual periods beginning on or after 1 January 2019. The amendment defines how to determine current costs for the remainder of the reporting period after a change in a pension plan.
- IAS 1 and IAS 8 (amendments) Definition of material, effective for annual periods beginning on or after 1 January 2020. The amendment aims to make it easier for undertakings to assess materiality, and to decide on the inclusion of information in their financial statements.
- IFRS 3 (amendment) Definition of a business, effective for annual periods beginning on or after 1 January 2020. The amendment aims to improve the definition of a business. It should help undertakings in determining whether they have acquired a business or a group of assets. The distinction is material, because an acquirer recognises goodwill when acquiring a business.
- Revisions to the Conceptual Framework for Financial Reporting, which apply to annual periods beginning on or after 1 January 2020.

The Group does not expect the introduction of these new standards, amendments and interpretations to have a material impact on its financial statements during initial application. The Group decided not to apply any new standards or amendments to the existing ones before the date of mandatory application.

The Group assesses that the use of hedge accounting in connection with the portfolio of financial assets and liabilities in accordance with the requirements of IFRS 9 Financial Instruments: Recognition and Measurement would not have had a material impact on its financial statements, were it to have been used on the reporting date.

The Bank also has no lease agreements that need to be recognised within the framework of on-balance-sheet items in accordance with IFRS 16.

2.3.27 Disclosures upon the introduction of IFRS 9

IFRS 9 is a new accounting standard issued by the International Accounting Standards Board (IASB) in July 2014, and replaces IAS 39. The European Commission approved IFRS 9 via Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, and it is effective as of 1 January 2018. The IASB published amendments to IFRS 9 Prepayment features with negative compensation in October 2017. The amendments are effective for annual periods beginning on or after 1 January 2019. Earlier application is allowed.

SID Bank first applied IFRS 9 on 1 January 2018, and did not make use of the possibility of the earlier application of the aforementioned amendments to the standard effective for annual periods beginning on or after 1 January 2019. Given the option of later application, the subsidiary SID-PKZ did not transition to IFRS 9, and provides financial statement data in accordance with the new standard solely for the purposes of consolidation. Given that the calculated effects are immaterial (less than EUR 20 thousand), it also does not provide for the calculation of impairments in accordance with IFRS 9 for purposes of consolidation. The effects of the transition at the subsidiary are immaterial (approximately EUR 17 thousand), and therefore the effects of the transition are disclosed below for SID Bank alone.

In line with the transitional provisions of IFRS 9, data for the previous year is not restated in accordance with the new standard, therefore the on-balance sheet items in the financial statements for the previous year are presented in accordance with the accounting templates that were in force in the previous year.

Until the new standard on macro-hedging is published by the IASB, undertakings may apply hedge accounting in accordance with IAS 39. SID Bank uses this option. The cumulative effect of the introduction of IFRS 9 on retained earnings from the transition to IFRS 9 for SID Bank as at 1 January 2018 amounted to EUR 9,557 thousand, and comprises:

- a decline of EUR 5,595 thousand from the effect of classification and measurement,
- an increase of EUR 50,495 thousand from the effect of impairments,
- a decline of EUR 2,239 thousand from the effect of current and deferred taxes,
- a decline of EUR 33,104 thousand in total positive effects resulting from the transfer of the effect to liabilities to the MEDT arising from loan funds (SID Bank’s exposures from loan funds are classified as on-balance-sheet items. Nevertheless, profit or loss of loan funds is determined separately, and a potential loss on the part of loan funds is covered from invested MEDT funds as a decline in liabilities to the MEDT. On this basis, a subsequent profit is first allocated to the MEDT as an increase in liabilities to the MEDT, so that the previously reduced liability resulting from the loss of the loan fund increases again.).Since part of the positive effect of the transition to IFRS 9 in the amount of EUR 33,104 thousand related to loans from loan funds, liabilities to the MEDT were increased by this amount, and there was no effect on retained earnings from this part of the effect of the transition.

Regulatory capital (taking into account the effects as if audited) increases by EUR 9,525 thousand. In the wake of the increase in risk-weighted assets by approximately EUR 35,957 thousand, and under the calculation according to the CRR as applicable on 31 December 2017, the total capital ratio declines by approximately by 0.3 percentage points.

The Bank did not reclassify any financial liabilities during the transition to IFRS 9. Neither does the Bank recognise any financial liabilities at fair value, with the exception of hedging derivatives. The transition to IFRS 9 thus had no effect on financial liabilities, and the effects of the transition are therefore disclosed below for financial assets alone.

Classification and measurement

SID Bank did not reclassify any financial assets upon the transition to IFRS 9, except loans which owing to their failure to pass the SPPI test had to be reclassified as mandatorily at fair value through profit or loss. All debt securities that in accordance with IAS 39 were classified as available-for-sale were classified as measured at fair value through other comprehensive income. For equities that were also classified as available-for-sale in accordance with IAS 39, the Bank exercised the option of measurement at fair value through other comprehensive income, such that the entire securities portfolio remained valued at fair value through other comprehensive income. An overview of the changes to the measurement categories and the carrying amounts of financial assets as at 31 December 2017 in accordance with IAS 39 and as at 1 January 2018 in accordance with IFRS 9 is given in the following table.

Overview of changes in measurement categories and changes in carrying amounts of financial assets

	IAS 39		IFRS 9				
(EUR thousand)	Classification	Measurement category	Classification	Measurement category	Original carrying amount under IAS 39	New carrying amount under IFRS 9	Comment
Cash, cash balances at central banks and other demand deposits at banks	Loans and receivables	Amortised cost	Financial assets measured at amortised cost	Amortised cost	71,071	71,071	1
Debt instruments	Available-for-sale financial assets	Fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income	Fair value through other comprehensive income	714,287	714,287	2
Equities	Available-for-sale financial assets	Fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income (option)	Fair value through other comprehensive income	16,234	16,234	
Loans and advances to banks	Loans and receivables	Amortised cost	Financial assets measured at amortised cost	Amortised cost	1,032,179	1,039,135	
Loans and advances to customers	Loans and receivables	Amortised cost	Financial assets measured at amortised cost	Amortised cost	579,212	613,808	3
			Non-trading financial assets mandatorily at fair value through profit or loss	Fair value through profit or loss	18,528	18,019	
Other financial assets	Loans and receivables	Amortised cost	Financial assets measured at amortised cost	Amortised cost	1,553	1,553	4

Comments:

1. The Bank also calculates expected credit losses for balances at the central bank and sight deposits at banks, but the impairment amounts established are immaterial, so the impairments were not recognised.

2. All securities remained measured at fair value through other comprehensive income, and therefore their values did not change.

3. The on-balance sheet item of loans and advances under IAS 39 is reclassified under IFRS 9 in part to the category of financial assets at amortised cost and in part to financial assets mandatorily at fair value through profit or loss. The differences in the carrying amounts arise from the change in impairments for loans at amortised cost and from valuation at fair value for loans at fair value.

4. Under both standards other financial assets are measured at amortised cost, and expected credit losses are established for them, but due to the immateriality of the amounts the impairments were not recognised.

Effects of reclassification and revaluation of financial assets

(EUR thousand)	IAS 39 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 1 Jan 2018
Cash, cash balances at central banks and other demand deposits at banks	71,071	0	0	71,071
Financial assets measured at fair value through other comprehensive income	n.a.	714,287	0	714,287
Debt instruments	n.a.	714,287	0	714,287
Of which from available-for-sale financial assets		714,287		
Financial assets measured at fair value through other comprehensive income (option)	n.a.	16,234	0	16,234
Equities	n.a.	16,234	0	16,234
Of which from available-for-sale financial assets		16,234		
Available-for-sale financial assets	730,521	(730,521)	0	n.a.
Debt instruments	714,287	(714,287)	0	n.a.
Of which transfer to financial assets measured at fair value through other comprehensive income		(714,287)		
Equities	16,234	(16,234)	0	n.a.
Of which transfer to financial assets measured at fair value through other comprehensive income		(16,234)		
Non-trading financial assets mandatorily at fair value through profit or loss	n.a.	18,528	(509)	18,019
Loans and advances to customers	n.a.	18,528	(509)	18,019
Of which transfer from loans and receivables		18,528		
Financial assets measured at amortised cost	n.a.	1,612,944	41,552	1,654,496
Loans and advances to banks	n.a.	1,032,179	6,956	1,039,135
Of which transfer from loans and receivables		1,032,179		
Loans and advances to customers	n.a.	579,212	34,596	613,808
Of which transfer from loans and receivables		579,212		
Other financial assets	n.a.	1,553	0	1,553
Of which transfer from loans and receivables		1,553		
Loans and receivables	1,631,472	(1,631,472)	0	n.a.
Loans and advances to banks	1,032,179	(1,032,179)	0	n.a.
Of which transfer to financial assets measured at amortised cost		(1,032,179)		
Loans and advances to customers	597,740	(597,740)	0	n.a.
Of which transfer to non-trading financial assets mandatorily at fair value through profit or loss		(18,528)		
Of which transfer to financial assets measured at amortised cost		(579,212)		
Other financial assets	1,553	(1,553)	0	n.a.
Of which transfer to financial assets measured at amortised cost		(1,553)		
Total	**2,433,064**	**0**	**41,043**	**2,474,107**

Impairments and provisions

Effect of transition to IFRS 9 on impairments and provisions

(EUR thousand)	Impairments under IAS 39 and provisions under IFRS 37 as at 31 Dec 2017	Impairments used in transition to fair value	Impairments used in transition to POCI	Change in impairments and provisions	Impairments and provisions under IFRS 9 1 Jan 2018
Available-for-sale financial assets (under IAS 39) / Financial assets measured at fair value through other comprehensive income (under IFRS 9)	2,768	0	0	(1,724)	1,044
Loans and receivables under IAS 39 / Financial assets at amortised cost (IFRS 9)	97,173	0	(29,578)	(44,294)	23,301
Loans and receivables under IAS 39 / Financial assets at fair value through profit or loss (IFRS 9)	45,837	(45,837)	0	0	0
Total impairments	145,778	(45,837)	(29,578)	(46,018)	24,345
Provisions for off-balance-sheet liabilities	2,946	0	0	(2,134)	812
Total impairments and provisions	**148,724**	**(45,837)**	**(29,578)**	**(48,152)**	**25,157**

The Bank reduced impairments and provisions during the transition to IFRS 9. The total effect on securities that in accordance with IAS 39 were classified as available-for-sale financial assets and under IFRS 9 are classified as financial assets measured at fair value through other comprehensive income amounted to EUR 1,724 thousand. Impairments in the amount of EUR 1,044 thousand were created for debt securities, while under IAS 39 the Bank had created a permanent impairment of equities in the amount of EUR 2,768 thousand, which it reversed upon the transition to IFRS 9.

The positive effect on financial assets measured at amortised cost in the total amount of EUR 119,709 thousand consists of three parts:

– for loans that remained measured at fair value and were not classified as POCI items upon transition, EUR 44,294 thousand in impairments was reversed;
– for loans that were classified as POCI items upon transition, EUR 29,578 thousand in allowances were used for the recognition of those loans at net value with a credit-adjusted effective interest rate;
– for loans that did not pass the SPPI test upon transition and under IFRS 9 are measured at fair value, EUR 45,837 thousand of impairments was used for the valuation of those loans at fair value.

Corporate income tax assets and liabilities

(EUR thousand)	IAS 39 31 Dec 2017	Effect IFRS 9	IFRS 9 1 Jan 2018
Corporate income tax assets	4,086	95	4,181
Corporate income tax liabilities	447	2,006	2,453

Upon the transition to IFRS 9, gross retained earnings increased by EUR 11,796 thousand, on which corporate income tax in the amount of EUR 2,334 thousand was charged, while a deferred tax asset in the amount of EUR 95 thousand was created. In addition, the gross effect of the transition on other comprehensive income was negative in the amount of EUR 1,723 thousand, on which a deferred tax asset in the amount of EUR 327 thousand was created. The net effect on retained earnings was thus positive in the amount of EUR 9,557 thousand, while the net effect on accumulated other comprehensive income was negative in the amount of EUR 1,395 thousand.

2.3.28 Comparative data

Compared with the financial statements for the year ending 31 December 2017, the templates for the statement of financial position and statement of profit or loss are different, owing to adjustments made during the introduction of IFRS 9 and changes prescribed by the Bank of Slovenia. In accordance with the transition to IFRS 9, the Bank opted not to restate comparative data in the financial statements for 2018, for which reason the presentation of the financial statements is a combination of classification and measurement categories in accordance with IAS 39 (for stocks as at 31 December 2017 and effects recognised in 2017) and IFRS 9 (for stocks as at 31 December 2018 and effects recognised in 2018).

As a result of the introduction of IFRS 9, there was also a change in IAS 1, which requires the separate disclosure of "interest income calculated using the effective interest rate method", owing to which the comparative data in the statement of profit or loss has been adjusted.

The changes in the financial statements prescribed by the Bank of Slovenia relate to the presentation of effects deriving from investments in subsidiaries, associates and joint ventures in the statement of profit or loss. SID Bank also adjusted the presentation of comparative data to these changes.

In the statement of profit or loss for the year ending 31 December 2017, the item of net gains/(losses) on investments in subsidiaries, associates and joint ventures for SID Bank includes dividends of subsidiaries, associates and joint ventures. In the statement of profit or loss for the year ending 31 December 2018, dividends of subsidiaries, associates and joint ventures are included in the item of dividend income.

	SID Bank			SID Bank Group		
	2017 before adjustment	Adjustment	2017 new disclosure	2017 before adjustment	Adjustment	2017 new disclosure
Dividend income	87	3,353	3,440	87	0	87
Net gains/(losses) on investments in subsidiaries, associates and joint ventures	3,353	(3,353)	0	0	0	0

In 2018 the Bank revised an error from the erroneous application of accounting policies with regard to the recognition of events related to lending from loan funds. A first loss clause was contractually agreed with the MEDT for all funds, i.e. any loss on the part of the funds is first covered by the priority participation of the MEDT in loan fund risks by reducing the liabilities to the MEDT and recognising any gains on financial assets and liabilities measured at fair value through profit or loss (until 2017).

In 2018 the Bank recognised the effect under the item of net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss, or more precisely under the item of net gains/(losses) on financial liabilities measured at amortised cost. Where necessary, the comparative data has been restated to ensure comparability with the current period.

	SID Bank and SID Bank Group		
	2017 before adjustment	Adjustment	2017 new disclosure
Realised gains	7,830	(7,830)	0
Realised losses	(12,669)	12,669	0
Gains/(losses) on financial assets and liabilities measured at fair value through profit or loss	**(4,839)**	**4,839**	**0**
Available-for-sale financial assets (under IAS 39)	3,184	0	3,184
Gains	3,419	0	3,419
Losses	(235)	0	(235)
Loans and advances (under IAS 39)	282	0	282
Gains	282	0	282
Losses	0	0	0
Financial liabilities measured at amortised cost	(150)	(4,839)	(4,989)
Gains	0	7,830	7,830
Losses	(150)	(12,669)	(12,819)
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	**3,316**	**(4,839)**	**(1,523)**

2.4 Notes to the statement of financial position

2.4.1 Cash and cash equivalents

Cash, cash balances at central banks and other demand deposits at banks

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Settlement account	120,871	70,778	120,871	70,778
Sight deposits at banks	313	293	313	5,172
Total	**121,184**	**71,071**	**121,184**	**75,950**

2.4.2 Non-trading financial assets mandatorily at fair value through profit or loss

	SID Bank and SID Bank Group	
	31 Dec 2018	31 Dec 2017
Loans and other financial assets	15,667	n.a.
To customers	15,667	n.a.
Total	**15,667**	**n.a.**

2.4.3 Financial assets measured at fair value through other comprehensive income

Breakdown by type of financial asset measured at fair value through other comprehensive income

	SID Bank and SID Bank Group	
	31 Dec 2018	31 Dec 2017
Bonds	628,554	n.a.
Government	417,409	n.a.
Slovenia	255,609	n.a.
Other countries	161,800	n.a.
Banks	111,017	n.a.
Non-financial corporations	72,460	n.a.
Financial institutions	27,668	n.a.
Treasury bills	22,317	n.a.
Debt securities, total	**650,871**	**n.a.**
Shares and participating interests at fair value	11,817	n.a.
Equities, total	**11,817**	**n.a.**
Total	**662,688**	**n.a.**
Quoted	635,882	n.a.
Unquoted	26,806	n.a.
Total	**662,688**	**n.a.**
Impairments for credit losses	(255)	n.a.

When IFRS 9 became effective, the Bank transferred the entire portfolio of securities that in accordance with IAS 39 were classified as available-for-sale financial assets as at 31 December 2017 to financial assets measured at fair value through other comprehensive income.

The table illustrates the carrying amount of financial assets measured at fair value through other comprehensive income by type of instrument for SID Bank and the SID Bank Group as at 31 December 2018. In its securities portfolio management, the SID Bank Group follows the principles of safety, liquidity and profitability in order to ensure liquidity and ALM. To this end, the securities portfolio contains a large proportion of marketable government securities and other highly liquid debt securities.

Marketable quoted securities accounted for 95.9% of all financial assets measured at fair value through other comprehensive income at SID Bank as at the end of 2018. Debt securities accounted for 98.2% of the portfolio of securities measured at fair value through other comprehensive income at SID Bank and the SID Bank Group, while shares and participating interests accounted for less than 2%. Government debt securities (bonds and treasury bills) accounted for 66.4% of all financial assets measured at fair value through other comprehensive income at SID Bank as at the end of 2018. The standard institutional sector classification of the bond issuer is taken into account in the breakdown of the bond portfolio by the issuer type in the above table.

Impairments for credit losses on debt securities measured at fair value through other comprehensive income amounted to EUR 255 thousand as at 31 December 2018.

The total carrying amount of pledged financial assets measured at fair value through other comprehensive income amounted to EUR 312,055 thousand at the end of the year. The securities were pledged as collateral for targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia or the ECB.

Changes in financial assets measured at fair value through other comprehensive income

	SID Bank		SID Bank Group	
	2018	2017	2018	2017
Balance as at 1 Jan	730,521	n.a.	750,004	n.a.
Recognition of new financial assets	164,093	n.a.	164,093	n.a.
Accrued interest	5,058	n.a.	5,058	n.a.
Interest paid	(20,103)	n.a.	(20,103)	n.a.
Net revaluation through equity	(9,796)	n.a.	(9,796)	n.a.
Effect of change in fair value of hedged financial instruments	211	n.a.	211	n.a.
Derecognition of financial assets	(207,296)	n.a.	(207,296)	n.a.
Transfer to non-current assets held for sale and discontinued operations	0	n.a.	(19,483)	n.a.
Balance as at 31 Dec	**662,688**	**n.a.**	**662,688**	**n.a.**

2.4.4 Available-for-sale financial assets (under IAS 39)

Breakdown by type of available-for-sale financial asset (under IAS 39)

	SID Bank		SID Bank and SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Bonds	n.a.	665,763	n.a.	685,246
Government	n.a.	460,733	n.a.	471,715
Slovenia	n.a.	224,588	n.a.	229,754
Other countries	n.a.	236,145	n.a.	241,961
Banks	n.a.	103,390	n.a.	107,663
Non-financial corporations	n.a.	68,403	n.a.	70,484
Financial institutions	n.a.	33,237	n.a.	35,384
Treasury bills	n.a.	38,523	n.a.	38,523
Certificates of deposit	n.a.	10,001	n.a.	10,001
Shares and participating interests at fair value	n.a.	16,234	n.a.	16,234
Total	**n.a.**	**730,521**	**n.a.**	**750,004**
Quoted	n.a.	675,805	n.a.	695,288
Unquoted	n.a.	54,716	n.a.	54,716
Total	**n.a.**	**730,521**	**n.a.**	**750,004**

Marketable quoted securities accounted for 92.5% of all available-for-sale financial assets at SID Bank as at the end of 2017 (SID Bank Group: 92.7%). Debt securities accounted for 97.8% of the portfolio of available-for-sale securities at SID Bank and the SID Bank Group, while shares and participating interests accounted for less than 3%. Government debt securities (bonds and treasury bills) accounted for 68.3% of all available-for-sale financial assets at SID Bank as at the end of 2017 (SID Bank Group: 68.0%). The standard institutional sector classification of the bond issuer is taken into account in the breakdown of the bond portfolio by the issuer type in the above table.

Changes in available-for-sale financial assets

	SID Bank		SID Bank Group	
	2018	2017	2018	2017
Balance as at 1 Jan	n.a.	777,676	n.a.	801,043
Recognition of new financial assets	n.a.	372,671	n.a.	374,510
Accrued interest	n.a.	6,048	n.a.	6,340
Interest paid	n.a.	(25,285)	n.a.	(25,852)
Net revaluation through equity	n.a.	2,603	n.a.	2,498
Effect of change in fair value of hedged financial instruments	n.a.	51	n.a.	51
Net foreign exchange differences	n.a.	(770)	n.a.	(770)
Derecognition of financial assets	n.a.	(402,473)	n.a.	(407,816)
Balance as at 31 Dec	**n.a.**	**730,521**	**n.a.**	**750,004**

2.4.5 Financial assets measured at amortised cost

Breakdown by type of financial asset measured at amortised cost

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Loans and advances to banks	809,350	n.a.	809,350	n.a.
Loans and advances to customers	691,120	n.a.	691,120	n.a.
Other financial assets	1,853	n.a.	1,849	n.a.
Total	**1,502,323**	**n.a.**	**1,502,319**	**n.a.**

Loans and advances to banks

	SID Bank and SID Bank Group	
	31 Dec 2018	31 Dec 2017
Loans and advances	745,576	n.a.
Deposits	64,465	n.a.
Gross exposure	810,041	n.a.
Allowances for loans and deposits	(691)	n.a.
Net exposure	**809,350**	**n.a.**

Changes in loans and advances to banks (gross exposure)

	Gross exposure		
SID Bank and SID Bank Group	Stage 1	Stage 2	Total
Balance as at 1 Jan 2018	1,035,858	3,914	1,039,772
Increase due to new lending	252,806	0	252,806
Decrease due to derecognition	(481,130)	(1,224)	(482,354)
Net change due to credit risk	2,224	(2,690)	(466)
of which transfer from stage 2 to stage 1	2,685	(2,685)	0
Foreign exchange differences	283	0	283
Balance as at 31 Dec 2018	**810,041**	**0**	**810,041**

The explanation of the classification of financial instruments subject to impairment or provisions in accordance with IFRS 9 into stages is given in section 2.3.11 under the title Impairments of financial assets and provisions.

Changes in loss allowances: loans and advances to banks

	Loss allowances		
SID Bank and SID Bank Group	Stage 1	Stage 2	Total
Balance as at 1 Jan 2018	(468)	(169)	(637)
Increase due to new lending	(149)	0	(149)
Decrease due to derecognition	107	56	163
Net change due to credit risk	(181)	113	(68)
of which transfer from stage 2 to stage 1	(54)	54	0
Balance as at 31 Dec 2018	**(691)**	**0**	**(691)**

The explanation of the classification of financial instruments subject to impairment or provisions in accordance with IFRS 9 into stages is given in section 2.3.11 under the title Impairments of financial assets and provisions.

Loans and advances to customers

	SID Bank and SID Bank Group	
	31 Dec 2018	31 Dec 2017
Loans and advances	710,012	n.a.
Government	69,554	n.a.
Non-financial corporations	639,254	n.a.
Financial institutions	1,189	n.a.
Non-profit institutions serving households	15	n.a.
Receivables from factoring	17,527	n.a.
Gross exposure	727,539	n.a.
Allowances	(36,419)	n.a.
Net exposure	**691,120**	**n.a.**

The total carrying amount of pledged loans amounted to EUR 64,445 thousand as at 31 December 2018. The Bank pledged the loans as collateral for targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia or the ECB.

Changes in loans and advances to customers (gross exposure)

	Gross exposure				
SID Bank and SID Bank Group	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance as at 1 Jan 2018	516,751	56,523	21,791	41,407	636472
Increase due to new lending	262,177	0	0	2,714	264,891
Decrease due to derecognition	(132,630)	(13,855)	(1,913)	(39,904)	(188,302)
Net change due to credit risk	(6,816)	3,246	1,392	17,123	14,945
of which transfer from stage 1 to stage 2	(22,771)	22,771	0	0	0
of which transfer from stage 2 to stage 3	0	(2,769)	2,769	0	0
of which transfer from stage 2 to stage 1	16,782	(16,782)	0	0	0
Write-offs	0	0	(887)	0	(887)
Foreign exchange differences	339	81	0	0	420
Balance as at 31 Dec 2018	**639,821**	**45,995**	**20,383**	**21,340**	**727,539**

The explanation of the classification of financial instruments subject to impairment or provisions in accordance with IFRS 9 into stages is given in section 2.3.11 under the title Impairments of financial assets and provisions.

Changes in loss allowances: loans and advances to customers

	Loss allowances				
SID Bank and SID Bank Group	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance as at 1 Jan 2018	(7,565)	(3,918)	(17,427)	6,246	(22,664)
Increase due to new lending	(5,263)	0	0	0	(5,263)
Decrease/(increase) due to derecognition	3,574	1,933	1,103	(13,696)	(7,086)
Net change due to credit risk	820	(4,862)	(735)	2,488	(2,289)
of which transfer from stage 1 to stage 2	656	(656)	0	0	0
of which transfer from stage 2 to stage 3	0	148	(148)	0	0
of which transfer from stage 2 to stage 1	(907)	907	0	0	0
Write-offs	0	0	887	0	887
Foreign exchange differences	(4)	0	0	0	(4)
Balance as at 31 Dec 2018	**(8,438)**	**(6,847)**	**(16,172)**	**(4,962)**	**(36,419)**

The explanation of the classification of financial instruments subject to impairment or provisions in accordance with IFRS 9 is given in section 2.3.11 under the title Impairments of financial assets and provisions.

The changes in allowances had only a partial impact on the creation and reversal of impairments in the statement of profit or loss, as the positive allowances created in the amount of EUR 16,159 thousand after credit enhancements for POCI loans were closed upon derecognition with the fair value of POCI loans, and there was no impact on the statement of profit or loss. The allowances created for loans at amortised cost, which were derecognised and then re-recognised as loans at fair value (having failed the SPPI test) in the amount of EUR 1,219 thousand, were directly transferred to the fair value of new loans, and did not have an impact on the item of impairments in profit or loss.

Other financial assets

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Gross exposure	1,853	n.a.	1,849	n.a.
Net exposure	**1,853**	**n.a.**	**1,849**	**n.a.**

2.4.6 Loans and advances (under IAS 39)

Loans and advances to banks (under IAS 39)

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Loans and advances	n.a.	682,607	n.a.	682,607
Deposits	n.a.	357,160	n.a.	362,412
Gross exposure	n.a.	1,039,767	n.a.	1,045,019
Allowances for loans and deposits	n.a.	(7,588)	n.a.	(7,588)
Net exposure	**n.a.**	**1,032,179**	**n.a.**	**1,037,431**

Changes in allowances for loans and advances to banks (under IAS 39)

	SID Bank and SID Bank Group		
	Loans and advances	Deposits	Total
Balance as at 1 Jan 2017	(5,925)	(1,407)	(7,332)
Allowances for loans and advances	(822)	(2,962)	(3,784)
Reversal of allowances for loans and advances	1,759	1,761	3,520
Foreign exchange differences	8	0	8
Other	0	0	0
Balance as at 31 Dec 2017	**(4,980)**	**(2,608)**	**(7,588)**

Loans and advances to customers (under IAS 39)

	SID Bank and SID Bank Group	
	31 Dec 2018	31 Dec 2017
Loans and advances	n.a.	731,707
Government	n.a.	69,967
Non-financial corporations	n.a.	658,732
Financial institutions	n.a.	2,988
Non-profit institutions serving households	n.a.	20
Receivables from guarantees given	n.a.	1,455
Gross exposure	n.a.	733,162
Allowances	n.a.	(135,422)
Net exposure	**n.a.**	**597,740**

Changes in allowances for loans and advances to customers (under IAS 39)

	SID Bank and SID Bank Group		
	Loans and advances	Receivables from guarantees given	Total
Balance as at 1 Jan 2017	(172,809)	(4,489)	(177,298)
Allowances created	(44,011)	(82)	(44,093)
Reversal of allowances	52,049	3	52,052
Write-offs	30,796	16,613	47,409
Other	0	(13,500)	(13,500)
Foreign exchange differences	8	0	8
Balance as at 31 Dec 2017	**(133,967)**	**(1,455)**	**(135,422)**

SID Bank and the SID Bank Group disclosed allowances that had no impact on the statement of profit or loss for 2017 in the item of "other" under receivables from guarantees given. In previous years provisioning expenses for these guarantees had been recorded and recognised in the statement of profit or loss. In 2017 a guarantee was called, the receivables from the guarantee given were recognised, and the receivables were written off. The use of provisions is disclosed in the table in section 2.4.14.

Other financial assets (under IAS 39)

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Gross exposure	n.a.	1,553	n.a.	1,554
Net exposure	**n.a.**	**1,553**	**n.a.**	**1,554**

Changes in allowances for other financial assets (under IAS 39)

	SID Bank and SID Bank Group
	2017
Balance as at 1 Jan 2017	(37)
Allowances created	(59)
Reversal of allowances	96
Balance as at 31 Dec 2017	**0**

2.4.7 Property, plant and equipment and intangible assets

Changes in property, plant and equipment and intangible assets: SID Bank

2018	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	9,951	1,032	823	11,806	2,787
Addition	289	522	238	1,049	513
Disposal	(145)	(451)	(209)	(805)	(49)
Balance as at 31 Dec	10,095	1,103	852	12,050	3,251
Accumulated depreciation/amortisation					
Balance as at 1 Jan	(5,331)	(842)	(641)	(6,814)	(1,982)
Depreciation/amortisation	(341)	(173)	(53)	(567)	(314)
Disposal	0	170	83	253	44
Balance as at 31 Dec	(5,672)	(845)	(611)	(7,128)	(2,252)
Carrying amount as at 31 Dec	**4,423**	**258**	**241**	**4,922**	**999**

Changes in property, plant and equipment and intangible assets: SID Bank Group

2018	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	13,048	1,523	1,222	15,793	3,479
Addition	289	522	238	1,049	513
Disposal	(145)	(451)	(209)	(805)	(49)
Transfer to non-current assets held for sale and discontinued operations	(3,097)	(491)	(399)	(3,987)	(692)
Balance as at 31 Dec	10,095	1,103	852	12,050	3,251
Accumulated depreciation/amortisation					
Balance as at 1 Jan	(6,003)	(1,349)	(950)	(8,302)	(2,187)
Depreciation and amortisation	(341)	(173)	(53)	(567)	(314)
Disposal	0	170	83	253	44
Transfer to non-current assets held for sale and discontinued operations	672	507	309	1,488	205
Balance as at 31 Dec	(5,672)	(845)	(611)	(7,128)	(2,252)
Carrying amount as at 31 Dec	**4,423**	**258**	**241**	**4,922**	**999**

Changes in property, plant and equipment and intangible assets: SID Bank

2017	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	9,951	877	825	11,653	2,505
Addition	0	334	215	549	282
Disposal	0	(179)	(217)	(396)	(1)
Balance as at 31 Dec	9,951	1,032	823	11,806	2,787
Accumulated depreciation/amortisation					
Balance as at 1 Jan	(4,936)	(741)	(689)	(6,366)	(1,700)
Depreciation/amortisation	(395)	(131)	(44)	(570)	(282)
Disposal	0	30	91	121	0
Balance as at 31 Dec	(5,331)	(842)	(641)	(6,814)	(1,982)
Carrying amount as at 31 Dec	**4,620**	**190**	**182**	**4,992**	**805**

Changes in property, plant and equipment and intangible assets: SID Bank Group

2017	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	13,048	1,523	1,222	15,793	3,479
Addition	0	870	229	1,098	418
Disposal	0	(342)	(242)	(584)	(1)
Balance as at 31 Dec	13,048	2,051	1,208	16,307	3,897
Accumulated depreciation/amortisation					
Balance as at 1 Jan	(6,003)	(1,349)	(950)	(8,302)	(2,187)
Depreciation/amortisation	(497)	(253)	(87)	(838)	(429)
Disposal	0	192	116	308	0
Balance as at 31 Dec	(6,500)	(1,410)	(921)	(8,831)	(2,616)
Carrying amount as at 31 Dec	**6,548**	**641**	**287**	**7,476**	**1,281**

SID Bank and the SID Bank Group recorded no pledged assets or assets acquired on the basis of a finance lease under property, plant and equipment as at 31 December 2018.

2.4.8 Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures: SID Bank

2018	Prvi faktor Ljubljana (in liquidation)	Prvi faktor Beograd (in liquidation)	Total
Equity investments	15,337	279	15,616
Allowances for equity investments	(15,337)	(279)	(15,616)
Total	**0**	**0**	**0**

The Bank reclassified the investment in the subsidiary PKZ to the item of non-current assets held for sale and discontinued operations in 2018, for reason of its anticipated sale in the first half of 2019.

2017	SID – PKZ Ljubljana	Prvi faktor Ljubljana (in liquidation)	Prvi faktor Beograd (in liquidation)	Total
Equity investments	8,413	15,337	279	24,029
Allowances for equity investments	0	(15,337)	(279)	(15,616)
Total	**8,413**	**0**	**0**	**8,413**

SID Bank recapitalised Prvi faktor Beograd (in liquidation) in the amount of EUR 279 thousand in 2017. At the same time it created an allowance of 100% for the investment.

Data on subsidiaries

	SID Bank's equity stake (%)	Voting rights (%)	Nominal amount of equity stakes	Equity of undertaking	Net profit
31 Dec 2018					
SID-PKZ	100	100	8,413	26,386	967
31 Dec 2017					
SID-PKZ	100	100	8,413	26,119	1,159

Data on joint ventures

	Voting rights, %	Current assets	Current liabilities	Equity of undertaking	Net profit	Total revenues
31 Dec 2018						
Prvi Faktor Group	50	11,880	6,206	5,674	(203)	1,581
31 Dec 2017						
Prvi Faktor Group	50	14,508	8,248	6,260	5,898	2,354

2.4.9 Corporate income tax assets and liabilities

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Current tax assets	0	4,086	0	4,513
Deferred tax assets	2,271	0	2,271	0
Total tax assets	**2,271**	**4,086**	**2,271**	**4,513**
Current tax liabilities	3,294	0	3,294	0
Deferred tax liabilities	0	447	0	569
Total tax liabilities	**3,294**	**447**	**3,294**	**569**

Breakdown by type of deferred tax

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Deferred tax assets				
Impairment of equity investments	2,967	2,967	2,967	2,967
Impairment of available-for-sale financial assets (under IAS 39)	n.a.	103	n.a.	103
Provisions for pensions and jubilee benefits	79	66	79	95
Valuation of available-for-sale financial assets (under IAS 39)	n.a.	24	n.a.	24
Valuation of financial assets measured at fair value through other comprehensive income	167	n.a.	167	n.a.
Depreciation/amortisation	54	40	54	40
Cash flow hedge	407	0	407	0
Total	**3,674**	**3,200**	**3,674**	**3,229**
Deferred tax liabilities				
Valuation of financial assets measured at fair value through other comprehensive income	1,403	n.a.	1,403	n.a.
Valuation of available-for-sale financial assets (under IAS 39)	n.a.	3,647	n.a.	3,798
Total	**1,403**	**3,647**	**1,403**	**3,798**
Net deferred taxes	**2,271**	**(447)**	**2,271**	**(569)**
Included in statement of profit or loss	(124)	17	(124)	14
Available-for-sale financial assets (under IAS 39)	n.a.	(60)	n.a.	(60)
Financial assets measured at fair value through other comprehensive income	(150)	n.a.	(150)	n.a.
Equity investments	0	53	0	53
Provisions for pensions and jubilee benefits	12	10	12	7
Depreciation/amortisation	14	14	14	14
Included in statement of comprehensive income	2,418	(495)	2,418	(476)
Cash flow hedge	407	0	407	0
Revaluation of financial assets measured at fair value through other comprehensive income	2,011	n.a.	2,011	n.a.
Revaluation of available-for-sale financial assets (under IAS 39)	n.a.	(495)	n.a.	(476)
Effect of transition to IFRS 9	327	n.a.	327	n.a.

SID Bank and the SID Bank Group had no unrecognised deferred taxes as at 31 December 2018.

2.4.10 Other assets

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Other assets	367	282	367	432
Reinsurers' assets	0	0	0	13,478
Receivables from insurance operations	0	0	0	12,562
Gross exposure	367	282	367	26,471
Allowances for insurance operations	0	0	0	(5,118)
Net exposure	**367**	**282**	**367**	**21,353**

Short-term prepayments were the largest item in the other assets of SID Bank and the SID Bank Group in 2018. The largest items in the SID Bank Group's other assets in 2017 were reinsurers' assets from insurance technical provisions and receivables from insurance operations. The largest elements of receivables from insurance operations consisted of receivables with recourse, which amounted to EUR 8,308 thousand as at 31 December 2017, and allowances for these assets in the amount of EUR 4,775 thousand.

Changes in allowances for insurance operations

	SID Bank Group	
	31 Dec 2018	31 Dec 2017
Balance as at 1 Jan	(5,118)	(10,523)
Allowances created	0	(596)
Reversal of allowances	0	459
Write-off	0	5,542
Transfer to non-current assets held for sale and discontinued operations	5,118	0
Balance as at 31 Dec	**0**	**(5,118)**

2.4.11 Non-current assets held for sale and discontinued operations

Breakdown by asset and liability category

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Equity investment	8,413	0	0	0
Assets of non-current assets held for sale and discontinued operations	0	0	54,124	0
Sight deposits at banks	0	0	5,523	0
Financial assets measured at fair value through other comprehensive income	0	0	24,597	0
Financial assets measured at amortised cost	0	0	4,660	0
Property, plant and equipment and intangible assets	0	0	2,586	0
Other assets	0	0	16,758	0
Total assets held for sale	**8,413**	**0**	**54,124**	**0**
Liabilities associated with non-current assets held for sale and discontinued operations	0	0	30,052	0
Financial liabilities measured at amortised cost	0	0	873	0
Provisions	0	0	25,745	0
Other liabilities	0	0	3,434	0
Total liabilities associated with non-current assets held for sale and discontinued operations	**0**	**0**	**30,052**	**0**

The Bank reclassified the investment in the subsidiary SID-PKZ to the item of non-current assets held for sale and discontinued operations in 2018, for reason of its anticipated sale in the first half of 2019. The items of assets and liabilities of non-current assets held for sale and discontinued operations include the assets and corresponding liabilities of SID-PKZ.

Changes in non-current assets held for sale and discontinued operations

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Balance as at 1 Jan	0	0	0	0
Transfer to non-current assets held for sale and discontinued operations	8,413	0	54,124	0
Balance as at 31 Dec	**8,413**	**0**	**54,124**	0

2.4.12 Financial liabilities measured at amortised cost

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Deposits and loans by banks and central banks	1,206,244	1,230,807	1,206,244	1,230,807
Loans	1,162,951	1,205,543	1,162,951	1,205,543
Deposits	43,293	25,264	43,293	25,264
Deposits and loans by customers	548,452	454,828	548,452	454,828
Loans	509,242	454,828	509,242	454,828
Deposits	39,210	0	39,210	0
Debt securities	132,601	350,320	132,601	350,320
Other financial liabilities	2,024	2,191	2,024	3,062
Total	**1,889,321**	**2,038,146**	**1,889,321**	**2,039,017**

The decline in financial liabilities from debt securities is the result of maturing bonds. SID Bank issued the SEDABI 0.5 12/12/2023 bond in 2018 with a nominal value of EUR 75,000 thousand.

2.4.13 Hedging derivatives

	SID Bank and SID Bank Group	
	31 Dec 2018	31 Dec 2017
Fair value hedge	332	93
Fair value	246	30
Net liabilities for interest	86	63
Cash flow hedge	2,566	0
Fair value	2,276	0
Net liabilities for interest	290	0
Total	**2,898**	**93**

SID Bank also manages its exposure to interest rate risk by means of interest rate derivatives. Insofar as the derivatives meet the conditions, they are subject to hedge accounting.

As at 31 December 2018 the Bank held two interest rate swaps as a fair value hedge of asset items, in the total contract value of EUR 15,000 thousand, and one interest rate swap as a cash flow hedge of a liability item with a value of EUR 70,000 thousand.

2.4.14 Provisions

Breakdown by type of provision

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Provisions for off-balance-sheet liabilities: guarantees	214	101	214	101
Provisions for off-balance-sheet liabilities: undrawn loans	206	2,269	206	2,269
Provisions for termination benefits at retirement and jubilee benefits	710	576	710	727
Provisions from insurance contracts	0	0	0	24,040
Total	**1,130**	**2,946**	**1,130**	**27,137**

Changes in off-balance-sheet liabilities and provisions for off-balance-sheet liabilities

	Provisions for off-balance-sheet liabilities: guarantees		Provisions for off-balance-sheet liabilities: undrawn loans		
SID Bank and SID Bank Group	Stage 1	Total	Stage 1	Stage 2	Total
Balance as at 1 Jan 2018	6	6	219	11	230
Increase due to issuance and acquisition	751	751	2,771	0	2,771
Decrease due to derecognition	(543)	(543)	(2,784)	(11)	(2,795)
Balance as at 31 Dec 2018	**214**	**214**	**206**	**0**	**206**
Balance as at 1 Jan 2017	n.a.	14,750	n.a.	n.a.	327
Additions	n.a.	246	n.a.	n.a.	18,810
Reversals	n.a.	(1,385)	n.a.	n.a.	(16,868)
Used	n.a.	(13,500)	n.a.	n.a.	0
Foreign exchange differences	n.a.	(10)	n.a.	n.a.	0
Balance as at 31 Dec 2017	**n.a.**	**101**	**n.a.**	**n.a.**	**2,269**

The explanation of the classification of financial instruments subject to impairment or provisions in accordance with IFRS 9 into stages is given in section 2.3.11 under the title Impairments of financial assets and provisions.

SID Bank used provisions for off-balance-sheet liabilities: guarantees in the amount of EUR 13,500 thousand in 2017 as a result of the calling of guarantees by undertakings in the Prvi Faktor Group.

The changes in off-balance-sheet liabilities are disclosed in section 2.6.1.

Changes in provisions for termination benefits at retirement and jubilee benefits, and liabilities from insurance contracts

	SID Bank	SID Bank Group	
	Provisions for termination benefits at retirement and jubilee benefits	Provisions for termination benefits at retirement and jubilee benefits	Change in liabilities from insurance contracts
Balance as at 1 Jan 2018	576	727	24,040
Additions	138	0	0
Used	(4)	0	0
Transfer to non-current assets held for sale and discontinued operations	0	(727)	(24,040)
Balance as at 31 Dec 2018	**710**	**0**	**0**
Balance as at 1 Jan 2017	469	639	23,241
Additions	113	130	16,889
Reversals	0	(13)	10,254
Used	(6)	(30)	(26,343)
Balance as at 31 Dec 2017	**576**	**727**	**24,040**

SID Bank held provisions for termination benefits at retirement and jubilee benefits as at 31 December 2018 that were created on the basis of its own calculation. The calculation is based on the assumption that all 185 employees of SID Bank on 31 December 2018 (31 December 2017: 170) will remain employed at the bank until the payment of all pertaining jubilee benefits and until retirement. The calculated amounts as at 31 December 2018 are discounted using a discount rate of 1,0122 (31 December 2017: 1,0142).

Gross insurance technical provisions are disclosed under liabilities from insurance contracts.

2.4.15 Other liabilities

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Current deferred income	91	63	91	275
Accruals	0	2	0	2
Accrued reinsurance liabilities	0	0	0	2,401
Tax liabilities	49	51	49	174
Other liabilities	0	0	0	34
Total	**140**	**116**	**140**	**2,886**

2.4.16 Shareholder equity

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Share capital	300,000	300,000	300,000	300,000
Profit reserves	102,149	88,005	114,779	107,859
Regulatory reserves	12,418	11,702	13,274	12,558
Reserves for treasury shares	1,324	1,324	1,324	1,324
Reserves under articles of association	50,113	43,313	54,319	47,519
Other profit reserves	38,294	31,666	45,862	46,458
Share premium account	1,139	1,139	1,139	1,139
Accumulated other comprehensive income	3,731	15,444	4,238	16,068
Treasury shares	(1,324)	(1,324)	(1,324)	(1,324)
Retained earnings (including net profit for financial year)	16,356	6,629	18.874	3,858
Total	**422,051**	**409,893**	**437,706**	**427,600**

There were no changes to the treasury shares reserve in 2018. SID Bank held 18,445 shares in SID Bank, ticker symbol SIDR, in the total amount of EUR 1,324 thousand as at 31 December 2018.

Under a general meeting resolution, the undistributed profit for 2017 in the amount of EUR 6,629 thousand was allocated to other profit reserves.

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

2.4.17 Distributable profit

	SID Bank	
	31 Dec 2018	31 Dec 2017
Net profit for financial year	14,314	13,956
Increase in profit reserves		
Regulatory reserves	(716)	(698)
Reserves under articles of association	(6,799)	(6,629)
Retained earnings due to transition to IFRS 9	9,557	0
Distributable profit	**16,356**	**6,629**

In accordance with the articles of association, the management board used SID Bank's net profit for 2018 in the amount of EUR 14,314 thousand (2017: EUR 13,956 thousand) to create regulatory reserves in the amount of EUR 716 thousand (2017: EUR 698 thousand) and reserves under the articles of association in the amount of EUR 6,799 thousand (2017: EUR 6,629 thousand). The distributable profit from

2017 in the amount of EUR 6,629 thousand was allocated to other profit reserves.

Under the ZSIRB, SID Bank's distributable profit may not be used for distribution to shareholders. The management board and the supervisory board proposed to the general meeting that it pass a resolution whereby the distributable profit for the 2018 financial year should be:

- allocated to other profit reserves in the amount of EUR 6,799 thousand, and
- held as retained earnings in the amount of EUR 9,557 thousand for reason of the transition to IFRS 9.

2.5 Notes to the statement of profit or loss

2.5.1 Net interest

	SID Bank and SID Bank Group	
	2018	2017
Interest income		
Interest income recognised at effective interest rate	31,122	29,119
Interest on non-trading financial assets mandatorily at fair value through profit or loss	1,543	n.a.
Interest on financial assets measured at fair value through other comprehensive income	5,125	n.a.
Interest on available-for-sale financial assets (under IAS 39)	n.a.	6,111
Interest on financial assets measured at amortised cost	23,654	n.a.
Loans and advances to banks	5,850	n.a.
Loans and advances to customers	17,804	n.a.
Interest on financial liabilities carrying negative interest rate	800	546
Interest on deposits and loan borrowings	800	546
Loans and deposits (under IAS 39)	n.a.	22,462
To banks	n.a.	6,505
To customers	n.a.	15,957
Total interest income	31,122	29,119
Interest expenses		
Interest on financial liabilities measured at amortised cost	(6,741)	(8,172)
Issued securities	(2,248)	(3,744)
Loans and deposits	(4,493)	(4,428)
From banks	(1,007)	(922)
From customers	(3,486)	(3,506)
Hedging derivatives	(775)	(95)
Interest on financial assets carrying negative interest rate	(620)	(558)
Total interest expenses	(8,136)	(8,825)
Net interest	**22,986**	**20,294**

SID Bank generated net interest income of EUR 22,986 thousand in 2018, up 13.2% on 2017.

In accordance with the note in section 2.3.7, any interest relating to impaired loans is excluded from income. Calculated and excluded interest income amounted to EUR 12,736 thousand as at 31 December 2018 (2017: EUR 9,343 thousand).

The effect of calculated and excluded interest income relating to D- and E-rated customers amounted to EUR 12,706 thousand as at 31 December 2018 (2017: EUR 9,200 thousand).

2.5.2 Dividend income

	SID Bank		SID Bank Group	
	2018	2017	2018	2017
Financial assets measured at fair value through other comprehensive income	36	n.a.	36	n.a.
Dividends associated with investment held at end of reporting period	36	n.a.	36	n.a.
Available-for-sale financial assets (under IAS 39)	n.a.	87	n.a.	87
Investments in subsidiaries, associates and joint ventures	582	3,353	0	0
Total	618	3,440	36	87

2.5.3 Net fees and commission

	SID Bank and SID Bank Group	
	2018	2017
Fee and commission income		
Fee and commission income from loan operations	423	127
Fee and commission income from guarantees given	168	105
Total fee and commission income	591	232
Fee and commission expenses		
Fees and commission for loan operations	(96)	(207)
Other fees and commission (stock exchange transactions, other)	(204)	(252)
Total fee and commission expenses	(300)	(459)
Net fees and commission	**291**	**(227)**

2.5.4 Net gains/losses on financial assets and liabilities not measured at fair value through profit or loss

	SID Bank and SID Bank Group	
	2018	2017
Financial assets measured at fair value through other comprehensive income	1,076	n.a.
Gains	1,197	n.a.
Losses	(121)	n.a.
Available-for-sale financial assets (under IAS 39)	n.a.	3,184
Gains	n.a.	3,419
Losses	n.a.	(235)
Financial assets measured at amortised cost	115	n.a.
Gains	115	n.a.
Loans and advances (under IAS 39)	n.a.	282
Gains	n.a.	282
Financial liabilities measured at amortised cost	2,027	(4,989)
Gains	5,050	7,830
Losses	(3,023)	(12,819)
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	**3,218**	**(1,523)**

Within the framework of its business for its own account, SID Bank manages four loan funds set up in conjunction with the MEDT. A first loss clause was contractually agreed with the MEDT for all four funds, i.e. any loss on the part of the funds is first covered by the priority participation of the MEDT in loan fund risks by reducing the liabilities to the MEDT and recognising gains on financial assets and liabilities measured at amortised cost. If the loan funds operate profitably over the subsequent periods, the liability owed to the MEDT is increased, and losses are recognised under financial assets and liabilities measured at amortised cost.

Considering the relatively high risk of investments from the loan funds and the consequently high percentages of impairments on such loans, lending activity has a substantial impact on the performance of the loan funds. In periods of high rates of lending, impairments and provisions are high, leading to a large loss on the part of the funds, and vice-versa in periods when loans are repaid and impairments are released, which is reflected in relatively high gains on the part of the loan funds.

Lending from the loan funds in 2018 was up on 2017. A loss in the amount of EUR 2,027 thousand was recorded, which because of the agreed first loss clause was reflected in recognised gains on financial liabilities measured at amortised cost.

The loan funds recorded a positive result in 2017 in the amount of EUR 4,839 thousand, and consequently recognised losses in the same amount.

2.5.5 Net gains/losses on non-trading financial assets mandatorily at fair value through profit or loss

	SID Bank and SID Bank Group	
	2018	2017
Loans and other financial assets	655	n.a.
Net gains on non-trading financial assets mandatorily at fair value through profit or loss	**655**	**n.a.**

2.5.6 Changes in fair value in hedge accounting

	SID Bank and SID Bank Group	
	2018	2017
Net losses on derivatives held as fair value hedge	(215)	(30)
Net gains on fair-value-hedged items relating to hedged risk	211	51
Losses on ineffective cash flow hedges	(125)	0
Total	**(129)**	**21**

2.5.7 Net foreign exchange gains/losses

	SID Bank and SID Bank Group	
	2018	2017
Income from exchange rate differences	2,717	6,461
Expenses from exchange rate differences	(2,725)	(7,647)
Net losses	**(8)**	**(1,186)**

The exchange rate differences disclosed in the above table relate to financial liabilities and financial assets measured at amortised cost and current accounts at banks in the country in foreign currency.

Foreign exchange losses in 2018 were down on 2017, primarily as a result of changes in the structure of the foreign currency sub-balance.

2.5.8 Other net operating gains/losses

	SID Bank		SID Bank Group	
	2018	2017	2018	2017
Gains				
Income from activities under Republic of Slovenia authorisation	3,558	1,893	3,558	1,893
Other operating revenues	106	78	63	25
Total gains	3,664	1,971	3,621	1,918
Losses				
Other operating expenses	(302)	(239)	(302)	(239)
Total losses	(302)	(239)	(302)	(239)
Net operating gains	**3,362**	**1,732**	**3,319**	**1,679**

The Bank realised gains of EUR 3,558 thousand in 2018 (2017: EUR 1,893 thousand) from the provision of services under authorisation. There were gains from the management of contingency reserve assets in the amount of EUR 1,740 thousand (2017: EUR 1,740 thousand), from the management of the Fund of Funds in the amount of EUR 1,781 thousand (2017: EUR 126 thousand), from guarantee schemes in the amount of EUR 16 thousand (2017: EUR 15 thousand) and from other services under authorisation in the amount of EUR 21 thousand (2017: EUR 12 thousand).

2.5.9 Administrative expenses

	SID Bank		SID Bank Group	
	2018	2017	2018	2017
Labour costs	(9,978)	(8,853)	(9,978)	(8,852)
Gross salaries	(7,502)	(6,678)	(7,502)	(6,677)
Pension insurance costs	(669)	(595)	(669)	(595)
Social security costs	(555)	(495)	(555)	(495)
Other labour costs	(1,252)	(1,085)	(1,252)	(1,085)
General and administrative costs	(3,292)	(3,541)	(3,292)	(3,536)
Costs of materials	(136)	(120)	(136)	(120)
Costs of services	(3,156)	(3,421)	(3,156)	(3,416)
Total	**(13,270)**	**(12,394)**	**(13,270)**	**(12,388)**

2.5.10 Depreciation and amortisation

	SID Bank and SID Bank Group	
	2018	2017
Depreciation of property, plant and equipment	(567)	(570)
Amortisation of intangible assets	(314)	(282)
Total	**(881)**	**(852)**

2.5.11 Provisions

	SID Bank and SID Bank Group	
	2018	2017
Provisions for off-balance-sheet liabilities: guarantees	(208)	1,138
Provisions for off-balance-sheet liabilities: undrawn loans	24	(1,942)
Other provisions	(138)	(113)
Total	**(322)**	**(917)**

SID Bank recorded expenses of EUR 184 thousand in 2018 from the creation of provisions for off-balance-sheet liabilities (2017: expenses in the amount of EUR 804 thousand).

The stocks of off-balance-sheet liabilities for which the provisions have been created are disclosed in the table in section 2.6.1.

Other provisions include provisions for termination benefits at retirement and jubilee benefits.

2.5.12 Impairments

	SID Bank and SID Bank Group	
	2018	2017
Impairments of financial assets measured at fair value through other comprehensive income	789	n.a.
Impairments of financial assets measured at amortised cost	248	n.a.
Loans and advances to banks	(53)	n.a.
Loans and advances to customers	301	n.a.
Impairments of loans and other financial assets measured at amortised cost (under IAS 39)	n.a.	7,731
Loans and advances to banks	n.a.	(264)
Loans and advances to customers	n.a.	7,958
Other financial assets	n.a.	37
Impairments of investments in subsidiaries, associates and joint ventures	0	(279)
Total	**1,037**	**7,452**

The effect of the release of impairments of financial assets measured at amortised cost (under IFRS 9) and the impairments of loans and other financial assets measured at amortised cost (under IAS 39) are not directly comparable in the disclosed years because of the recalculation of risk parameters. In addition, the calculation of impairments under IFRS 9, which is based on 12-month and lifetime losses, differs significantly from the previous methodology.

The release of impairments in 2018 was attributable to the recalculated parameters, which capture data that is more favourable from the perspective of macroeconomic developments.

2.5.13 Corporate income tax on continuing operations

	SID Bank and SID Bank Group	
	2018	2017
Current income tax	(3,081)	(2,285)
Deferred taxes	(124)	17
Total	**(3,205)**	**(2,268)**

The corporate income tax rate in Slovenia was 19% in 2018 (2017: 19%). Current income tax differs from tax calculated using the prescribed tax rate, and is disclosed in the table below. Analysis of deferred taxes disclosed in profit or loss is given in section 2.4.9.

	SID Bank		SID Bank Group	
	2018	2017	2018	2017
Profit	17,519	16,224	16,894	12,824
Corporate income tax (at rates applicable in relevant countries)	(3,329)	(3,083)	(3,329)	(3,083)
Income deducted from tax base	111	896	111	896
Non-deductible expenses	(139)	(231)	(139)	(231)
Expenses recognised for tax purposes	0	60	0	60
Change in tax base during transition to new accounting method, changes to accounting policies, revisions of errors and revalued items	(2,183)	0	(2,183)	0
Increase in tax base	(6)	(32)	(6)	(32)
Tax allowances	131	104	131	104
Current tax	**(5,415)**	**(2,285)**	**(5,415)**	**(2,285)**
Of which tax in profit or loss	(3,081)	(2,285)	(3,081)	(2,285)
Of which tax in equity	(2,334)	0	(2,334)	0
Effective tax rate, %	17.6	14.1	18.2	17.8
Effective tax rate after consideration of effects of transition to IFRS 9, %	30.9	n.a.	32.1	n.a.

Most of the income deducted from the tax base related to dividend income. SID Bank excluded EUR 582 thousand in dividend income from its tax base in 2018 (2017: EUR 3,353 thousand).

Expenses classed as non-deductible in the corporate income tax statement largely derived from expenses for bonuses and other employment-related payments.

The increase in the taxable base at SID Bank in 2018 was also attributable to the transition of IFRS 9 in the amount of EUR 12,283 thousand. The Bank levied tax in the amount of EUR 2,334 thousand from this source and disclosed it in equity.

2.5.14 Net profit/loss after tax from discontinued operations

	SID Bank Group	
	2018	2017
Revenue from discontinued operations	7,234	6,099
Expenses from discontinued operations	(5,985)	(4,755)
Pre-tax profit from discontinued operations	**1,249**	**1,344**
Corporate income tax on profit from discontinued operations	(239)	(138)
Net profit from discontinued operations	**1,010**	**1,206**
Loss recognised upon measurement at fair value less cost to sell	(2,318)	0
Net profit/(loss) after tax from discontinued operations	**(1,308)**	**1,206**

Consolidation of the subsidiary has not been undertaken in the traditional method, but rather in accordance with IFRS 5 given the intended sale of the subsidiary.

For net profit this means that the undertaking's overall result after the elimination of intragroup relations is disclosed in a single row under net profit/(loss) after tax from discontinued operations. For the sake of the comparability of the net profit for the current year (2018) with the figures for the previous year (2017), the SID Bank Group's net profit has been restated in the same manner in line with the requirements of standards.

2.5.15 Net earnings per share

	SID Bank		SID Bank Group	
	2018	2017	2018	2017
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 (excluding treasury shares)	3,103,296	3,103,296	3,103,296	3,103,296
Net profit for financial year, EUR thousand	14,314	13,956	12,381	11,762
Net earnings per share, EUR	**4.61**	**4.50**	**3.99**	**3.79**

Diluted earnings per share equals basic earnings per share for SID Bank and the SID Bank Group.

2.6 Other notes to the financial statements

2.6.1 Contingent liabilities and commitments given

Contractual liabilities for off-balance-sheet financial instruments arising from commitments given

	SID Bank and SID Bank Group	
	31 Dec 2018	31 Dec 2017
Guarantees	66,790	13,863
Other off-balance-sheet liabilities	208,970	60,409
Total commitments given	**275,760**	**74,272**
Provisions for off-balance-sheet risks: guarantees	(214)	(101)
Provisions for off-balance-sheet risks: undrawn loans	(206)	(2,269)
Total provisions for commitments given	**(420)**	**(2,370)**

SID Bank and the SID Bank Group discloses the value of guarantees given and the value of other off-balance-sheet liabilities, including the value of undrawn loans and the value of uncalled unpaid capital, under commitments given. The value of guarantees given increased in 2018 as a result of new issuance of guarantees. The amount of loans approved for customers but as yet undrawn stood at EUR 129,259 thousand as at 31 December 2018 (2017: EUR 24,743 thousand), while the amount of loans approved for banks stood at EUR 67,711 thousand (2017: EUR 23,665 thousand). The value of uncalled unpaid capital stood at EUR 12,000 thousand (2017: EUR 12,000 thousand).

Changes in contractual liabilities for off-balance-sheet financial instruments

	Off-balance-sheet-liabilities: guarantees		Off-balance-sheet liabilities: undrawn loans			
SID Bank and SID Bank Group	Stage 1	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 Jan 2018	13,863	13,863	59,747	662	0	60,409
Increase due to issuance and approval of new guarantees/loans	67,778	67,778	621,778	1,095	1,900	624,773
Decrease due to derecognition	(14,582)	(14,582)	(472,555)	(1,757)	(1,900)	(476,212)
Net change due to credit risk	0	0	(998)	998	0	0
of which transfer from stage 1 to stage 2	0	0	(998)	998	0	0
Foreign exchange differences	(269)	(269)	0	0	0	0
Balance as at 31 Dec 2018	**66,790**	**66,790**	**207,972**	**998**	**0**	**208,970**

The explanation of the classification of financial instruments subject to impairment or provisions in accordance with IFRS 9 into stages is given in section 2.3.11 under the title Impairments of financial assets and provisions.

Contractual value of derivatives

	SID Bank and SID Bank Group	
	31 Dec 2018	31 Dec 2017
Hedging derivatives		
Interest rate swaps	85,000	15,000
Total	**85,000**	**15,000**

The contractual value of hedging derivatives amounted to EUR 85,000 thousand. Derivatives that meet the criteria for hedge accounting are used to hedge against interest rate risk. The fair values and economic effects are disclosed in sections 2.4.13 and 2.5.6.

2.6.2 Related party disclosures

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

Major transactions between SID Bank and the undertakings in the SID Bank Group are disclosed below. Their intragroup relations are eliminated from the consolidated financial statements.

Significant relations of SID Bank with subsidiaries and joint ventures

	2018			2017		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Receivables						
Loans and advances	0	1,189	1,189	0	2,988	2,988
Other financial assets	4	0	4	5	0	5
Gross exposure	4	1,189	1,193	5	2,988	2,993
Allowances	0	192	192	0	(1,590)	(1,590)
Net exposure	**4**	**1,381**	**1,385**	**5**	**1,398**	**1,403**

	2018			2017		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Interest income	0	49	49	0	46	46
Income from other services	43	0	43	53	0	53
Dividend income	582	0	582	3,353	0	3,353
Fee and commission expenses	0	0	0	0	(43)	(43)
Provisions	0	0	0	0	1,118	1,118
Impairments	0	731	731	0	658	658
Total	**625**	**780**	**1,405**	**3,406**	**1,779**	**5,185**

Exposure to the Republic of Slovenia and to government-owned undertakings

The Bank and the SID Bank Group have business relationships with the government and with government-related undertakings or undertakings with a significant government influence.

	SID Bank		SID Bank Group	
Exposure to:	2018	2017	2018	2017
Bank of Slovenia				
Balance as at 31 Dec				
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks	120,871	70,778	120,871	70,778
LIABILITIES				
Loans from banks and central banks	171,903	172,605	171,903	172,605
Other financial liabilities	135	108	135	108
For period				
Interest expenses	(1,060)	(890)	(1,060)	(890)
Republic of Slovenia				
Balance as at 31 Dec				
ASSETS				
Financial assets measured at fair value through other comprehensive income	271,185	n.a.	271,185	n.a.
Available-for-sale financial assets (under IAS 39)	n.a.	224,587	n.a.	229,753
Loans and advances to customers	80,008	n.a.	80,008	n.a.
Other financial assets	402	n.a.	402	n.a.
Loans and advances to customers (under IAS 39)	n.a.	58,718	n.a.	58,718
Other financial assets (under IAS 39)	n.a.	370	n.a.	370
Corporate income tax assets	2,271	4,086	2,271	4,086
Other assets	69	47	69	47
LIABILITIES				

	SID Bank		SID Bank Group	
Exposure to:	2018	2017	2018	2017
Loans from customers	173,805	173,805	173,805	173,805
Other financial liabilities	362	310	362	310
Provisions	0	35	0	35
Corporate income tax liabilities	3,294	0	3,294	0
Other liabilities	49	51	49	51
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	55,170	1,568	55,170	1,568
For period				
Interest income	3,132	2,854	3,132	2,996
Fee and commission expenses	(3)	(10)	(3)	(10)
Net gains on financial assets and liabilities not measured at fair value through profit or loss	386	1,675	386	1,675
Changes in fair value in hedge accounting	211	51	211	51
Net foreign exchange losses	0	(304)	0	(304)
Other net operating gains	1,807	1,785	1,807	1,785
Administrative expenses	(97)	(57)	(97)	(57)
Impairments and provisions	2	(4)	2	(4)
Government-owned undertakings				
Balance as at 31 Dec				
ASSETS				
Cash, cash balances at central banks and other demand deposits at banks	283	48	283	48
Financial assets measured at fair value through other comprehensive income	50,574	n.a.	50,574	n.a.
Available-for-sale financial assets (under IAS 39)	n.a.	63,306	n.a.	64,324
Loans and advances to banks	320,217	n.a.	320,217	n.a.
Loans and advances to customers	211,738	n.a.	211,738	n.a.
Other financial assets	430	n.a.	426	n.a.
Loans and advances to banks (under IAS 39)	n.a.	318,810	n.a.	318,810
Loans and advances to customers (under IAS 39)	n.a.	209,231	n.a.	209,231
Other financial assets (under IAS 39)	n.a.	131	n.a.	126
Non-current assets held for sale and discontinued operations	8,413	0	0	0
Investments in subsidiaries, associates and joint ventures	0	8,413	0	0
Other assets	65	6	65	7
LIABILITIES				
Deposits by banks	4,998	15,264	4,998	15,264
Deposits by customers	39,210	0	39,210	0
Loans from customers	757	20,755	757	20,755
Other financial liabilities	98	126	98	126
Provisions	34	211	34	211
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	0	28,863	0	28,863
For period				
Interest income	7,131	8,442	7,131	8,488
Interest expenses	1,236	1,307	1,236	1,307
Dividend income	582	3,353	0	0
Fee and commission income	64	138	64	138
Fee and commission expenses	(144)	(192)	(144)	(192)
Net gains on financial assets and liabilities not measured at fair value through profit or loss	0	167	0	167
Other net operating gains	1,823	179	1,823	(11,540)
Administrative expenses	(206)	(163)	(206)	(163)
Impairments and provisions	397	6,109	397	6,263

2.6.3 Remuneration system

SID Bank's remuneration policy is consistently aimed at meeting the objectives of the its business strategy, and is aligned with its risk profile and risk absorption capacity.

The size and organisational structure of the Bank as well as the nature, scale and complexity of the activities pursued by SID Bank are taken into account in the remuneration policy. In accordance with the ZSIRB, SID Bank's objective is not maximising profit, but primarily conserving capital, whereby all SID Bank's transactions are subject to the assessment of economic quality on the basis of international criteria. Moreover, the remuneration policy takes account of the fact that SID Bank, unlike other commercial banks, provides only specific services and transactions (financing of corporates and banks), i.e. it does not provide the majority of services provided by other banks (e.g. SID Bank does not take deposits from the public, does not provide retail services, does not manage current accounts for clients, does not provide payment services for clients, and does not provide investment services for clients), and that due to the specific business model typical of development banks, SID Bank may be classified in the category of banks carrying out activities with a relatively low complexity of risks.

In accordance with Commission Delegated Regulation (EU) No 604/2014, Regulation (EU) No 575/2013 and Article 169 of the ZBan-2, the remuneration policy specifically defines the material business units and the specific jobs of employees who, on the basis of their powers or duties and activities or on the basis of their membership in committees may have a material impact on the Bank's risk profile.

The remuneration policy specifies that employee remuneration should be formulated in such a way that it does not encourage employees whose professional activities have a material impact on the Bank's risk profile to irresponsibly take disproportionately large risks in the course of their work, or risks that exceed the Bank's risk absorption capacity.

The remuneration of employees in independent control functions is determined in such a way that their independence and objectivity in the performance of duties are not compromised. Employees who perform independent control functions are independent from the organisational units on which they conduct controls, and have the appropriate powers and receive remuneration with respect to the achievement of objectives linked to their functions, regardless of the performance of the business areas on which they conduct controls. Employees who perform independent control functions receive performance bonuses irrespective of the policy in accordance with the company-level collective agreement.

(Article 450(1)(a) of the CRR)

SID Bank's back-office departments (risk management, compliance, internal audit, accounting, and general affairs and HR), its management board, its supervisory board committees (risk committee, nomination and remuneration committee) are involved in the process of putting in place, implementing and conducting controls on the remuneration policy, together with the supervisory board, which monitors the remuneration policy.

The nomination and remuneration committee (the main body for overseeing remuneration) held nine sessions in 2018, and discussed remuneration policy and practice at two of the sessions. No change was made to the remuneration policy in 2018. The most recent change in the remuneration policy was approved by the supervisory board on 30 August 2017.

No external consultant was involved in the development of the remuneration policy.

The remuneration policy is applied at the level of the SID Bank Group (SID - Prva kreditna zavarovalnica d.d. in addition to SID Bank). Overseeing the consistent application of the policy at the level of the subsidiary is the responsibility of the members of the supervisory bodies of the subsidiary, who are employees of SID Bank, in line with the policy for the governance of SID Bank organisational units.

(Article 450(1)(b) of the CRR)

In the event of unsatisfactory performance or a negative operating result, SID Bank considerably reduces the variable remuneration (including the possibility of reducing such remuneration to zero or to the lower threshold set out in the collective agreement for the sector), whereby both current remuneration and reductions in payments of previously earned amounts are taken into account, including through malus or clawback arrangements in accordance with the law governing employment relationships and the collective agreement for the sector.

(Article 450(1)(c) of the CRR)

Fixed remuneration is above all an appropriate reflection of a person's professional experience and responsibilities at the bank, as defined in the description of the employee's work tasks as part of the terms and conditions of employment. Variable remuneration reflects sustainable and risk-adjusted performance, and performance that exceeds the expected performance as defined in the description of the employee's work tasks as part of the terms and conditions of employment. The entire variable component of an employee's remuneration is determined on the basis of the performance of the employee, the employee's organisational unit and the Bank's overall operating results.

Performance bonuses for all categories of employees are paid after the approval of the annual report by the supervisory board. Performance bonuses are not paid if the Bank fails to generate any profits in the financial year. In the event of any recommendations from the Bank's shareholders or any other persons responsible for such recommendations relating to restrictions regarding performance bonuses or other remuneration arising from employment, the management board may make a decision contrary to the provisions of the company-level collective agreement.

The provisions concerning performance bonuses do not apply if variable remuneration is required to be reduced in accordance with the provisions of SID Bank's remuneration policy, in particular the provisions on the observation of the impact of variable remuneration on SID Bank's financial position and the provisions on performance measurement and risk adjustment.

The accounting period is the calendar year. The deferral period for variable remuneration begins after the end of the accounting period and, in accordance with the remuneration policy, for employees whose professional activities have a material impact on the Bank's risk profile and if total variable remuneration in a single year exceeds the gross amount of EUR 50,000, lasts for three years, in the deferred amount of 40% of the variable remuneration. As regards the payment and deferral of the variable remuneration of the president and other members of the management board, the provisions of the ZPPOGD and the remuneration policy apply, and specify that the deferral period is three years and the deferred proportion of the variable remuneration is 50%.

(Article 450(1)(d) of the CRR)

Under the remuneration policy, the fixed portion of remuneration accounts for at least 75% of the average employee's total remuneration for all types of employees. The remuneration policy provides that the variable component of remuneration includes any payment for performance over the percentage from the collective agreement for Slovenia's banking sector, performance bonuses, other bonuses (e.g. for project work), and other remuneration and benefits (e.g. termination benefits above the amount set by labour regulations).

The requirements referred to in points 7 and 8 of the first paragraph of Article 170 of the ZBan-2 concerning the formulation and payment of variable remuneration do not apply when the total variable remuneration of an employee whose professional activities have a material impact on the Bank's risk profile does not exceed EUR 50,000 gross in a single year (application of the lower threshold of variable remuneration).

(Article 450(1)(e) of the CRR)

Given that the ZSIRB stipulates that SID Bank may have only one shareholder and that the Republic of Slovenia guarantees the commitments of the Bank, SID Bank cannot and may not pay the variable component of remuneration in the form of shares. This means that in cases where the total variable remuneration of an employee whose professional activities have a material impact on the Bank's risk profile exceeds EUR 50,000 gross in a single year, SID Bank may take into account only to a limited extent the principles laid down in section 7 of the first paragraph of

Article 170 of the Banking Act (ZBan-2), which require at least 50% of the variable remuneration of every individual to be provided in the form of ordinary and preference shares of the bank, or share-linked instruments or equivalent non-cash instruments when a bank's shares are not listed on a regulated market. If the total variable remuneration of an employee whose professional activities have a material impact on the Bank's risk profile exceeds the gross amount of EUR 50,000 in a given year, the amount above that figure is indexed to the growth in the book value of SID Bank's shares until the payment date, notwithstanding any transactions with the owner (e.g. capital increase/decrease, pooling/splitting of shares).

(Article 450(1)(f) of the CRR)

Variable remuneration of employees

1. The variable remuneration of any employees having an employment contract signed in accordance with the provisions of the collective agreement for the Slovenian banking sector and the company-level collective agreement is paid as a payment for performance over the percentage from the collective agreement for the banking sector, performance bonuses, other bonuses (e.g. for project work) or termination benefits pay above the amount set by labour regulations. Employee performance is monitored and assessed once annually by their immediate superiors on the basis of the execution of their duties specified in respective annual development interviews based on the tasks set out in the annual operational plan (AOP), and based on the achievement of the criteria of scale and quality of work, efficiency, attitude towards other staff members and customers, diligence, willingness to work and development of competencies. In accordance with the tariff annex to the company-level collective agreement, the funds earmarked for the payment of on-the-job performance bonuses are equivalent to 10% of the funds earmarked for the payment of employees' base monthly salaries under the collective agreement.

The payment of performance bonuses depends on the results of the implementation of the AOP at the level of the Bank and individual organisational units in terms of achieving key performance indicators in the implementation of the strategy for each year (financial aspect, e.g. ROE, CIR; market aspect, e.g. volume of new business, stock of loans; internal aspect, e.g. share of realised projects/tasks; aspect of learning and development, e.g. conducting development interviews, internal transfer of knowledge) and the achievement of key performance indicators as well as the performance of the tasks of individual organisational units (duties defined by bylaws, the AOP according to various aspects such as the above-mentioned criteria at the level of the Bank, through individual decisions of the management board, and annual interviews with the managers). The maximum performance bonus may not exceed the employee's monthly salary. The total variable remuneration of employees may not exceed 33% of the fixed remuneration.

2. Employees with individual employment contracts are paid variable remuneration once a year in the form of performance bonuses based on the achievement of goals, tasks and obligations determined by a decision adopted by the management board every year and/or the business policy of the department/departments and/or the objectives and tasks of the director as well as other tasks according to the resolution of the management board. Alternatively, the variable remuneration is paid taking into account the assessment of the work of the management board by SID Bank's supervisory board. The various aspects listed in point 1 above are taken into account as criteria for all employees or as criteria that also apply to SID Bank's management board. The provisions of the individual contracts generally limit performance bonuses to 25% of the base annual salary.

3. The provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) also apply to the performance criteria (based on which variable remuneration is determined) for members of SID Bank's management board. The variable remuneration, which may not exceed 30% of the base salary of any member of the management board, is determined by the supervisory board at the proposal of the nomination and remuneration committee, following the approval of SID Bank's annual report, depending on the fulfilment of

SID Bank's AOP and other performance measurement criteria. The fulfilment of the AOP provides a basis for the payment of the entire variable remuneration, while in the event of a) partial fulfilment of the AOP or b) if certain objectives have been exceeded and others have not been met, the supervisory board takes a decision on the amount of the variable remuneration by taking into account the criterion concerning the fulfilment of objectives/tasks in comparison with all tasks as well as quantitative and qualitative criteria set out in the AOP and their weight in accordance with the provisions of the articles of association and the adopted strategy defining the purpose and mission of the company and the various circumstances in which the company operated in the previous year.

Other non-cash benefits received by any employees whose professional activities have a material impact on the Bank's risk profile relate to the benefits agreed in the employment contract (e.g. life insurance, company car use for business and private purposes), for which fringe benefits are accounted by SID Bank.

(Article 450(1)(g)(h)(i)(j) of the CRR)

Quantitative information on remuneration in 2018

	Management body in supervisory function	Management body in management function	Financing and insurance	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	Other
Members (number of employees)	6	2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Number of identified FTE employees	n.a.	n.a.	7.0	0	0	5.8	10.0	3.0	4
Number of identified employees in senior management positions	n.a.	n.a.	0	0	0	0	4.0	0	0
Total fixed remuneration, EUR	195,916	396,826	453,957	0	0	296,013	868,314	196,105	259,268
Of which: fixed remuneration in cash	195,916	396,826	453,957	0	0	296,013	868,314	196,105	259,268
Total variable remuneration, EUR	0	88,779	65,362	0	0	22,265	138,840	10,896	24,565
Of which: variable remuneration in cash	0	88,779	65,362	0	0	22,265	138,840	10,896	24,565
Total amount of variable remuneration awarded in 2018 and deferred, EUR	0	48,623	0	0	0	0	0	0	0
Of which: deferred variable remuneration in 2018 in cash	0	48,623	0	0	0	0	0	0	0
Additional information in connection with amount of total variable remuneration									
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in 2018, EUR (Article 450(1)(h)(iii) of the CRR)	0	94,088	3,955	0	0	0	25,854	0	0

All variable remuneration was paid in cash; there are no other types of variable remuneration. All amounts of outstanding deferred remuneration from previous years are vested. No single person was remunerated more than EUR 1 million.

Remuneration of members of supervisory bodies in 2018

(EUR) Name	Function	Gross payment for perfor-mance of function	Gross session fees	Gross total	Net total	Gross reimbur-sement of expenses	Net reimbur-sement of expenses	Other benefits (liability insurance)
Monika Pintar Mesarič	chair of supervisory board, to 21 Feb 2018 and since 15 Mar 2018 member of supervisory board, 22 Feb to 14 March 2018 chair of nomination and remuneration committee, to 21 Feb 2018 and since 15 Mar 2018 member of nomination and remuneration committee, 9 to 14 Mar 2018	28,583	7,590	36,173	26,276	0	0	119
Marjan Divjak M.Sc.	member of supervisory board deputy-chair of audit committee since 13 Dec 2018 deputy-chair of risk committee	19,225	6,820	26,045	18,910	0	0	119
Leo Knez M.Sc.	member of supervisory board member of risk committee, 9 to 14 March 2018 chair of risk committee, to 21 Feb 2018 and since 15 Mar 2018 deputy-chair of audit committee to 21 Feb 2018 member of audit committee since 9 Mar 2018	25,065	8,866	33,931	24,646	0	0	119
Marko Tišma	deputy-chair of supervisory board member of risk committee deputy-chair of nomination and remuneration committee	24,362	8,685	33,047	24,003	2,818	2,049	119
Aleš Berk Skok PhD	member of supervisory board to 15 Nov 2018 chair of audit committee to 15 Nov 2018 member of risk committee to 15 Nov 2018	22,186	6,985	29,171	21,183	371	270	119
Zlatko Vili Hohnjec	member of supervisory board member of audit committee to 14 Mar 2018 deputy-chair of audit committee, 15 Mar to 12 Dec 2018 chair of audit committee since 13 Dec 2018 member of nomination and remuneration committee	22,935	8,646	31,581	22,936	2,065	1,502	119
		142,356	47,592	189,948	137,954	5,254	3,821	714

Remuneration of members of management board in 2018

SID Bank's management board was paid EUR 485,605 in 2018, consisting of which EUR 396,826 in fixed remuneration, EUR 48,623 in current variable remuneration and EUR 40,156 in deferred variable remuneration from previous years.

Sibil Svilan, M.Sc., the president of the management board, received EUR 261,936 in total remuneration (EUR 112,526 net) in 2018, of which EUR 214,959 was fixed and EUR 46,977 was variable remuneration. The fixed remuneration consisted of gross salary in the amount of EUR 204,993 (net salary amounted to EUR 90,865), voluntary supplementary pension insurance payments in the amount of EUR 2,819, meal allowances of EUR 857 and additional fringe benefits (company car use, voluntary health insurance, life insurance and liability insurance) valued at EUR 6,290. The variable remuneration consisted of variable remuneration awarded and paid in 2018 in the amount of EUR 26,405 and deferred variable remuneration from previous years paid in the amount of EUR 20,572 in 2018.

Goran Katušin, a member of the management board, received EUR 204,085 in total remuneration (EUR 95,528 net) in 2018, of which EUR 181,867 was fixed and EUR 22,218 was variable remuneration. The fixed remuneration consisted of gross salary in the amount of EUR 174,817 (net salary amounted to EUR 82,324), annual leave allowance in the amount of EUR 1,327, jubilee benefits in the amount of EUR 460, voluntary supplementary pension insurance payments in the amount of EUR 2,819, travel and meal allowances of EUR 1,804 and additional fringe benefits (voluntary health insurance, accident insurance and liability insurance) valued at EUR 640. All the variable remuneration in the amount of EUR 22,218 was awarded and paid in 2018; no deferred variable remuneration was paid to him in 2018.

Jožef Bradeško, a member of the management board until 31 December 2016, received deferred variable remuneration from previous years in the amount of EUR 19,584 in 2018.

2.6.4 Total amount spent on auditors

	SID Bank		SID Bank Group	
	2018	2017	2018	2017
Auditing of annual report	43	44	63	69
Other assurance services	8	14	12	23
Other non-audit services	102	69	102	69
Total	153	127	177	161

Under non-audit services SID Bank and the SID Bank Group disclose their spending on auditors in 2018 for the preparation of a risk model and pricing policy for the Fund of Funds, advice, the drafting of guidelines and other documentation for individual instruments planned within the framework of the investment strategy, and training.

2.6.5 Events after the reporting period

There were no events after the reporting date that could have had an impact on the individual and consolidated financial statements of SID Bank and of the SID Bank Group.

3 Risk management

Risk management in the SID Bank Group

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

To this end, SID Bank has put in place a risk management strategy that defines the basic principles applying to the take-up and management of SID Bank's risk and establishes a framework and basis for the drawing-up of documents that define in detail the processes of taking up and managing specific types of risks, including the organisational rules applying to the risk management process, the internal control mechanisms, the steps taken to ensure compliance and the public disclosure of information relating to the Bank.

The management boards of other companies in the SID Bank Group that carry out complementary non-banking services are primarily responsible for managing the risks taken up by these other companies. In that respect, they must pursue the strategic objectives, achieve the planned operating results and also manage risks in accordance with the applicable legislation and the guidelines of the SID Bank Group.

SID Bank's approach to risk management

On the basis of the risk management strategy, SID Bank has developed policies for managing specific types of risk, as well as other bylaws regulating the business processes in which the Bank takes up risks. The policies and other bylaws define the procedures, methods and methodologies used by the Bank in the risk management process for any type of risk.

The risk management strategy aims to put in place an effective risk management process for identifying, measuring or assessing, managing and monitoring risk, including reporting on the risks to which the Bank is or could be exposed in its operations, by providing:
- (internal) definitions of specific types of risk;
- risk absorption capacity;
- risk appetite;
- a risk management action plan, i.e. risk identification, measurement and/or assessment, management and monitoring procedures;
- appropriate internal control mechanisms;
- internal relations with regard to responsibilities.

The key strategic focuses relating to risk, which pay due regard to the Bank's business model and business strategy, are defined in the risk absorption and risk appetite as presented below as part of the management body's concise statement on SID Bank's approach to the realisation of risk appetite.

Risk absorption capacity is the largest overall risk level that SID Bank is able to take up, having regard for its available capital, liquidity, risk management measures and control environment, stress test results and other restrictions on the take-up of risks.

When assessing its risk absorption capacity, SID Bank takes into account:
- the assessment of the risk profile of SID Bank in the context of which the overall level of risk and the individual types of material risk are comprehensively identified at least once a year;
- the result of the internal capital adequacy assessment process (ICAAP), including the internal assessment of capital requirements and the internal assessment of capital to cover losses in the event of materialisation of risks taken up, which covers both ordinary SID Bank operations and extraordinary events affecting SID Bank operations;
- the Bank of Slovenia's expectations after each completed supervisory review and evaluation process (SREP) in terms of maintaining the total capital ratio and the proportion of common equity Tier 1 capital to cover the recognised assessment of internal capital requirements, both of which are prescribed by the Bank of Slovenia within the context of the SREP;
- the leverage ratio;
- the result of the internal liquidity adequacy assessment process (ILAAP) or liquidity of the Bank with regard to its risk profile;

- the plan of risk management activities, which sets out the measures available for the management of identified and measured or assessed risks;
- other restrictions, including any restrictions arising from SID Bank bylaws, from regulations and standards, and from the requirements of the Bank of Slovenia and other competent or supervisory authorities.

SID Bank carries out a comprehensive internal capital adequacy assessment process, tailored to the risks taken up, at least once a year, and reports to the management body, thereby ensuring that the risks taken up remain within the limits of SID Bank's risk absorption capacity. The assessed risk absorption capacity is taken into account when the business strategy is being drafted and the business objectives and risk appetite defined.

In accordance with its business strategy, business objectives, risk absorption capacity and risk management strategy, SID Bank takes on risks in its operations within a long-term sustainable target risk profile. It gives priority to the security and stability of its operations to maintain or increase the value of its equity in the long term, maintain the Bank's reputation, and maximise the benefits for users of SID Bank's services and other stakeholders.

SID Bank's risk appetite is defined in the applicable SID Bank development strategy, its annual operational plan and through internally defined limits. SID Bank's risk appetite, taking into account its risk absorption capacity, is assessed by SID Bank once a year, or more frequently in the event of significant changes in risk exposure.

Internal control mechanisms

Internal control mechanisms, the operation of which is put in place for all SID Bank's business processes in proportion to the materiality and risk of an individual business process, include:

- internal controls of the implementation of the Bank's organisational procedures, business procedures and work procedures;
- internal control functions and services (the internal audit department; the compliance function, including the information security function, which is organised within the compliance department; the risk management function organised within the risk management department) report directly to the Bank's management board.

The purpose of internal controls is to ensure systematic control over all of the Bank's material risks and to provide an independent and objective assessment of effectiveness and compliance with regard to the Bank's internal governance arrangements on the basis of a review and assessment of the adequacy of risk strategies and policies, the Bank's risk management processes, procedures and methodologies, and reporting on risks.

Organisational aspects of the risk management process

SID Bank's organisational structure and work processes are such as to allow the business objectives to be achieved at the same time as the 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. The risk management structure in place includes an active role for the supervisory board and the management board. Within the Bank's organisational structure, the risk management framework or function is organisationally separate from the commercial units that take up risks, i.e. within the credit process up to the level of the executive director, who covers the organisational unit responsible for the assessment of credit risks of individual business entities and groups of connected clients, while the risk management function at the aggregate level of the Bank is directly accountable to the Bank's management board. Regular participation in meetings of the supervisory board is ensured when issues relating to the risk management function are discussed and in audit committee meetings, as well as direct access to the chair of the supervisory board and chair of the supervisory board's risk committee for the provision of information on important circumstances that affect or could affect the Bank's risk profile.

Within the scope of their powers and duties under the ZBan-2, the Bank's management board and supervisory board are responsible for defining, adopting and regularly reviewing the strategy and policies for take-up and management of the risks to which the Bank is or could be exposed in its operations, including risks from the macroeconomic environment in which the Bank operates, taking into account the current business cycle. The risk management strategy and policies include guidelines on the take-up of risks, as well as procedures and tools for managing the risks. The risk management action plan is adopted by the Bank's management board with the consent of the supervisory board, following consultation with the supervisory board's risk committee.

Regular quarterly reports on performance, on risks and on movements on financial markets are produced to provide the management board and supervisory board with comprehensive information regarding risk management issues. The risk reports contain information regarding SID Bank's exposure to credit risk at the level of the entire credit portfolio, including a detailed analysis of individual and sectoral concentration of the credit portfolio, the credit portfolio structure by geographical area, credit rating, currency risk, liquidity risk and interest rate risk, and an assessment of any other risks. The management board and the supervisory board discuss and approve the result of the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP), and the Bank's capital adequacy and liquidity with regard to its risk profile on an annual basis; the management board is also briefed on risk management in the context of the discussion and adoption of the SID Bank Group's annual report. In addition, the Bank's management board is regularly briefed on and discusses the operational risk report, and the management body is briefed on and discusses the report on the engagement of external vendors. The management body discusses individual exposures or proposals to increase exposure requiring approvals from the management body, or in the event of any major changes in the risks identified in accordance with SID Bank's articles of association.

The supervisory board is assisted in performing its supervisory duties regarding risk management by the risk committee, which provides advice regarding the Bank's general risk appetite and risk management strategy, supervises senior management regarding the risk management strategy, and verifies whether risks are taken into account in the incentives within the scope of the remuneration system and whether the prices of the Bank's products are compatible with its business model and with the risk management strategy.

SID Bank has not set up a separate risk management committee. Risks are dealt with by three committees at SID Bank, which are of key importance in the area of risk management: the asset-liability and liquidity management committee, the credit committee, and the distressed investment management committee. Committee meetings are typically held on a weekly basis.

The asset-liability and liquidity management committee provides guidance, supervision and monitoring of risk management at the Bank, including risk management at the aggregate level of the Bank, balance-sheet structure and capital adequacy. In order to manage credit, interest-rate, operational, capital, profitability and market risk, as well as any other risks at the level of SID Bank, it is responsible, in particular, for monitoring, analysing and assessing:

- the results of the Bank's performance in terms of achievement of the business objectives;
- the structure of the Bank's balance sheet;
- developments, changes and trends regarding the Bank's balance sheet;
- capital adequacy reports;
- reports on the Bank's exposure to interest rate risk, market risk, capital risk, credit risk, operational risk and profitability risk;
- the Bank's investments, by taking into consideration profitability and risk as regards realisation of the planned objectives;
- the structure and performance of the Bank's products;
- the draft business plans and their amendments under materially changed operating conditions in individual areas of the Bank's operations;
- the Bank's accounting policies and principles;
- the consolidated financial statements of the SID Bank Group;
- relations with related parties;
- trading volumes and the fulfilment of related capital requirements;

- the fulfilment of performance criteria in line with regulations and the Bank's business policy;
- reports on open transactions and their impact on liquidity ratios, and information on transactions that failed to achieve average or target interest margin;
- the utilisation and/or exceeding of the limits, and the implementation of general authorisations of treasury department staff members;
- reports on the amount of allocated funds with regard to funding contracts with international financial development institutions and Slovenia;
- reports on equity and quasi-equity financing.

The criteria taken into consideration by the asset-liability and liquidity management committee in asset and liability management include capital adequacy, profitability of operations and performance of products/services.

The credit committee is responsible for managing credit risk for operations on behalf of and for the account of SID Bank. It makes decisions on proposals (regarding specific investment operations) that have an impact on the credit risk exposure of SID Bank and the SID Bank Group, and discusses the reports on the findings of periodic and in-depth monitoring, the fulfilment or non-fulfilment of commitments, the issuing of reminders, recovery, the monitoring of collateral, and the impairment and provisioning rates for existing and new investment operations.

The distressed investment management committee is responsible for managing problem exposures handled by the distressed investment management department, forbearances, and cancellations and terminations of investment operations as a result of a debtor's financial problems. It is also responsible for dealing with the list of forborne and insolvent exposures, reports on recoveries, collateral, and fulfilment of the financial and other contractual commitments applying to forborne transactions.

The general risk management framework is described in the business section of the Risk management chapter, where other bodies and organisational units responsible for the direct implementation of risk management are specified.

3.1 Credit risk

As far as credit risk is concerned, SID Bank's operations are most exposed to the risk of losses arising from a counterparty's inability to settle contractual liabilities by the originally agreed deadline without the liquidation of collateral. The Bank actively manages credit risk by, among other things, eliminating any deficiencies detected, improving management procedures and methods, and upgrading risk management methodology.

The umbrella document dealing with the management of credit risk in SID Bank operations is the Credit Risk Management Policy. This policy defines the attitude to the take-up of credit risk in relation to SID Bank's business objectives and strategies, risk appetite, mechanisms and procedures for identifying, measuring or assessing, monitoring, managing and reporting on credit risks, and the powers and responsibilities of the management body, the relevant committees and individual organisational units in relation to the management of credit risk.

The documents integral to comprehensive credit risk management at SID Bank include all the applicable regulations and bylaws that define in detail the credit risk management methodologies, procedures and tools used by SID Bank for the approval and securing of investment operations, the monitoring and management of the credit portfolio, the determination of a debtor's rating grade, the classification of exposures, the calculation of interest, the recovery of non-performing exposures, etc. The Credit Risk Management Policy also incorporates the main substantive points of the applicable bylaws that address credit risk management.

Operations relating to credit risk include all active investment operations that give rise to credit risk, i.e. loans, including contingent liabilities and commitments given, deposits placed, transactions involving investments in securities that SID Bank manages for the purpose of ensuring liquidity and asset-liability management, and transactions involving derivatives that the Bank uses exclusively for the purpose of protecting open foreign-exchange and interest-rate positions.

The level to which credit risk is taken on is determined in accordance with the adopted risk appetite, which is reflected through the limits placed on exposure to credit risk. The scope of the take-up of credit risk is monitored annually by the management body as part of the process of monitoring the annual operational plan and the risk management strategy, and upon the introduction of every new product.

From the point of view of the identification and assessment or measurement of credit risk, credit risk management at SID Bank comprises activities connected with assessing debtors' creditworthiness, compiling credit-rating reports and assigning debtors to the appropriate rating grades. The credit committee or another competent body approves any exposure in line with the authorisations for approval of transactions as set out in SID Bank's bylaws and articles of association and in accordance with the investment value and the existing exposure.

As regards the limits on exposure to credit risk, they first take account of the regulatory limits under the applicable banking legislation concerning the exposure to individual clients, groups of connected clients or persons in a special relationship with SID Bank. Credit risk take-up is also limited by SID Bank's articles of association and its internal limits.

Classification of financial assets and commitments given into rating grades

SID Bank assesses clients' credit quality after making an assessment of the relevant quantitative and qualitative elements. It places them in one of 21 internal rating grades, which are then combined into five rating pools from A to E, in accordance with Bank of Slovenia criteria.

The quantitative elements include an assessment of the client's financial and asset positions, the efficiency and profitability of their business operations and the anticipated future trends. The qualitative elements take account of all soft information on the client at the Bank's disposal. Before their loan is approved, all clients are assigned the appropriate rating grade. Their business operations are then monitored for the lifetime of the loan and ongoing assessments made to verify whether the rating grade is still appropriate.

The Bank has developed credit risk assessment methodologies for assigning ratings to clients separately for corporates, banks and savings banks, and investment projects. The credit ratings of domestic public-sector entities are derived from Slovenia's sovereign credit rating.

Management of credit protection

Before entering into a contractual relationship, SID Bank compiles an assessment of the debtor's creditworthiness, which constitutes the primary source of repayment. Collateral serves as a secondary source of loan repayment and is not a replacement for the primary creditworthiness of the debtor. The internal rulebook on collateral for investment operations is a document under which credit protection is implemented in practice. It defines in detail:

- the types and conditions of acceptable collateral with regard to the type of debtor and the investment transaction;
- the competencies of specific organisational units in accordance with the rules on internal organisation;
- the ratio between the value of the collateral and the value of the investment transaction per type of collateral;
- the documentation required per individual type of collateral so as to ensure the legal certainty of the collateral;
- the methodology for valuing individual types of collateral, which sets out the method, monitoring and frequency of valuation;
- the policy of regularly vetting the independence and qualifications of appraisers and the quality of their valuations;

- the types of collateral requiring a physical inspection of the assets pledged as collateral;
- the liquidation and/or termination of collateral.

The level of detail of the breakdown of collateral is unambiguously defined in the regulatory requirements contained in the CRR and the Bank of Slovenia's regulations. For the purpose of taking account of collateral in the assessment of expected credit losses, SID Bank values at zero any collateral that does not meet the requirements of the Regulation on credit risk management at banks and savings banks.

SID Bank values collateral at fair (market) value. Commercial real estate is valued pursuant to a valuation report compiled by an independent certified appraiser in accordance with valuation standards. Unless they serve as collateral for non-performing exposures, apartments with a value of up to EUR 250 thousand are valued in accordance with the generalised market value as supplied by the Surveying and Mapping Authority of the Republic of Slovenia (GURS). For the purpose of valuing apartments with a value of over EUR 250 thousand, and apartment buildings and residential real estate serving as collateral for non-performing exposures, SID Bank takes into account the generalised market value supplied by GURS if the independent certified appraiser produces an opinion to the effect that the generalised market value is appropriate. If the independent certified appraiser assesses that the generalised market value is not appropriate, SID Bank obtains a valuation report. When valuing real estate, SID Bank pays due regard to the market value and, in the case of exposure designated as non-performing, to the liquidation value. Throughout the lifetime of an exposure, SID Bank regularly monitors the value of the assets pledged and assesses the value of business and residential real estate at least twice annually using statistical methods. In the case of real estate serving as collateral for an exposure in excess of EUR 3 million, or 5% of the Bank's regulatory capital, SID Bank obtains the assessment of an independent external appraiser at least every three years. The Bank also obtains a reassessment from an independent external appraiser whenever the information at the Bank's disposal indicates that the value of the real estate may have materially declined relative to the general level of market prices. Securities traded on a regulated securities market are valued at the average price, in accordance with the Guidelines for implementing the regulation on reporting by monetary financial institutions. Non-marketable equities and participating interests in a company are valued pursuant to a valuation report compiled by an independent certified appraiser in accordance with valuation standards. Equipment, plant and vehicles are valued pursuant to a purchase agreement or invoice between unconnected parties, where the agreement or invoice may not be more than one year old, or a valuation report compiled by an independent certified appraiser in accordance with valuation standards. SID Bank values inventories pursuant to an authentic monthly printout from the client's accounting records. Patents, trademarks and models are valued pursuant to a valuation report compiled by an independent certified appraiser in accordance with valuation standards. Assigned receivables are valued pursuant to monthly reports by clients, without taking into account past-due claims and claims against legal or natural persons that comprise a group of connected clients with the client. Sureties and guarantees are valued in accordance with the value of exposure or the contractual amount of the surety or guarantee, whichever is lower. SID Bank gives a value exceeding EUR 0 for the guarantees of legal persons only if the rating grade of the legal entity giving the guarantee is higher than BBB-, based on the internal credit risk assessment methodology. Guarantees from natural persons are valued at zero. Deposits are valued in accordance with the balance of the deposit. SID Bank's insurance policy issued for the account of Slovenia for insurance against commercial risks is valued at the level of the Slovenian government guarantee for commercial risk, as set out in the insurance contract.

Only collateral whose maturity is longer than the maturity of the investment transaction is considered by the Bank to be eligible collateral. The currency of the collateral is, as a rule, identical to the currency of the investment transaction. In the event of a currency mismatch, the Bank has a specified higher ratio in place between the amount of collateral and the amount of the investment transaction.

Throughout the lifetime of the exposure, SID Bank monitors the debtor's rating grade and the coverage of the exposure by collateral. Should the value of the collateral fall, the SID Bank Group takes action to establish additional collateral as appropriate. If the ratio between the value of overall collateral arising from a specific investment transaction and the current exposure declines by more than 50% relative to the ratio that existed at the time the investment transaction was approved, this can also provide grounds for placing the debtor concerned on the watch list.

The collateral for exposures of other SID Bank Group companies is monitored in the analytical accounts of each company.

When calculating the capital requirement for credit risk using the standardised approach, SID Bank does not take into account a reduction in risk-weighted assets as a result of the effects of credit protection.

Estimation of expected credit losses

For the estimation of expected credit losses, SID Bank has put in place its own methodology in accordance with IFRS 9, which is defined in the internal rulebook, and includes:

- classification of exposures into stages for the purpose of estimating expected credit losses, including the definition of a methodology for assessing a significant increase in credit risk;
- segmentation of the portfolio for the calculation of expected credit losses (PD and LGD segments);
- modelling of probability of default (PD) and loss given default (LGD);
- calculation of expected credit losses; and
- back-testing.

The estimation of expected credit losses is defined in more detail under section 2.3.11 (Impairments of financial assets and provisions).

Credit risk monitoring

SID Bank carries out regular and in-depth monitoring of credit risk. Regular monitoring of credit risk includes daily monitoring to ensure that the debtor's rating grade remains appropriate, the monitoring of financial and other contractual commitments, verification of the adequacy and amount of additional collateral, and the monitoring and updating of groups of connected clients. SID Bank carries out in-depth monitoring when it detects a serious breach of contractual obligations, a deterioration in the debtor's financial and asset position, an increase in the risk derived from the purpose-specific use of the loan, or other circumstances that affect or may affect the debtor's business operations and the successful conclusion of the investment transaction.

SID Bank regularly carries out in-depth monitoring on the basis of a list approved by the credit committee. When creating a watch list, the amount and maturity of an investment transaction, the client's rating grade and other criteria that entail a client being placed on a watch list and that affect the credit risk are taken into account.

Early warning system for detecting an increased credit risk

SID Bank has put in place an early warning system (EWS) as part of its credit risk management system that allows early detection of increased credit risk for any exposure and potential defaulter. The early warning system is based on internally defined criteria for inclusion on or removal from the list that enable SID Bank to identify any potential difficulties in debt repayment at an early stage and to try to prevent any further deterioration in the credit quality of the exposure by taking timely corrective measures and monitoring the implementation of measures so that the client does not move to a position of default.

SID Bank monitors exposures with an increased credit risk on the watch list and the transitional list of defaulters discussed on a weekly basis by the credit committee. If, after successfully performing the relevant measures, a client no longer meets any of the criteria for being placed on the watch list, they are returned to ordinary treatment again, or are reclassified as non-performing loans if they meet the criteria for reclassification of the exposure as a non-performing loan.

Management of non-performing exposures

The criteria for categorising exposures as non-performing are aligned with Basel and EBA guidelines. In the event that an exposure associated with increased risk is classified as a non-performing loan following a decision of the credit committee, it is assigned to a special organisational unit, the distressed investment management department, which carries out an economic and legal review of the exposure on the basis of internally defined criteria. In every case, an internal plan on possible solutions for that exposure is drafted and, on the basis of an appropriate analysis, either a process of forbearance of the exposure or a process of recovery is initiated.

Forbearance of an investment operation is typically connected with the financial, ownership or operational restructuring of the debtor in accordance with the guidelines of the Bank of Slovenia and the Bank Association of Slovenia.

In the forbearance procedure, and in line with the forbearance plan, SID Bank agrees with the client on any amendments to the terms of the original contract, either by modifying the terms of the original contract or by signing a new contract under which the contracting parties agree partial or full repayment of the original debt. Potential actions for the forbearance of claims include:

- an extension of the deadline or a deferral of the repayment of the claims;
- a reduction in the interest rate and/or other charges;
- a reduction in the amount of the claims as a result of contractually agreed debt forgiveness and ownership restructuring;
- conversion of the claims into an equity investment in the debtor;
- the takeover of other assets (including through the liquidation of collateral) for partial or full repayment of the claims;
- other activities.

In the majority of cases, SID Bank forms part of the core group of banks in which it actively collaborates with management boards and external consultants. When negotiating forbearance, the Bank ensures that Slovenian corporate debt restructuring principles, prepared by the Bank of Slovenia together with the Bank Association of Slovenia, are implemented in a consistent manner. As regards micro, small and medium-sized enterprises, the Bank also pays due regard to the Restructuring guidelines for micro, small and medium-sized companies (MSME) and the Bank of Slovenia's Handbook for effective management and workout of MSME non-performing loans.

After transactions have been classified as non-performing loans, SID Bank monitors them on special lists; these are the transitional list, the list of forborne exposures and the list of insolvent exposures, which are discussed on a weekly basis by the distressed investment management committee.

In relation to the management of problem exposures, SID Bank has drawn up a strategy for managing problem exposures and a plan for reducing non-performing exposures for a period of three years. This plan indicates that there has been a reduction in non-performing exposures as a result of their active management. When preparing the plan for reducing non-performing exposures, SID Bank took into account, among other things, the expectations regarding write-offs, repayments from collateral, disposal of the exposure, repayments from continuing operations, etc.

Segmentation of the portfolio of non-performing exposures designated as non-performing loans takes place in three stages: In the first stage, the non-performing loans are divided into micro exposures and other exposures; in the second stage they are classified into simple and complex non-performing loans; and the third stage involves an assessment of the sustainability of the debtor's business model and the type of credit protection for the exposure. SID Bank identifies as debtors with a sustainable business model those debtors with the ability to generate cash flow from their core activity and to service the financial debt at the same time. SID Bank identifies as debtors with an unsustainable business model those debtors that do not have the ability to generate cash flow from their core activity. It further classifies them based on their expected or current status, i.e. whether bankruptcy proceedings, removal from the commercial register or regular or compulsory composition have been initiated against the debtor.

Recovery procedure

Recovery takes place in accordance with internal procedures and may vary from case to case. It is divided into extra-judicial and judicial recovery. The method of recovery chiefly depends on the type of collateral, the length of the delay, the degree of cooperation displayed by the debtor, and the amount of any past-due and outstanding exposures of SID Bank to the debtor.

Irrespective of the recovery method and the person performing the recovery, each recovery begins with a verbal and written reminder to the debtor. In the event that the procedure of issuing reminders is unsuccessful or the exposure could not be forborne, procedures are initiated to ensure the repayment of past-due exposures in default from collateral instruments.

If extra-judicial recovery is not successful, judicial recovery is initiated and headed by the distressed investment management department. It starts by establishing the available assets of the debtor, and then files claims and motions for enforcement, performs other activities in the judicial recovery procedure, and registers claims against the debtor in a compulsory composition, bankruptcy, liquidation or other appropriate procedure.

Management and monitoring of credit risk

SID Bank manages credit risk in several ways:

- by determining the risk appetite and the risk appetite indicators;
- by setting internal limits in order to limit the concentration of exposure for specific segments, economic sectors and geographical areas;
- by taking into account the limits of exposure to individual clients, groups of connected clients and shadow banking entities;
- by establishing collateral;
- by identifying the risk posed by a specific client and creating impairments and provisions for on-balance-sheet assets or off-balance-sheet liabilities;
- by ensuring sufficient capital to cover unexpected credit risk losses.

The monitoring of credit risk begins upon the conclusion of a contractual relationship in the process of credit risk take-up, and ends on the day all of the client's contractual and other obligations have been performed.

In credit operations, limits are not predetermined or determined in general; rather, creditworthiness is determined when an individual investment operation is reviewed with reference to the company's calculated borrowing capacity, which includes an assessment of long-term sustainable annual cash flow, less the normalised volume of replacement investments, normalised taxes, long-term expected dividends and gains, and the current and envisaged financial debt.

Credit risk from securities arises from the portfolio managed by SID Bank for the purpose of ensuring liquidity and asset and liability management. 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, the type of instrument, and the monitoring of the market values of securities. The system of limits in this area is designed so as to ensure investment primarily in debt securities of higher credit quality. Generally speaking, it does not allow any investment in financial instruments of foreign issuers without a credit rating from an international rating agency.

SID Bank has no financial instruments held for trading. Counterparty credit risk is also taken into account when settling transactions in securities and in relation to derivatives. SID Bank calculates its credit exposure arising from derivatives using the original exposure method, according to which the exposure value is the notional amount of each instrument multiplied by the percentages set out in Article 275 of the CRR.

The business model and business strategy adopted by SID Bank entails increased concentration, which is accepted with full awareness for the following:

- groups of clients and sectors that are involved in Slovenia's exports to an above-average degree;
- certain countries that are major destinations for Slovenia's merchandise

exports, exports of services and outward FDI;

– banks involved in transactions referred to in the two previous indents, and exposures to banks established in Slovenia, if the banks transfer the funding obtained to final beneficiaries under the Slovene Export and Development Bank Act or another law.

Maximum exposure to credit risk

31 Dec 2018	SID Bank Maximum credit risk	SID Bank Collateral	SID Bank Other credit enhance-ments	SID Bank Overall reduction in credit risk	SID Bank Group Maximum credit risk	SID Bank Group Collateral	SID Bank Group Other credit enhance-ments	SID Bank Group Overall reduction in credit risk
Gross on-balance-sheet exposures	**2,327,410**	**508,089**	**95,669**	**603,758**	**2,327,406**	**508,089**	**95,669**	**603,758**
Cash, cash balances at central banks and other demand deposits at banks	121,184	0	0	0	121,184	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	15,667	25,882	0	25,882	15,667	25,882	0	25,882
Loans and advances to customers	15,667	25,882	0	25,882	15,667	25,882	0	25,882
Financial assets measured at fair value through other comprehensive income	651,126	0	10,347	10,347	651,126	0	10,347	10,347
Debt securities	651,126	0	10,347	10,347	651,126	0	10,347	10,347
Financial assets measured at amortised cost	1,539,433	482,207	85,322	567,529	1,539,429	482,207	85,322	567,529
Loans and advances to banks	810,041	0	14,643	14,643	810,041	0	14,643	14,643
Loans and advances to customers	727,539	482,207	70,659	552,866	727,539	482,207	70,659	552,866
Other financial assets	1,853	0	20	20	1,849	0	20	20
Gross off-balance-sheet exposures	**275,760**	**11,523**	**33,555**	**45,078**	**275,760**	**11,523**	**33,555**	**45,078**
Guarantees	66,790	0	33,385	33,385	66,790	0	33,385	33,385
Assets: undrawn loans	196,970	11,523	170	11,693	196,970	11,523	170	11,693
EIF	12,000	0	0	0	12,000	0	0	0
Total gross credit risk exposure	**2,603,170**	**519,612**	**129,224**	**648,836**	**2,603,166**	**519,612**	**129,224**	**648,836**

31 Dec 2017	SID Bank Maximum credit risk	SID Bank Collateral	SID Bank Other credit enhance-ments	SID Bank Overall reduction in credit risk	SID Bank Group Maximum credit risk	SID Bank Group Collateral	SID Bank Group Other credit enhance-ments	SID Bank Group Overall reduction in credit risk
Gross on-balance-sheet exposures	**2,559,840**	**695,771**	**26,569**	**722,340**	**2,589,455**	**695,771**	**26,569**	**722,340**
Balances at central bank and sight deposits at banks	71,071	0	0	0	75,950	0	0	0
Available-for-sale financial assets (under IAS 39)	714,287	0	8,129	8,129	733,770	0	8,129	8,129
Debt securities	714,287	0	8,129	8,129	733,770	0	8,129	8,129
Loans and advances (under IAS 39)	1,774,482	695,771	18,440	714,211	1,779,735	695,771	18,440	714,211
Loans and advances to banks	1,039,767	0	2,543	2,543	1,045,019	0	2,543	2,543
Loans and advances to customers	733,162	695,771	15,897	711,668	733,162	695,771	15,897	711,668
Other financial assets	1,553	0	0	0	1,554	0	0	0
Gross off-balance-sheet exposures	**74,271**	**3,866**	**219**	**4,085**	**74,271**	**3,866**	**219**	**4,085**
Guarantees	13,863	0	0	0	13,863	0	0	0
Assets – undrawn loans	48,408	3,866	219	4,085	48,408	3,866	219	4,085
EIF	12,000	0	0	0	12,000	0	0	0
Total gross credit risk exposure	**2,634,111**	**699,637**	**26,788**	**726,425**	**2,663,726**	**699,637**	**26,788**	**726,425**

In line with the transitional provisions of IFRS 9, data for the previous year is not restated in accordance with the new standard, therefore the on-balance sheet items for the previous year are presented in accordance with the accounting templates that were in force in the previous year. As a result of material differences between IFRS 9 and IAS 39 regarding the method by which financial instruments are recognised, the figures are not comparable. The data for the previous year is therefore presented in a separate table.

The table shows that the largest exposure to credit risk on the part of SID Bank and the SID Bank Group as at 31 December 2018 arose from balances at the central bank, financial assets mandatorily at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets measured at amortised cost, and off-balance-sheet liabilities, without taking into consideration credit protection.

As at 31 December 2018, SID Bank's exposure to credit risk had fallen by EUR 30,941 thousand in comparison with 31 December 2017. Exposure from loans and other financial assets measured at amortised cost and loans mandatorily at fair value through profit or loss fell by EUR 219,382 thousand, exposure from debt securities measured at fair value through other comprehensive income fell by EUR 63,161 thousand, exposure from off-balance-sheet liabilities rose by EUR 201,489 thousand and exposure from balances at the central bank rose by EUR 50,113 thousand.

The introduction of IFRS 9 was one of the factors affecting the reduction in exposure from loans. Owing to a failure to pass the SPPI test, a portion of the on-balance-sheet item loans measured at amortised cost under IAS 39 were reclassified into the category of financial assets mandatorily at fair value through profit or loss.

Collateral as disclosed in the table includes collateral in the form of residential real estate, commercial real estate, shares and participating interests, bank deposits, other material assets and other forms of collateral.

Other credit enhancements as shown in the table include collateral in the form of irrevocable Slovenian government guarantees and financial guarantees that are not irrevocable Slovenian government guarantees.

When estimating expected credit losses for exposures assigned to stages 1 and 2, SID Bank takes collateral into account in the calculation of the loss-given-default (LGD) curves for each homogeneous LGD segment. When calculating the loss-given-default (LGD) curves, SID Bank reduces the value of the collateral by the haircut (HC) determined for each type of collateral, and also incorporates forward-looking information when determining the value of the collateral. When determining the haircut (HC), SID Bank largely takes into account the Guidelines for calculating default rate and loss rate issued by the Bank of Slovenia. In the case of collateral in the form of material assets and other forms of collateral, SID Bank mostly takes account of a haircut (HC) in the amount of 95%.

When estimating expected credit losses for exposures assigned to stage 3, where the expected credit losses are calculated using the collateral assessment methodology, SID Bank determines the collateral value in the same way as for the calculation of the loss-given-default (LGD) curves.

For the situation as at 31 December 2018, SID Bank applied the collateral assessment methodology when calculating the expected credit losses for 45 of the total of 67 exposures assigned to stage 3.

The estimation of expected credit losses is defined in more detail under section 2.3.11 (Impairments of financial assets and provisions).

As at 31 December 2018, the value of the collateral amounted to EUR 560,596 thousand for exposures assigned to stage 1, EUR 33,524 thousand for exposures assigned to stage 2 and EUR 28,834 thousand for exposures assigned to stage 3. The value of collateral for financial assets mandatorily at fair value through profit or loss amounted to EUR 25,882 thousand as at 31 December 2018.

Types of credit protection

31 Dec 2018	Collateral in the form of irrevocable Slovenian government guarantees	Collateral in the form of financial guarantees that are not irrevocable Slovenian government guarantees	Collateral in the form of commercial real estate	Collateral in the form of residential real estate	Collateral in the form of shares and participating interests	Collateral in the form of bank deposits	Collateral in the form of other material assets	Other forms of collateral	Total
	SID Bank and SID Bank Group								
Financial assets	**28,304**	**67,365**	**236,454**	**5,032**	**77,057**	**4,210**	**77,573**	**107,763**	**603,758**
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	22,845	216	0	0	1,635	1,186	25,882
Loans and advances to customers	0	0	22,845	216	0	0	1,635	1,186	25,882
Financial assets measured at fair value through other comprehensive income	214	10,133	0	0	0	0	0	0	10,347
Debt securities	214	10,133	0	0	0	0	0	0	10,347
Financial assets measured at amortised cost	28,090	57,232	213,609	4,816	77,057	4,210	75,938	106,577	567,529
Loans and advances to banks	14,643	0	0	0	0	0	0	0	14,643
Loans and advances to customers	13,447	57,212	213,609	4,816	77,057	4,210	75,938	106,577	552,866
Other financial assets	0	20	0	0	0	0	0	0	20
Off-balance-sheet liabilities	**170**	**33,385**	**0**	**0**	**0**	**0**	**6,421**	**5,102**	**45,078**
Guarantees	0	33,385	0	0	0	0	0	0	33,385
Assets: undrawn loans	170	0	0	0	0	0	6,421	5,102	11,692
Total	**28,474**	**100,750**	**236,454**	**5,032**	**77,057**	**4,210**	**83,994**	**112,865**	**648,836**

The total value of SID Bank's collateral amounted to EUR 648,836 thousand as at 31 December 2018, a fall of EUR 77,589 thousand in comparison with 31 December 2017. The collateral meets the requirements of the Regulation on credit risk management at banks and savings banks for the purpose of taking account of credit protection in the assessment of expected credit losses.

On 31 August 2018, SID Bank undertook a revaluation of real estate accepted as collateral for which an appraisal report had been produced prior to 1 January 2018, and did so using a statistical method.

Collateral in the form of commercial real estate accounts for the highest single share in terms of volume, followed by other forms of collateral, financial guarantees that are not irrevocable Slovenian government guarantees, other material assets, shares and participating interests, irrevocable Slovenian government guarantees, residential real estate and bank deposits.

As regards collateral in the form of irrevocable Slovenian government guarantees, collateral in the form of SID Bank insurance policies issued for the account of Slovenia to insure against commercial risks accounts for the highest single share in terms of volume.

As regards collateral in the form of financial guarantees that are not irrevocable Slovenian government guarantees, collateral in the form of a sovereign limited conditional subsidiary guarantee accounts for the highest single share in terms of volume, followed by bank guarantees, ECB, state and central bank guarantees, which are assigned a risk rating of 0 or 1 under the minimum export insurance premiums (MEIP) listing, and guarantees of legal persons whose rating grade is higher than BBB, on the basis of the internal credit risk assessment methodology.

As regards collateral in the form of material assets, collateral in the form of the pledging of inventories accounts for the highest single share in terms of volume, followed by collateral in the form of the pledging of equipment, plant and vehicles.

As regards other forms of collateral, collateral in the form of the assignment of claims accounts for the highest single share in terms of volume, followed by collateral in the form of a lien on other rights (patents, trademarks, models).

In 2018 SID Bank updated its collateral policy in line with the amendments to the Regulation on credit risk management at banks and savings banks and the Guidelines for implementing the regulation on reporting by monetary financial institutions.

Securing of loans and claims

	SID Bank				SID Bank Group			
	Fully secured and over-secured loans		Unsecured and under-secured loans		Fully secured and over-secured loans		Unsecured and under-secured loans	
31 Dec 2018	Net value of loans and receivables	Fair value of collateral	Net value of loans and claims	Fair value of collateral	Net value of loans and claims	Fair value of collateral	Net value of loans and claims	Fair value of collateral
Financial assets measured at amortised cost								
Loans and advances to banks	4,939	4,960	804,411	9,683	4,939	4,960	804,411	9,683
Loans and advances to customers	221,554	476,591	469,566	76,275	221,554	476,591	469,566	76,275
Other financial assets	20	20	1,833	0	20	20	1,829	0
Total	**226,513**	**481,571**	**1,275,810**	**85,958**	**226,513**	**481,571**	**1,275,806**	**85,958**

	SID Bank				SID Bank Group			
	Fully secured and over-secured loans		Unsecured and under-secured loans		Fully secured and over-secured loans		Unsecured and under-secured loans	
31 Dec 2017	Net value of loans and claims	Fair value of collateral	Net value of loans and claims	Fair value of collateral	Net value of loans and claims	Fair value of collateral	Net value of loans and claims	Fair value of collateral
Loans and advances								
(under IAS 39)								
Loans and advances to banks	0	0	1,032,179	2,543	0	0	1,045,019	2,543
Loans and advances to customers	230,027	609,093	367,713	91,827	230,027	609,093	367,713	91,827
Other financial assets	0	0	1,553	0	0	0	1,554	0
Total	**230,027**	**609,093**	**1,401,445**	**94,370**	**230,027**	**609,093**	**1,414,286**	**94,370**

Fully secured and over-secured loans are loans and other financial assets measured at amortised cost, where the fair value of the collateral is higher than or equal to the gross carrying amount of the loan or other financial asset. Unsecured and under-secured loans are loans and other financial assets measured at amortised cost, where the fair value of the collateral is lower than the gross carrying amount of the loan or other financial asset.

A large part of SID Bank's portfolio of loans and other financial assets measured at amortised cost comprises loans to banks established in Slovenia, which transfer the funding thus obtained to the final beneficiaries under the ZSIRB. The above loans are generally unsecured. As at 31 December 2018, secured loans to banks were loans to foreign banks secured by SID Bank insurance policies issued for the account of the Republic of Slovenia to insure against commercial risks.

Analysis of credit quality – financial assets measured at amortised cost and off-balance-sheet liabilities

SID Bank	31 Dec 2018		31 Dec 2017	
Gross carrying amount of loans and off-balance-sheet liabilities	**1,815,193**	**100%**	**1,848,753**	**100%**
A	558,699	30.8%	498,512	27.0%
B	1,129,671	62.2%	1,132,201	61.2%
C	88,672	4.9%	91,825	5.0%
D	16,983	0.9%	101,235	5.5%
E	21,168	1.2%	24,980	1.4%
Allowances for losses and provisions	**(37,530)**	**100%**	**(145,380)**	**100%**
A	(290)	0.8%	(8,566)	5.9%
B	(6,327)	16.9%	(37,786)	26.0%
C	(9,563)	25.5%	(11,079)	7.6%
D	(3,063)	8.2%	(64,954)	44.7%
E	(18,287)	48.7%	(22,995)	15.8%
Net carrying amount of loans and off-balance-sheet liabilities	**1,777,663**		**1,703,373**	

As at 31 December 2018, SID Bank disclosed gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities of EUR 1,815,193 thousand. This was a fall of EUR 33,560 thousand in comparison with 31 December 2017. The introduction of IFRS 9 affected the change in the gross exposure resulting from financial assets measured at amortised cost and off-balance-sheet items. Owing to a failure to pass the SPPI test, a portion of the on-balance-sheet loan items measured at amortised cost under IAS 39 were reclassified as financial assets mandatorily at fair value through profit or loss, while the gross exposure resulting from off-balance-sheet items increased as a result of undrawn loans and guarantees given.

As at 31 December 2018, 93% of financial assets measured at amortised cost and off-balance-sheet liabilities had been assigned rating grades of A and B. This was an increase of 3.5 percentage points on the situation as at 31 December 2017.

The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of A also increased, from 27% as at 31 December 2017 to 30.8% as at 31 December 2018. The structure of the credit portfolio improved largely as a result of the reassignment of banks to better rating grades and the approval of several larger transactions for A-rated clients.

Financial assets measured at amortised cost and off-balance-sheet liabilities that meet at least one of the following criteria of default are assigned rating grades of D and E:

- the debtor is more than 90 days past due on any material credit obligation to SID Bank;
- it is unlikely that the debtor will settle its credit obligations to SID Bank in full, without recourse by the Bank to actions such as liquidation of collateral or other procedures.

Financial assets measured at amortised cost and off-balance-sheet liabilities assigned to rating grades D and E declined primarily as a result of the reclassification of loans measured at amortised cost under IAS 39 that did not pass the SPPI test under IFRS 9 to the category of financial assets mandatorily at fair value through profit or loss. The gross carrying amount of these loans was EUR 64,365 thousand as at 31 December 2017. The decline in financial assets measured at amortised cost and off-balance-sheet liabilities assigned to rating grades D and E was also attributable to shifts for POCI items that reduce the gross carrying amount of financial assets, and a decline in exposure as a result of received repayments, the latter partly as a result of the successful outcome of forbearance procedures.

All loans that did not pass the SPPI test upon the introduction of IFRS 9 had been assigned to rating grade D as at 31 December 2017. Similarly, as at the same date a loan measured at amortised cost had been assigned to rating grade D; there was a modification to the contractual cash flow in the course of 2018 that led to its recognition as a financial asset mandatorily at fair value through profit or loss as a result of the failure to pass the SPPI test.

As at 31 December 2018, SID Bank disclosed impairments for credit losses on financial assets measured at amortised cost and provisions for off-balance-sheet liabilities amounting to EUR 37,530 thousand. This was a fall of EUR 107,850 thousand in comparison with 31 December 2017.

The overall effect of the introduction of IFRS 9 on allowances for credit losses and provisions from the transition to IFRS 9 as at 1 January 2018 amounted to EUR 121,843 thousand, as follows:

- in respect of financial assets measured at amortised cost and off-balance-sheet liabilities that remained measured at amortised cost and were not classified as POCI items upon the transition to IFRS 9, allowances for credit losses and provisions in the amount of EUR 46,428 thousand were reversed,
- in respect of financial assets measured at amortised cost that were classified as POCI items upon the transition to IFRS 9, allowances for credit losses in the amount of EUR 29,578 thousand were used for the recognition of those loans in net value with a credit-adjusted effective interest rate;
- in respect of financial assets measured at amortised cost that did not pass the SPPI test upon the transition to IFRS 9 and that under IFRS 9 are mandatorily at fair value through profit or loss, allowances for credit losses in the amount of EUR 45,837 were used for the valuation of those loans to fair value.

SID Bank held total allowances for credit losses and provisions in the amount of EUR 37,530 thousand as at 31 December 2018. Allowances for credit losses on loans granted and other financial assets measured at amortised cost amounted to EUR 37,110 thousand, while provisions for off-balance-sheet liabilities amounted to EUR 420 thousand.

As at 1 January 2018, allowances for credit losses on loans and other financial assets and provisions for off-balance-sheet liabilities amounted to EUR 23,537 thousand upon the introduction of IFRS 9. Allowances for credit losses on loans granted and other financial assets measured at amortised cost amounted to EUR 23,301 thousand, and increased by EUR 13,809 thousand in 2018. Provisions for off-balance-sheet liabilities amounted to EUR 236 thousand as at 1 January 2018 and increased by EUR 184 thousand in 2018.

The derecognition of POCI items repaid in 2018 had the greatest impact on the increase in allowances for credit losses on loans and other financial assets measured at amortised cost in 2018. As at 1 January 2018, these POCI items had a positive allowance value.

Under IFRS 9, a bank is obliged, for POCI items, to recognise the amount of the change in the lifetime expected credit losses on the financial instrument in profit or loss as an impairment gain or loss. A bank is obliged to recognise favourable changes to lifetime expected credit losses of the financial instrument as an impairment gain, even if the lifetime expected credit losses are lower than the amount of the expected losses included in the estimated cash flows at initial recognition. Under IFRS 9, POCI items are initially recognised at fair value in the statement of financial position. Upon subsequent measurement, this represents the basis for measurement at amortised cost. Under this rule, POCI items had to be recognised, upon transition to IFRS 9 on 1 January 2018, at the fair value calculated on the date of recognition and not on the date of transition to IFRS 9.

As at 1 January 2018, SID Bank disposed of 24 exposures under POCI items, including 11 performing exposures where the total allowance was positive and amounted to EUR 6,246 thousand. In 2018 SID Bank derecognised ten POCI items, which included nine performing exposures and one non-performing exposure, and recognised a POCI item that had been repaid by the end of 2018. As at 31 December 2018, the allowance from POCI items was negative and amounted to EUR 4,961 thousand.

In 2018 the significant increase in the credit risk of individual financial assets in the period from initial recognition, and their consequent assignment to Stage 2, where impairments are measured on the basis of the lifetime expected credit losses on the financial instrument, and the recognition of new financial assets also had an impact on the increase in allowances for credit losses on loans and other financial assets measured at amortised cost.

The largest factor in the decline in allowances for credit losses on loans and other financial assets measured at amortised cost and assigned to stage 3 (non-performing financial assets), where impairments for credit losses are measured on the basis of the lifetime expected credit losses on the financial instrument, was the derecognition of one exposure in which a modification to the contractual cash flows in the course of 2018 led to its recognition as a financial asset mandatorily at fair value through profit or loss as a result of the failure to pass the SPPI test.

The estimation of expected credit losses is defined in more detail under section 2.3.11 (Impairments of financial assets and provisions).

Analysis of credit quality – non-trading financial assets mandatorily at fair value through profit or loss

31 Dec 2018	SID Bank and SID Bank Group
D	15,667
Net carrying amount	**15,667**

Analysis of credit quality – financial assets measured at fair value through other comprehensive income

	SID Bank and SID Bank Group		
31 Dec 2018	Stage 1	Total	
Gross carrying amount: debt securities	**651,126**	**651,126**	**100%**
A	635,440	635,440	97.6%
B	15,686	15,686	2.4%
Impairments for credit losses	**(255)**	**(255)**	**100%**
A	(161)	(161)	63.1%
B	(94)	(94)	36.9%
Net carrying amount: fair value	**650,871**	**650,871**	

As at 31 December 2018, SID Bank disclosed gross exposure from financial assets measured at fair value through other comprehensive income amounting to EUR 651,126 thousand.

Under IFRS 9, a bank is obliged to estimate expected credit losses on financial assets measured at fair value through other comprehensive income.

As at 31 December 2018, all financial assets measured at fair value through other comprehensive income had been assigned to stage 1 (no significant increase in credit risk since the initial recognition), where impairments for credit losses are measured on the basis of 12-month expected credit losses. Impairments for credit losses on financial assets measured at fair value through other comprehensive income amounted to EUR 255 thousand as at 31 December 2018.

Analysis of credit quality – financial assets measured at amortised cost – loans and advances to banks

	SID Bank and SID Bank Group		
31 Dec 2018	Stage 1	Total	
Gross carrying amount	**810,041**	**810,041**	**100%**
A	210,948	210,948	26.0%
B	599,093	599,093	74.0%
Allowances for losses	**(691)**	**(691)**	**100%**
A	(54)	(54)	7.8%
B	(637)	(637)	92.2%
Net carrying amount	**809,350**	**809,350**	

As at 31 December 2018, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to banks) amounting to EUR 810,041 thousand.

As at 31 December 2018, all loans and advances to banks had been assigned to stage 1 (no significant increase in credit risk since the initial recognition), where impairments for credit losses are measured on the basis of 12-month expected credit losses. As at 31 December 2018, allowances for credit losses on financial assets measured at amortised cost (loans and advances to banks) amounted to EUR 691 thousand.

Analysis of credit quality – financial assets measured at amortised cost – loans and advances to customers

	SID Bank and SID Bank Group					
31 Dec 2018	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**639,821**	**45,995**	**20,383**	**21,340**	**727,539**	**100%**
A	192,630	0	0	0	192,630	26.5%
B	384,538	20,974	0	3,572	409,084	56.2%
C	62,653	25,021	0	0	87,674	12.1%
D	0	0	3,371	13,612	16,983	2.3%
E	0	0	17,012	4,156	21,168	2.9%
Allowances for losses	**(8,438)**	**(6,847)**	**(16,172)**	**(4,962)**	**(36,419)**	**100%**
A	(188)	0	0	0	(188)	0.5%
B	(4,756)	(778)	0	216	(5,318)	14.6%
C	(3,494)	(6,069)	0	0	(9,563)	26.3%
D	0	0	(1,983)	(1,080)	(3,063)	8.4%
E	0	0	(14,189)	(4,098)	(18,287)	50.2%
Net carrying amount	**631,383**	**39,148**	**4,211**	**16,378**	**691,120**	

As at 31 December 2018, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to customers) amounting to EUR 727,539 thousand.

A total of EUR 639,821 thousand in loans and advances to customers was assigned to stage 1 (no significant increase in credit risk since the initial recognition), where impairments for credit losses are measured on the basis of 12-month expected credit losses. As at 31 December 2018, allowances for credit losses on loans and advances to customers assigned to stage 1 amounted to EUR 8,438 thousand.

As SID Bank also approves loan transactions for rating grade C within individual financing programmes involving elements of state aid, EUR 62,653 thousand in loans and advances to customers was assigned to stage 1.

A total of EUR 49,567 thousand in loans and advances to customers was assigned to stage 2 (significant increase in credit risk since the initial recognition), where impairments for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument, with performing POCI items accounting for EUR 3,572 thousand. Allowances for credit losses on loans and advances to customers assigned to stage 2 amounted to EUR 6,631 thousand as at 31 December 2018, where EUR 216 thousand was the positive allowance for credit losses on performing POCI items.

A total of EUR 38,151 thousand in loans and advances to customers was assigned to stage 3 (non-performing financial assets), where impairments for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument, with non-performing POCI items accounting for EUR 17,768 thousand. Allowances for credit losses on loans and advances to customers assigned to stage 3 amounted to EUR 21,350 thousand as at 31 December 2018, where EUR 5,178 thousand was the allowance for credit losses on non-performing POCI items.

Analysis of credit quality – financial assets measured at amortised cost – other financial assets

31 Dec 2018	SID Bank Stage 1	Total	
Gross carrying amount	**1,853**	**1,853**	**100%**
A	1,773	1,773	95.7%
B	80	80	4.3%
Net carrying amount	**1,853**	**1,853**	

As at 31 December 2018, SID Bank disclosed exposure from financial assets measured at amortised cost (other financial assets) amounting to EUR 1,853 thousand.

As at 31 December 2018, all other financial assets had been assigned to stage 1 (no significant increase in credit risk since the initial recognition), where impairments for credit losses are measured on the basis of 12-month expected credit losses. Owing to the immateriality of the amounts, allowances for credit losses were not recognised.

31 Dec 2018	SID Bank Group Stage 1	Total	
Gross carrying amount	**1,849**	**1,849**	**100%**
A	1,769	1,769	95.7%
B	80	80	4.3%
Net carrying amount	**1,849**	**1,849**	

Analysis of credit quality – financial assets measured at amortised cost – total

	SID Bank					
31 Dec 2018	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**1,451,715**	**45,995**	**20,383**	**21,340**	**1,539,433**	**100%**
A	405,351	0	0	0	405,351	26.3%
B	983,711	20,974	0	3,572	1,008,257	65.5%
C	62,653	25,021	0	0	87,674	5.7%
D	0	0	3,371	13,612	16,983	1.1%
E	0	0	17,012	4,156	21,168	1.4%
Allowances for losses	**(9,129)**	**(6,847)**	**(16,172)**	**(4,962)**	**(37,110)**	**100%**
A	(242)	0	0	0	(242)	0.7%
B	(5,393)	(778)	0	216	(5,955)	16.0%
C	(3,494)	(6,069)	0	0	(9,563)	25.8%
D	0	0	(1,983)	(1,080)	(3,063)	8.3%
E	0	0	(14,189)	(4,098)	(18,287)	49.3%
Net carrying amount	**1,442,586**	**39,148**	**4,211**	**16,378**	**1,502,323**	

	SID Bank Group					
31 Dec 2018	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**1,451,711**	**45,995**	**20,383**	**21,340**	**1,539,429**	**100%**
A	405,347	0	0	0	405,347	26.3%
B	983,711	20,974	0	3,572	1,008,257	65.5%
C	62,653	25,021	0	0	87,674	5.7%
D	0	0	3,371	13,612	16,983	1.1%
E	0	0	17,012	4,156	21,168	1.4%
Allowances for losses	**(9,129)**	**(6,847)**	**(16,172)**	**(4,962)**	**(37,110)**	**100%**
A	(242)	0	0	0	(242)	0.7%
B	(5,393)	(778)	0	216	(5,955)	16.0%
C	(3,494)	(6,069)	0	0	(9,563)	25.8%
D	0	0	(1,983)	(1,080)	(3,063)	8.3%
E	0	0	(14,189)	(4,098)	(18,287)	49.3%
Net carrying amount	**1,442,582**	**39,148**	**4,211**	**16,378**	**1,502,319**	

Analysis of credit quality – off-balance-sheet items

	SID Bank and SID Bank Group			
31 Dec 2018	Stage 1	Stage 2	Total	
Gross carrying amount	**274,762**	**998**	**275,760**	**100%**
A	153,348	0	153,348	55.6%
B	121,414	0	121,414	44.0%
C	0	998	998	0.4%
Provisions	**(420)**	**0**	**(420)**	**100%**
A	(48)	0	(48)	11.4%
B	(372)	0	(372)	88.6%
Net carrying amount	**274,342**	**998**	**275,340**	

As at 31 December 2018, SID Bank disclosed exposure from off-balance-sheet liabilities amounting to EUR 275,760 thousand.

A total of EUR 274,762 thousand in off-balance-sheet liabilities was assigned to stage 1 (no significant increase in credit risk since the initial recognition), where provisions for credit losses are measured on the basis of 12-month expected credit losses. As at 31 December 2018, provisions for credit losses on off-balance-sheet liabilities assigned to stage 1 amounted to EUR 420 thousand.

A total of EUR 998 thousand in off-balance-sheet liabilities was assigned to stage 2 (significant increase in credit risk since the initial recognition), where provisions for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument. Provisions amounting to a mere EUR 0.1 thousand were formed for them; this was because these off-balance-sheet liabilities had been secured by SID Bank insurance policies issued for the account of Slovenia to insure against commercial risks.

Maturity of financial assets

	SID Bank									
	Gross carrying amount					Loss allowances				
31 Dec 2018	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks										
Non-past-due	810,041	0	0	0	810,041	(691)	0	0	0	(691)
Total	**810,041**	**0**	**0**	**0**	**810,041**	**(691)**	**0**	**0**	**0**	**(691)**
Loans and advances to customers										
Non-past-due	636,026	44,362	1,384	17,184	698,956	(8,369)	(6,551)	(387)	(864)	(16,171)
Up to 29 days past due	3,795	1,292	212	0	5,299	(69)	(280)	(96)	0	(445)
30 to 89 days past due	0	341	895	0	1,236	0	(16)	(891)	0	(907)
90 to 180 days past due	0	0	285	0	285	0	0	(196)	0	(196)
More than 180 days past due	0	0	17,607	4,156	21,763	0	0	(14,602)	(4,098)	(18,700)
Total	**639,821**	**45,995**	**20,383**	**21,340**	**727,539**	**(8,438)**	**(6,847)**	**(16,172)**	**(4,962)**	**(36,419)**
Other financial assets										
Non-past-due	1,853	0	0	0	1,853	0	0	0	0	0
Total	**1,853**	**0**	**0**	**0**	**1,853**	**0**	**0**	**0**	**0**	**0**

31 Dec 2017	SID Bank Gross carrying amount	Loss allowances Individual impairments	Collective impairments
Loans and advances to banks (under IAS 39)			
Non-past-due	1,039,767	0	(7,588)
Total	**1,039,767**	**0**	**(7,588)**
Loans and advances to customers (under IAS 39)			
Non-past-due	704,193	(61,724)	(47,473)
Up to 30 days past due	865	(838)	0
30 to 90 days past due	8	(3)	0
More than 90 days past due	28,096	(25,384)	0
Total	**733,162**	**(87,949)**	**(47,473)**
Other financial assets (under IAS 39)			
Non-past-due	1,552	0	0
Up to 30 days past due	1	0	0
Total	**1,553**	**0**	**0**

Past-due financial assets are loans and other financial assets measured at amortised cost, where a debtor is a day or more past due for the whole or part of the exposure. The whole exposure under a specific loan agreement (rather than only the part of the exposure for which the debtor is past due with payment) is classified as a past-due loan or other financial asset. If the Bank is also exposed to the same debtor under other agreements and the debtor is not past due as regards the exposures under other agreements, such exposures are not classified as past-due loans.

Gross exposure of past-due claims resulting from loans and other financial assets measured at amortised cost decreased and amounted to EUR 28,583 thousand at the end of 2018 (EUR 28,970 thousand as at 31 December 2017), which represents 1.9% of all gross exposure resulting from loans and other financial assets measured at amortised cost. The major portion of this amount comprises loans assigned to stage 3 (non-performing financial assets), where impairments for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument.

Past-due loans assigned to stage 1, where impairments for credit losses are measured on the basis of 12-month expected credit losses, and Stage 2, where impairments for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument, account for 19.0% of all past-due loans.

Non-past-due loans and other financial assets account for 98.1% of all gross exposure resulting from loans and other financial assets measured at amortised cost. The high proportion of non-past-due loans is connected with the provision of loans to banks established in Slovenia, which transfer the funding thus obtained to the final beneficiaries under the ZSIRB. In addition, a large proportion of exposure resulting from loans and other financial assets measured at amortised cost is classified under the group of banks from countries that have a risk rating of 0 or 1 under the minimum export insurance premium (MEIP) listing.

Past-due claims resulting from loans, where the loans have been less than 29 days past due and their gross carrying amount is EUR 5,299 thousand, are secured with commercial real estate amounting to EUR 2,266 thousand, other material assets amounting to EUR 1,534 thousand, and other forms of collateral amounting to EUR 1,930 thousand.

Past-due claims resulting from loans, where the loans have been more than 30 and less than 89 days past due and their gross carrying amount is EUR 1,236 thousand, are secured with irrevocable Slovenian government guarantees amounting to EUR 192 thousand and other material assets amounting to EUR 226 thousand.

Past-due claims resulting from loans, where the loans have been more than 90 and less than 180 days past due and their gross carrying amount is EUR 285 thousand, are secured with other forms of collateral amounting to EUR 238 thousand.

Past-due claims resulting from loans, where the loans have been more than 180 days past due and their gross carrying amount is EUR 21,763 thousand, are secured with irrevocable Slovenian government guarantees amounting to EUR 240 thousand, commercial real estate amounting to EUR 4,459 thousand, residential real estate amounting to EUR 554 thousand, other material assets amounting to EUR 1,572 thousand, and other forms of collateral amounting to EUR 346 thousand.

	SID Bank Group									
	Gross carrying amount					Loss allowances				
31 Dec 2018	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**
Loans and advances to banks										
Non-past-due	810,041	0	0	0	810,041	(691)	0	0	0	(691)
Total	**810,041**	**0**	**0**	**0**	**810,041**	**(691)**	**0**	**0**	**0**	**(691)**
Loans and advances to customers										
Non-past-due	636,026	44,362	1,385	17,183	698,956	(8,369)	(6,551)	(387)	(864)	(16,171)
Up to 29 days past due	3,795	1,292	212	0	5,299	(69)	(280)	(96)	0	(445)
30 to 89 days past due	0	341	895	0	1,236	0	(16)	(891)	0	(907)
90 to 180 days past due	0	0	285	0	285	0	0	(196)	0	(196)
More than 180 days past due	0	0	17,607	4,156	21,763	0	0	(14,602)	(4,098)	(18,700)
Total	**639,821**	**45,995**	**20,384**	**21,339**	**727,539**	**(8,438)**	**(6,847)**	**(16,172)**	**(4,962)**	**(36,419)**
Other financial assets										
Non-past-due	1,849	0	0	0	1,849	0	0	0	0	0
Total	**1,849**	**0**	**0**	**0**	**1,849**	**0**	**0**	**0**	**0**	**0**

	SID Bank Group		
		Loss allowances	
31 Dec 2017	Gross carrying amount	Individual impairments	Collective impairments
Loans and advances to banks (under IAS 39)			
Non-past-due	1,045,019	0	(7,588)
Total	**1,045,019**	**0**	**(7,588)**
Loans and advances to customers (under IAS 39)			
Non-past-due	704,193	(61,724)	(47,473)
Up to 30 days past due	865	(838)	0
30 to 90 days past due	8	(3)	0
More than 90 days past due	28,096	(25,384)	0
Total	**733,162**	**(87,949)**	**(47,473)**
Other financial assets (under IAS 39)			
Non-past-due	1,552	0	0
Up to 30 days past due	1	0	0
Total	**1,553**	**0**	**0**

Debt securities measured at fair value through other comprehensive income in accordance with the issuer's rating grade

	SID Bank		SID Bank Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
AAA	0	0	0	2,024
AA- to AA+	65,917	37,718	65,917	38,880
A- to A+	450,644	403,483	450,644	417,950
BBB+ to BBB-	118,718	228,459	118,718	230,289
Lower than BBB-	15,592	44,627	15,592	44,627
Total	**650,871**	**714,287**	**650,871**	**733,770**

The table shows the fair value of debt securities measured at fair value through other comprehensive income, classified in terms of the issuer's rating grade in accordance with SID Bank's methodology.

Credit risk from debt securities of the SID Bank Group, measured at fair value through other comprehensive income, arises from the portfolio managed by SID Bank for the purpose of ensuring liquidity and managing the balance sheet.

SID Bank manages the credit risk from debt securities of the SID Bank Group, measured at fair value through other comprehensive income, primarily by means of limits on exposure with regard to the issuer's rating grade, registered office location and type, and by monitoring changes to the market value of debt securities.

At the end of 2018, SID Bank's portfolio of debt securities, measured at fair value through other comprehensive income, decreased to EUR 650,871 thousand; this was a fall of 8.9% relative to the end of 2017 (when it was EUR 714,286 thousand). The largest share of the entire portfolio (65% as at 31 December 2018, 64.7% at the end of 2017) comprises debt securities issued by EU Member States (central government) and classed as investment-grade (BBB- or higher). Slovenian government debt securities account for 39.5% (end of 2017: 31.7%) of the portfolio of debt securities measured at fair value through other comprehensive income.

In comparison with 2017, the structure of SID Bank's debt securities portfolio in terms of credit rating generally improved in 2018, primarily as a result of the reassignment of issuers to higher rating grades, a decrease in exposure to domestic banking issuers with a credit rating lower than BBB- and a decrease in total exposure in debt securities.

A detailed breakdown of financial assets measured at fair value through other comprehensive income is given under section 2.4.3 Financial assets measured at fair value through other comprehensive income.

Breakdown of exposure to credit risk by geographical region

The tables illustrate the breakdown of net exposure to credit risk by geographical region as defined by the debtor's registered office. The majority of credit risk exposure to the rest of the world at the SID Bank Group level arises from SID Bank's exposure.

31 Dec 2018	SID Bank Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets as at 31 Dec 2018	**1,890,547**	**338,380**	**23,411**	**37,707**	**2,290,045**
Cash, cash balances at central banks and other demand deposits at banks	121,184	0	0	0	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	11,174	4,493	0	0	15,667
Financial assets measured at fair value through other comprehensive income	326,911	290,885	6,667	26,408	650,871
Debt securities	326,911	290,885	6,667	26,408	650,871
Financial assets measured at amortised cost	1,431,278	43,002	16,744	11,299	1,502,323
Loans and advances to banks	761,487	32,847	15,016	0	809,350
Loans and advances to customers	668,938	9,155	1,728	11,299	691,120
Other financial assets	853	1,000	0	0	1,853
Off-balance-sheet liabilities as at 31 Dec 2018	**199,640**	**45,954**	**29,746**	**0**	**275,340**
Guarantees	66,576	0	0	0	66,576
Gross exposure	66,790	0	0	0	66,790
Provisions	(214)	0	0	0	(214)
Other off-balance-sheet liabilities	133,064	45,954	29,746	0	208,764
Gross exposure	133,260	45,964	29,746	0	208,970
Provisions	(196)	(10)	0	0	(206)
Total exposure as at 31 Dec 2018	**2,090,187**	**384,334**	**53,157**	**37,707**	**2,565,385**
Financial assets as at 31 Dec 2017	1,716,906	644,155	13,334	42,435	2,416,830
Off-balance-sheet liabilities as at 31 Dec 2017	39,358	16,049	10,107	6,387	71,901
Total exposure as at 31 Dec 2017	**1,756,264**	**660,204**	**23,441**	**48,822**	**2,488,731**

At the end of 2018, SID Bank exposure to the Slovenian government accounted for 81.5% (end of 2017: (7.6%) of total exposure resulting from financial assets and off-balance-sheet liabilities (end of 2017: 70.6%) and increased by EUR 333,923 thousand in comparison with the end of 2017. This increase was mainly due to the increase in financial assets, chiefly balances at central banks and loans and advances to customers, as well as an increase in off-balance-sheet liabilities and higher total exposure.

At the end of 2018, exposure to other EU Member States accounted for most of the credit portfolio's exposure to the rest of the world, amounting to 15% (end of 2017: 26.5%) of the total exposure resulting from financial assets and off-balance-sheet liabilities. It fell in comparison with the end of 2017 mainly as a result of a fall in deposits with foreign banks and in exposure to foreign issuers' debt securities. At the end of 2018, credit risk exposure to the countries from the rest of Europe (Europe without EU Member States) accounted for 2.1% (end of 2017: 0.9%) of total exposure, and exposure to other countries accounted for 1.5% (end of 2017: 2%) of total exposure.

SID Bank uses internal exposure limits to apply a maximum allowable exposure to individual geographical regions. A detailed presentation of the greater credit risk exposure by individual country is given in separate tables.

As at 31 December 2018, the structure of SID Bank's exposures to specific countries shows a major change in comparison with the end of 2017, mainly due to a fall in deposits with foreign banks and changes to exposure by country in the debt securities portfolio.

31 Dec 2018	SID Bank Group Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets as at 31 Dec 2018	**1,890,543**	**338,380**	**23,411**	**37,707**	**2,290,041**
Cash,cash balances at central banks and other demand deposits at banks	121,184	0	0	0	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	11,174	4,493	0	0	15,667
Financial assets measured at fair value through other comprehensive income	326,911	290,885	6,667	26,408	650,871
Debt securities	326,911	290,885	6,667	26,408	650,871
Financial assets measured at amortised cost	1,431,274	43,002	16,744	11,299	1,502,319
Loans and advances to banks	761,487	32,847	15,016	0	809,350
Loans and advances to customers	668,938	9,155	1,728	11,299	691,120
Other financial assets	849	1,000	0	0	1,849
Off-balance-sheet liabilities as at 31 Dec 2018	**199,640**	**45,954**	**29,746**	**0**	**275,340**
Guarantees	66,576	0	0	0	66,576
Gross exposure	66,790	0	0	0	66,790
Provisions	(214)	0	0	0	(214)
Other off-balance-sheet liabilities	133,064	45,954	29,746	0	208,764
Gross exposure	133,260	45,964	29,746	0	208,970
Provisions	(196)	(10)	0	0	(206)
Total exposure as at 31 Dec 2018	**2,090,183**	**384,334**	**53,157**	**37,707**	**2,565,381**
Financial assets as at 31 Dec 2017	1,733,222	655,821	14,456	42,946	2,446,445
Off-balance-sheet liabilities as at 31 Dec 2017	39,358	16,049	10,107	6,387	71,901
Total exposure as at 31 Dec 2017	**1,772,580**	**671,870**	**24,563**	**49,333**	**2,518,346**

	31 Dec 2018			31 Dec 2017		
SID Bank	Financial assets	Off-balance-sheet liabilities	Total exposure	Financial assets	Off-balance-sheet liabilities	Total exposure
Slovenia	1,890,548	199,641	2,090,189	1,716,906	39,358	1,756,264
France	24,869	0	24,869	85,133	0	85,133
Spain	31,709	0	31,709	76,553	0	76,553
Poland	42,950	0	42,950	62,361	0	62,361
Netherlands	36,804	0	36,804	54,505	0	54,505
Italy	18,455	0	18,455	51,842	0	51,842
Germany	31,969	33,954	65,923	49,628	0	49,628
Romania	12,441	0	12,441	40,672	0	40,672
USA	36,213	0	36,213	38,199	0	38,199
Hungary	16,435	0	16,435	27,069	0	27,069
Ireland	26,634	0	26,634	19,242	0	19,242
Croatia	13,197	0	13,197	10,438	4,049	14,487
Czech Republic	25,110	0	25,110	17,772	0	17,772
Sweden	16,912	0	16,912	13,640	0	13,640
Belarus	15,016	28,748	43,764	2,654	8,094	10,922
Other	50,783	12,997	63,780	150,216	20,400	170,442
Total exposure	**2,290,045**	**275,340**	**2,565,385**	**2,416,830**	**71,901**	**2,488,731**

	31 Dec 2018			31 Dec 2017		
SID Bank Group	Financial assets	Off-balance-sheet liabilities	Total exposure	Financial assets	Off-balance-sheet liabilities	Total exposure
Slovenia	1,890,544	199,641	2,090,185	1,733,222	39,358	1,772,580
France	24,869	0	24,869	86,220	0	86,220
Spain	31,709	0	31,709	77,852	0	77,852
Poland	42,950	0	42,950	66,878	0	66,878
Netherlands	36,804	0	36,804	56,713	0	56,713
Italy	18,455	0	18,455	51,842	0	51,842
Germany	31,969	33,954	65,923	49,628	0	49,628
Romania	12,441	0	12,441	40,672	0	40,672
USA	36,213	0	36,213	38,199	0	38,199
Hungary	16,435	0	16,435	27,069	0	27,069
Ireland	26,634	0	26,634	19,773	0	19,773
Croatia	13,197	0	13,197	10,438	4,049	14,487
Czech Republic	25,110	0	25,110	17,772	0	17,772
Sweden	16,912	0	16,912	13,640	0	13,640
Belarus	15,016	28,748	43,764	2,654	8,094	10,922
Other	50,783	12,997	63,780	153,873	20,400	174,099
Total exposure	**2,290,041**	**275,340**	**2,565,381**	**2,446,445**	**71,901**	**2,518,346**

Breakdown of credit risk exposure by sector

The tables illustrate the breakdown of net exposure to credit risk by sector.

The majority of credit risk exposure by sector at the SID Bank Group level arises from SID Bank's exposure.

	SID Bank								
31 Dec 2018	Financial and insurance activities	Manufacturing	Public administration and defence	Wholesale and retail trade, repair of motor vehicles	Transportation and storage	Professional, scientific and technical activities	Electricity, gas, steam and air conditioning supply	Other	Total
Financial assets as at 31 Dec 2018	**1,095,257**	**262,713**	**497,889**	**86,050**	**90,052**	**49,295**	**121,538**	**87,251**	**2,290,045**
Cash, cash balances at central banks and other demand deposits at banks	121,184	0	0	0	0	0	0	0	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	13,974	0	0	0	1,693	15,667
Financial assets measured at fair value through other comprehensive income	152,759	6,658	425,113	25,599	4,222	16,133	4,026	16,361	650,871
Debt securities	152,759	6,658	425,113	25,599	4,222	16,133	4,026	16,361	650,871
Financial assets measured at amortised cost	821,314	256,055	72,776	46,477	85,830	33,162	117,512	69,197	1,502,323
Loans and advances to banks	809,350	0	0	0	0	0	0	0	809,350
Loans and advances to customers	10,593	256,055	72,374	46,477	85,810	33,102	117,512	69,197	691,120
Other financial assets	1,371	0	402	0	20	60	0	0	1,853
Off-balance-sheet liabilities as at 31 Dec 2018	**79,700**	**20,629**	**56,168**	**43,602**	**66,615**	**3,142**	**0**	**5,484**	**275,340**
Guarantees	0	0	0	0	66,576	0	0	0	66,576
Gross exposure	0	0	0	0	66,790	0	0	0	66,790
Provisions	0	0	0	0	(214)	0	0	0	(214)
Other off-balance-sheet liabilities	79,700	20,629	56,168	43,602	39	3,142	0	5,484	208,764
Gross exposure	79,712	20,714	56,168	43,662	40	3,161	0	5,514	208,971
Provisions	(12)	(85)	0	(60)	(1)	(19)	0	(30)	(207)
Total exposure as at 31 Dec 2018	**1,174,957**	**283,342**	**554,057**	**129,652**	**156,667**	**52,437**	**121,538**	**92,735**	**2,565,385**
Financial assets as at 31 Dec 2017	1,293,330	198,668	514,758	74,963	91,869	43,438	129,210	70,594	2,416,830
Off-balance-sheet liabilities as at 31 Dec 2017	48,746	4,188	2,528	251	0	2,231	4,049	9,908	71,901
Total exposure as at 31 Dec 2017	**1,342,076**	**202,856**	**517,286**	**75,214**	**91,869**	**45,669**	**133,259**	**80,502**	**2,488,731**

At the end of 2018, SID Bank was again most heavily exposed to financial and insurance activities, as the majority of its assets comprise loans and advances to banks established in Slovenia, which transfer the funding thus obtained to the final beneficiaries under the ZSIRB. At the end of 2018, the exposure to financial and insurance activities accounted for 45.85% (end of 2017: 53.9%) of the total exposure resulting from financial assets and off-balance-sheet liabilities, with the decrease in the share in comparison with the end of 2017 primarily coming as a result of a decrease in loans (deposits given) to banks. This was followed by exposure to the public administration and defence sector, with its share amounting to 21.6% at the end of 2018 (end of 2017: 20.8%).

Exposure to manufacturing, transportation and storage, and wholesale and retail trade and the repair of motor vehicles increased at the end of 2018 in comparison with 2017 as a result of new loans to customers.

	SID Bank Group								
31 Dec 2018	Financial and insurance activities	Manu-facturing	Public administra-tion and defence	Whole-sale and retail trade, repair of motor vehicles	Trans-portation and storage	Professi-onal, scientific and technical activities	Electricity, gas, steam and air conditioning supply	Other	Total
Financial assets as at 31 Dec 2018	**1,095,253**	**262,713**	**497,889**	**86,050**	**90,052**	**49,295**	**121,538**	**87,251**	**2,290,041**
Cash, cash balances at central banks and other demand deposits at banks	121,184	0	0	0	0	0	0	0	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	13,974	0	0	0	1,693	15,667
Financial assets measured at fair value through other comprehensive income	152,759	6,658	425,113	25,599	4,222	16,133	4,026	16,361	650,871
Debt securities	152,759	6,658	425,113	25,599	4,222	16,133	4,026	16,361	650,871
Financial assets measured at amortised cost	821,310	256,055	72,776	46,477	85,830	33,162	117,512	69,197	1,502,319
Loans and advances to banks	809,350	0	0	0	0	0	0	0	809,350
Loans and advances to customers	10,593	256,055	72,374	46,477	85,810	33,102	117,512	69,197	691,120
Other financial assets	1,367	0	402	0	20	60	0	0	1,849
Off-balance-sheet liabilities as at 31 Dec 2018	**79,700**	**20,629**	**56,168**	**43,602**	**66,615**	**3,142**	**0**	**5,484**	**275,340**
Guarantees	0	0	0	0	66,576	0	0	0	66,576
Gross exposure	0	0	0	0	66,790	0	0	0	66,790
Provisions	0	0	0	0	(214)	0	0	0	(214)
Other off-balance-sheet liabilities	79,700	20,629	56,168	43,602	39	3,142	0	5,484	208,764
Gross exposure	79,712	20,714	56,168	43,662	40	3,161	0	5,514	208,971
Provisions	(12)	(85)	0	(60)	(1)	(19)	0	(30)	(207)
Total exposure as at 31 Dec 2018	**1,174,953**	**283,342**	**554,057**	**129,652**	**156,667**	**52,437**	**121,538**	**92,735**	**2,565,381**
Financial assets as at 31 Dec 2017	1,309,876	198,668	526,175	74,963	92,400	43,438	129,210	71,715	2,446,445
Off-balance-sheet liabilities as at 31 Dec 2017	48,746	4,188	2,528	251	0	2,231	4,049	9,908	71,901
Total exposure as at 31 Dec 2017	**1,358,622**	**202,856**	**528,703**	**75,214**	**92,400**	**45,669**	**133,259**	**81,623**	**2,518,346**

Modified financial assets

	SID Bank
	2018
Financial assets modified in the period	
Gross carrying amount before the modification	1,427
Allowance before the modification	(903)
Amortised cost before the modification	524
Net (loss) from the modification	(33)
Amortised cost after the modification	491

The table shows the effects of the modification to the contractual cash flows of financial assets in 2018, where SID Bank measures impairments for credit losses on the basis of lifetime expected credit losses on the financial instrument and the modifications did not lead to the derecognition of the financial instrument.

In the event of modification to the contractual cash flows of a financial asset that do not lead to its derecognition, SID Bank calculates the current value of the modified contractual cash flows using, as the discount rate, the effective interest rate at recognition, or the credit-adjusted effective interest rate in the case of POCI items. SID Bank also adjusts the gross carrying amount of the financial asset by the amount of the difference established. SID Bank accrues the amount by which the gross carrying amount of the financial asset is adjusted as a result of a modification to contractual cash flows for the entire remainder of the lifetime of the financial asset and discloses it in profit or loss as interest income.

In 2018 modifications to contractual cash flows did not lead to the derecognition of the financial asset in five cases of financial assets.

A loss was recognised in profit or loss in response to the modification to contractual cash flows in the case of three financial assets, including two financial assets where SID Bank measures impairments for credit losses on the basis of lifetime expected credit losses on the financial asset.

Counterparty credit risk

Market interest rates and yield curves are taken into consideration when valuing derivatives. As the market interest rates and yield curves used for the valuation of derivatives contain no counterparty credit risk, credit valuation adjustment (CVA) is calculated for that purpose. CVA represents a value adjustment of the derivative for the counterparty credit risk and is defined as the difference between the value of a financial instrument without the credit risk taken into account and the value with the credit risk taken into account. For valuation adjustment, counterparty credit risk (CVA) must be taken into account on the one hand and own credit risk on the other hand. SID Bank does not calculate its own credit risk. CVA is calculated on a monthly basis for each derivatives transaction. Any collateral is also taken into consideration in the calculation.

SID Bank only concludes transactions outside the regulated stock market (OTC transactions) with banks with which it concluded a framework agreement on transactions in derivatives (ISDA Master Agreement). For the purpose of counterparty credit risk mitigation in derivatives transactions, the Bank has signed a credit support annex (CSA) as a legal supplement to the master agreement, based on a system of providing variation margins through the exchanges of collateral depending on the daily fair value of the derivative.

The Bank carries out daily monitoring of counterparty credit risk on the basis of the fair value of the derivative. If insufficient coverage of exposure by collateral due to adverse derivative fair value movements results in insufficient coverage of exposure by collateral, the counterparty is asked to provide additional collateral. SID Bank agreed on cash deposits as collateral with counterparties with whom it concluded derivatives transactions in 2018.

SID Bank recognises the calculated CVA amount in profit or loss in months in which the total amount of the calculated CVA for all derivatives exceeds 10 basis points of the last total risk exposure amount, as per Article 92(3) of the CRR.

As at 31 December 2018, the CVA for SID Bank and the SID Bank Group was EUR 0.

3.2 Liquidity risk

Liquidity risk is the risk of a loss occurring when a bank is unable to settle all of its maturing liabilities, or when a bank is obliged to obtain sources of liquidity at costs significantly higher than average market costs due to its inability to provide sufficient funding to settle its liabilities at maturity. The greater the mismatch between flows of interest and principal on the asset side and the liability side, and in off-balance-sheet items, the higher the risk of illiquidity.

Liquidity risk in the narrower sense arises when a bank is unable to repay its liabilities via investment operations. 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 undertake additional borrowing at a higher interest rate, and the risk that a bank will be compelled to sell non-monetary investments at a discount as a result of the need for liquidity. At SID Bank, given the high secondary liquidity, a significant proportion of which consists of government securities and other high-quality highly liquid securities, this risk is assessed as low.

By managing liquidity risk, the SID Bank Group ensures the regular settlement of all monetary liabilities, and the high-quality management of operational and structural liquidity. All activities and processes in liquidity risk management are carried out by each member of the SID Bank Group independently.

The subsidiary that performs insurance activities manages its liquidity risk in accordance with its own financial risk management policy, which takes account of specific characteristics and regulations concerning liquidity risk management in the insurance business and has been approved by the management body of the subsidiary. The majority of the insurer's financial assets comprise marketable government debt securities, other highly liquid debt securities, and short-term deposits at banks. For the purpose of covering increased demand for liquidity, the insurer has defined a cash-call option in its contract with reinsurers.

The majority of the SID Bank Group's liquidity risk exposure is exposure arising from the operations of SID Bank, which is obliged to meet legal and regulatory requirements in the area of banking. SID Bank's framework for the take-up and management of liquidity risk is presented below.

Take-up and management of liquidity risk

SID Bank takes up liquidity risk in accordance with the business strategy, its risk absorption capacity and its risk appetite and the risk management strategy, with the primary objective of ensuring prudent and secure operations of the Bank. Liquidity management includes prudent management of assets and liabilities (on-balance-sheet and off-balance-sheet) and a balanced borrowing strategy so that the Bank is capable of meeting its due liabilities (liquidity) at any given moment and in due time, and is capable of meeting all its liabilities (solvency) on a continuous basis.

The process of the take-up and management of liquidity risk is conducted in line with the adopted liquidity risk management policy, which is discussed and adopted at least once a year by the Bank's management body. The Bank's management body discusses and adopts the report on the internal liquidity adequacy assessment process (ILAAP) on a annual basis. The plan of liquidity risk management activities includes the framework for the management of liquidity and the securing of funding, procedures for identifying, measuring and managing liquidity risk, including the methods used to monitor and report on the Bank's liquidity position, and procedures for carrying out liquidity risk management measures. Exposure to liquidity risk is discussed and monitored on a regular basis through weekly and monthly reports at the asset-liability and liquidity management committee, and through quarterly reports at meetings of the management body.

The scope of the take-up of liquidity risk is monitored annually by the management body as part of the process of monitoring the business strategy, the assessment of the risk absorption capacity and the risk management strategy.

The Bank defines an adequate liquidity position or adequate level of liquidity buffer and stable funding structure through the adopted risk liquidity risk appetite, and particularly through the setting of a minimum liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) and through the strategic indicator of the proportion of liquid assets on the balance sheet. The liquidity risk management policy and its associated bylaws define additional quantitative limits and measures on the basis of which the Bank manages the take-up of liquidity risk.

The liquidity risk management policy also envisages procedures and responsibilities of the competent committees and relevant organisational units dealing in liquidity risk management, and the range of possible measures to be taken if operational or structural liquidity deteriorates and/or the internally set limits are exceeded.

In the introduction to section 3, the Bank presents the key responsibilities of the competent bodies in the area of risk management, the risk management functions and the individual organisational units. Risk management The asset-liability and liquidity committee is responsible for deciding on proposals regarding liquidity risk management, and the approval, guiding and supervision of the implementation of liquidity policy and treasury investment policy. The risk management department drafts and, at least once a year, reviews and proposes any changes to the liquidity risk management policy in accordance with the Bank's risk profile, the adopted business policy and the liquidity risk appetite. It also ensures regular briefing of the management body on the Bank's exposure to liquidity risk. The treasury department is responsible for managing, achieving and maintaining daily liquidity, concluding transactions for the purpose of managing liquid assets and carrying out borrowing activities within the context of the adopted policy of taking up and managing liquidity risk, the authorisations put in place and the decisions of the competent bodies. It is actively involved in the process of assessing the liquidity adequacy of the Bank.

In addition to measuring and monitoring liquidity position, liquidity ratios, regulatory ratios in the area of liquidity, liquidity risk management at SID Bank also includes, in particular, regular planning and monitoring of liquidity cash flows and the assessment of impacts of new transactions on the liquidity ratio and the liquidity coverage ratio for the coming period, and the regular verification of the Bank's liquidity position by taking into account internally defined liquidity scenarios. Strict daily monitoring of operational liquidity is provided. Liquidity is ensured by asset management, particularly liquidity reserves and/or access to additional sources. For the purpose of raising additional reserves of daily liquidity from the central bank or from other banks, SID Bank has a portfolio of securities permanently available to serve as collateral for such claims. The Bank manages structural liquidity through the assessment of long-term liquidity position.

Borrowing activities are based on SID Bank's business strategy and the annual financial borrowing plan, which is drafted as part of the annual operational plan. The purpose of borrowing is to ensure appropriate funding for the implementation of SID Bank's asset-side transactions. Adequacy is assessed with regard to maturity, currency, interest-rate type, costs of borrowing and any other characteristics. SID Bank borrows for the purposes set out in the ZSIRB.

SID Bank measures, supervises and monitors exposure to liquidity risk on the basis of the daily calculation of liquidity ratios in the manner prescribed by the Bank of Slovenia. The liquidity ratio is the ratio between the sum of financial assets in domestic and foreign currency and the total funding in domestic and foreign currency with regard to residual maturity. The first-bucket liquidity ratio (LR 0-30 days) must be at least 1, while the second-bucket liquidity ratio (LR 0-180 days) is of an informative nature. SID Bank has set internal liquidity ratios that are higher than those prescribed by law. This provides additional security. SID Bank's liquidity risk management policy also sets out the procedures in the event that the internally prescribed liquidity ratio values are achieved.

31 Dec 2018	SID Bank Minimum value	Average value	31 Dec 2018
LR (0-30)	1.7	5.3	2.4
LR (0-180)	1.8	3.0	2.3

The minimum level of daily values for the first-bucket liquidity ratio for all currencies amounted to 1.7 in 2018 (2017: 5.8). The daily values therefore exceeded the statutory requirements of the Bank of Slovenia throughout the year.

SID Bank calculates the value of the liquidity coverage ratio (LCR) on a monthly basis and the net stable funding ratio (NSFR) on a quarterly basis. The calculated ratios, the changes over time and the compliance of the above ratios with the adopted internal limits are discussed on a regular basis by the asset-liability and liquidity management committee.

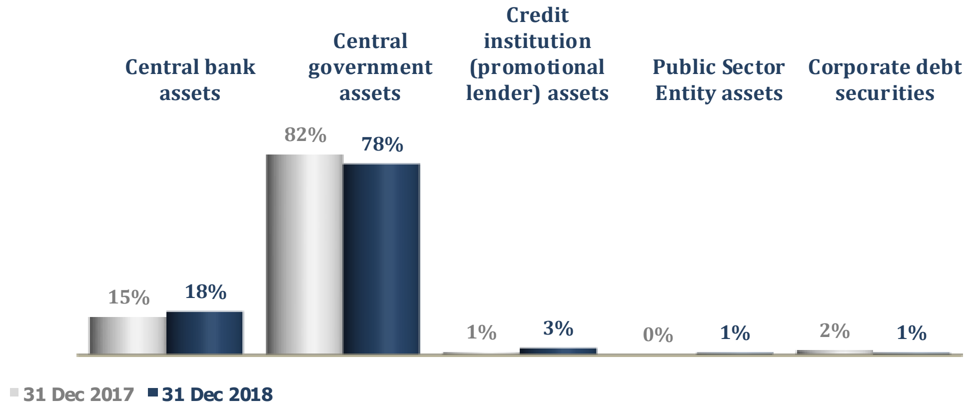
At the end of 2018, SID Bank's net stable funding ratio amounted to 140% (end of 2017: 140%) and is reported by the Bank for information purposes only.

The aim of the liquidity coverage ratio (LCR) is to prevent liquidity risk by reducing credit institutions' dependence on short-term funding and liquidity provided by central banks, by introducing a requirement for banks hold sufficient liquid assets to handle any surplus of liquid outflows over inflows that could be expected to occur over a 30-day stress period. The LCR must be met in full as of 1 January 2018. When calculating the liquidity buffer, the Bank has, since the beginning of 2018, taken a conservative approach by taking only high-quality liquid assets of the Bank into account (and not high-quality liquid assets of loan funds). At the end of 2018, the liquidity coverage ratio amounted to 458% (end of 2017: 1,340%).

In the Disclosures section, the Bank discloses, pursuant to Part Eight of the CRR, additional qualitative and quantitative information in accordance with the EBA guidelines on liquidity coverage ratio (LCR) disclosure in order to complement the disclosure of liquidity risk management under Article 435 of the CRR.

SID Bank actively monitors and maintains an adequate buffer of unencumbered, high-quality liquid assets to be held as a contingency against adverse liquidity conditions.

Structure of high-quality liquid assets (after using applicable wieght)



As at 31 December 2018, the liquid assets eligible for inclusion in the LCR calculation amounted to EUR 279.3 million, after haircuts had been taken into account (2017: EUR 458.2 million), with the liquid assets of central government accounting for 78% (2017: 81.7%) of all eligible liquid assets after haircuts had been taken into account. At the end of 2018, the proportion of Level 1 high-quality liquid assets (HQLA) amounted to 99.2% (2017: 98.2%).

SID Bank does not accept deposits from the public and is therefore not exposed to any potential outflows arising from retail and corporate deposits in the event of adverse liquidity conditions. This fact and the specific role of the Bank also affect the structure of the funding and mean that there is higher concentration with regard to funding than is the case with commercial banks. The fact that SID Bank obtains long-term funding supported by Slovenian government guarantees mainly on international financial markets and at related financial institutions increases the stability of the Bank.

SID Bank has adopted internal rules that provide a framework for contingent liquidity risk management. To this end, the Bank has defined the key elements of contingent liquidity risk management:

- organisation and competences;
- procedures for the early identification of possible liquidity shortfalls;
- the contingent liquidity risk management plan and the responsibilities for resolving liquidity crises;
- the criteria for activating the contingent liquidity risk management plan;
- the set of possible measures for resolving a liquidity crisis;
- early warning indicators for adverse liquidity conditions;
- the implementation of internal liquidity stress scenarios.

As part of the briefing process at competent committees, SID Bank regularly monitors:

- the trend in SID Bank's performance indicators;
- the trend in macroeconomic indicators;
- events on financial markets;
- liquidity indicators, the liquidity coverage ratio and the net stable funding ratio;
- planned and realised liquidity flows;
- early warning indicators for adverse liquidity conditions;
- the results of implementation of internal liquidity scenarios.

By regularly monitoring the liquidity position, ratios and indicators, the Bank is able to identify any adverse liquidity conditions promptly and take appropriate measures to overcome any liquidity difficulties.

Internal liquidity adequacy assessment process (ILAAP)

Through regular implementation of the internal liquidity adequacy assessment process (ILAAP), SID Bank ensures the effectiveness of liquidity risk management and the adequacy of the Bank's liquidity relative to its risk profile. The process includes an assessment of liquidity needs and available liquidity within the context of regular operations and of the business strategy for the coming period or the annual operational plan. The Bank's liquidity position is verified on a regular basis by the competent committees through the monitoring of various indicators, including in relation to achievement of the planned indicators. The Bank regularly carries out an assessment of the adequacy of funding, with activities particularly focused on the process of annual planning of business needs, where the Bank defines the funding policy for the current planning period.

Once a year, the Bank carries out, in a comprehensive and structured manner in the ILAAP report, a review and assessment of the Bank's liquidity profile in terms of the following key elements: risk management in respect of the Bank's liquidity profile and liquidity risk appetite, the effectiveness of the organisational structure and the adequacy of the LCR buffer, including in relation to the internal scenarios and the contingency plan in place. The ILAAP report also serves as a basis for supervisory reviews and the evaluation of the Bank's liquidity risk.

Exposure to liquidity risk

	SID Bank					
31 Dec 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets as at 31 Dec 2018	**193,438**	**11,996**	**123,025**	**629,414**	**1,343,989**	**2,301,862**
Cash, cash balances at central banks and other demand deposits at banks	121,184	0	0	0	0	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	188	13,974	1,505	15,667
Financial assets measured at fair value through other comprehensive income	38,503	0	66,591	371,905	185,689	662,688
Financial assets measured at amortised cost	33,751	11,996	56,246	243,535	1,156,795	1,502,323
Loans and advances to banks	30,091	11,626	35,286	95,809	636,538	809,350
Loans and advances to customers	3,030	167	20,960	147,706	519,257	691,120
Other financial assets	630	203	0	20	1,000	1,853
Financial liabilities as at 31 Dec 2018	**75,460**	**20,834**	**5,374**	**623,947**	**1,441,944**	**2,167,559**
Financial liabilities measured at amortised cost	63,460	20,834	5,374	552,145	1,247,508	1,889,321
Deposits by banks and central banks	22,497	20,796	0	0	0	43,293
Deposits by customers	39,210	0	0	0	0	39,210
Loans from banks and central banks	0	0	5,373	405,188	752,390	1,162,951
Loans from customers	0	0	0	72,075	437,167	509,242
Debt securities	0	0	0	74,762	57,839	132,601
Other financial liabilities	1,753	38	1	120	112	2,024
Hedging derivatives	0	0	0	0	2,898	2,898
Irrevocable commitments and financial guarantees given	12,000	0	0	71,802	191,538	275,340
Liquidity gap as at 31 Dec 2018	**117,978**	**(8,838)**	**117,651**	**5,467**	**(97,955)**	**134,303**
Financial assets as at 31 Dec 2017	91,714	75,772	403,954	790,070	1,071,553	2,433,063
Financial liabilities as at 31 Dec 2017	42,247	1,481	331,443	412,144	1,322,825	2,110,140
Liquidity gap as at 31 Dec 2017	**49,467**	**74,291**	**72,511**	**377,926**	**(251,272)**	**322,923**

31 Dec 2018	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 as at 31 Dec 2018	**193,434**	**11,996**	**123,025**	**629,414**	**1,343,989**	**2,301,858**
Cash, cash balances at central banks and other demand deposits at banks	121,184	0	0	0	0	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	188	13,974	1,505	15,667
Financial assets measured at fair value through other comprehensive income	38,503	0	66,591	371,905	185,689	662,688
Financial assets measured at amortised cost	33,747	11,996	56,246	243,535	1,156,795	1,502,319
Loans and advances to banks	30,091	11,626	35,286	95,809	636,538	809,350
Loans and advances to customers	3,030	167	20,960	147,706	519,257	691,120
Other financial assets	626	203	0	20	1,000	1,849
Financial liabilities as at 31 Dec 2018	**75,460**	**20,834**	**5,374**	**623,947**	**1,441,944**	**2,167,559**
Financial liabilities held for trading						0
Financial liabilities measured at amortised cost	63,460	20,834	5,374	552,145	1,247,508	1,889,321
Deposits by banks	22,497	20,796	0	0	0	43,293
Deposits by customers	39,210	0	0	0	0	39,210
Loans from banks and central banks	0	0	5,373	405,188	752,390	1,162,951
Loans from customers	0	0	0	72,075	437,167	509,242
Debt securities	0	0	0	74,762	57,839	132,601
Other financial liabilities	1,753	38	1	120	112	2,024
Hedging derivatives	0	0	0	0	2,898	2,898
Irrevocable commitments and financial guarantees given	12,000	0	0	71,802	191,538	275,340
Liquidity gap	**117,974**	**(8,838)**	**117,651**	**5,467**	**(97,955)**	**134,299**
Financial assets as at 31 Dec 2017	96,824	76,490	409,160	804,963	1,075,241	2,462,678
Financial liabilities as at 31 Dec 2017	42,722	1,551	331,738	412,176	1,322,825	2,111,012
Liquidity gap as at 31 Dec 2017	**54,102**	**74,939**	**77,422**	**392,787**	**(247,584)**	**351,666**

The breakdown of financial assets and financial liabilities by residual maturity shows the liquidity risk in connection with credit risk. The items are disclosed in net amounts (gross amounts minus the allowances formed for credit losses). Cash flows from the payment of interest on the fixed and variable parts of derivatives used for hedging are settled in net amounts.

In 2018 SID Bank and the SID Bank Group once again had a good liquidity position, particularly due to longer maturity of liabilities and the high proportion of secondary liquidity, which can be seen from the structure of the liquidity gaps.

SID Bank is 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. At the end of 2018, the reserve requirement was EUR 0.

3.3 Interest rate risk

Interest rate risk is the risk of a change in the interest rates of interest-sensitive asset and liability items that could have an adverse impact on profit or loss, and on the economic value of assets, liabilities and off-balance-sheet items. To a great extent, exposure to interest rate risk derives from interest-sensitive assets with different maturities and a different repricing dynamic compared with interest-sensitive liabilities (income aspect). Another part of interest rate risk consists of the sensitivity of assets to changes in interest rates (economic aspect).

On the asset side, SID Bank and the SID Bank Group are exposed to interest rate risk from securities measured at fair value through other comprehensive income, loans given, and the balance in the settlement account and in commercial accounts. On the liability side, it is exposed to interest rate risk from loans received and debt securities issued.

The operations of SID Bank account for a large part of the interest rate risk of the SID Bank Group. Exposure to interest rate risk at the subsidiary arises primarily from financial assets, and cash and cash equivalents. The insurer mitigates its interest rate risk by maintaining an appropriate combination of long-term and short-term financial assets with fixed and variable interest rates in its portfolio, thereby ensuring the required solvency capital.

SID Bank identifies, measures, manages and monitors interest rate risk in accordance with the current interest rate risk management policy. The Bank's management body (management board and supervisory board) reviews and adopts the interest rate risk management policy at least once a year. The level of interest rate risk has been mitigated through the introduction of a limit system and the determination of the internal capital requirements. The Bank has a limit system in place for mitigating interest rate risk via indicative limits on interest rate gaps. In the event of an increase in exposure to interest rate risk evident from an increase in interest rate gaps, the treasury department proposes measures to mitigate interest rate risk, which are approved and adopted by the asset-liability and liquidity management committee. Through the regular application of the interest rate management process, SID Bank succeeds in maintaining interest rate risk within acceptable limits and within the risk appetite as adopted.

SID Bank manages exposure to interest rate risk through the coordination of funds and investments in accordance with their maturity and the level and method of setting interest rates, and through the use of derivatives. The management of interest rate risk is conducted in particular through the coordination of methods for the remuneration of assets and liabilities, since the majority of assets and liabilities consist of euro-denominated instruments with an interest rate tied to the Euribor reference interest rate. The Bank is exposed to interest rate risk arising from mismatches in the repricing periods and incomplete matching in the choice of the reference interest rate, and from exposure in debt securities measured at fair value through other comprehensive income and other items with a fixed interest rate.

To manage interest rate risk, SID Bank also conducts transactions in derivatives (interest rate swaps). If the derivatives meet the conditions, these are dealt with by applying hedge accounting with the aim of achieving lower volatility of profit or loss resulting from changes to the fair value of derivatives. To this end, the Bank has internal documents in place that describe the relationship between the hedged item and the hedging instrument, the purpose of risk management, the valuation method and the hedging strategy. The Bank also has documented assessments of the success of the hedge ratios compiled upon the conclusion of transactions, and regularly conducts monthly assessments of the success of the hedge ratios. As at 31 December 2018, SID Bank held two interest rate swaps as fair value hedges of assets to a total contractual value of EUR 15,000 thousand and an interest rate swap as a hedge for expected cash flows of liabilities to a total contractual value of EUR 70,000 thousand, for which the Bank used hedge accounting. At the end of 2018, all hedge ratios were successful under hedge accounting.

SID Bank measures exposure to interest rate risk arising from the mismatch of interest-sensitive items in the banking book using the interest rate gap method, whereby it applies the principle of the classification of interest-sensitive on-balance-sheet items into time intervals according to residual maturity for items with a fixed interest rate and with regard to the first repricing for items with a variable interest rate. When interest-sensitive items are classified, they are itemised by currency. Due to low exposure in foreign currencies, interest-sensitive items in foreign currencies are added to items in euros. The Bank does not accept sight deposits from the public and therefore does not use an internal model of movements of deposits with no maturity.

The Bank carries out monthly analyses of the sensitivity of net interest income and the economic value of equity based on scenarios of changes to the interest rate curve. To assess the impact of rapid changes in market interest rates (a sudden parallel shift of 200 basis points) on the economic value of its equity, SID Bank has an internal indicative limit, not counting capital, that is defined in significantly stricter terms than set out in the banking regulations. Under the provisions of the ZBan-2, the Bank must report to the competent authority on changes to economic value arising from the calculation of the outcome of the standard shock. If a sudden and unexpected repricing of interest rates of 200 basis points absorbs more than 20% of the Bank's capital, the supervisory authority may require the Bank to adopt measures to limit interest rate risk. SID Bank also has an internal indicative limit for assessing the impact of sudden changes in market interest rates (a sudden parallel shift of 200 basis points) on net interest income in the first year after the change.

Information on interest rate gaps, sensitivity analyses, possible transgressions of limits on exposure to interest rate risk and other information on exposure to interest rate risk is discussed by the asset-liability and liquidity management committee.

Exposure to interest rate risk for on-balance-sheet and off-balance-sheet financial instruments

The tables show financial assets and liabilities with respect to residual maturity for items with a fixed interest rate and with regard to the first repricing for items with a variable interest rate, whereby debt securities are considered at fair value and loans at the net carrying amount.

	SID Bank							
31 Dec 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunera-ted items	Non-remu-nerated items	Total
Financial assets as at 31 Dec 2018	**433,526**	**380,740**	**865,388**	**379,592**	**235,901**	**2,295,147**	**6,715**	**2,301,862**
Cash, cash balances at central banks and other demand deposits at banks	121,184	0	0	0	0	121,184	0	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	4,513	0	11,154	0	0	15,667	0	15,667
Financial assets measured at fair value through other comprehensive income	38,076	4,964	66,591	362,426	185,689	657,746	4,942	662,688
Financial assets measured at amortised cost	269,753	375,776	787,643	17,166	50,212	1,500,550	1,773	1,502,323
Loans and advances to banks	60,057	236,893	512,400	0	0	809,350	0	809,350
Loans and advances to customers	209,616	138,883	275,243	17,166	50,212	691,120	0	691,120
Other financial assets	80	0	0	0	0	80	1,773	1,853
Financial liabilities as at 31 Dec 2018	**265,239**	**327,060**	**903,355**	**302,876**	**91,899**	**1,890,429**	**1,790**	**1,892,219**
Financial liabilities measured at amortised cost	265,239	327,060	903,355	302,876	89,001	1,887,531	1,790	1,889,321
Deposits by banks	22,497	20,796	0	0	0	43,293	0	43,293
Deposits by customers	39,210	0	0	0	0	39,210	0	39,210
Loans from banks and central banks	22,257	116,006	827,805	196,883	0	1,162,951	0	1,162,951
Loans from customers	181,057	190,250	75,542	31,231	31,162	509,242	0	509,242
Debt securities	0	0	0	74,762	57,839	132,601	0	132,601
Other financial liabilities	218	8	8	0	0	234	1,790	2,024
Hedging derivatives	0	0	0	0	2,898	2,898	0	2,898
Interest rate sensitivity gap as at 31 Dec 2018	**168,287**	**53,680**	**(37,967)**	**76,716**	**144,002**	**404,718**	**4,925**	**409,643**
Financial assets as at 31 Dec 2017	279,041	391,621	1,044,419	465,407	234,789	2,415,277	17,787	2,433,064
Financial liabilities as at 31 Dec 2017	251,736	258,141	1,206,726	203,821	115,826	2,036,250	1,989	2,038,239
Interest rate sensitivity gap as at 31 Dec 2017	27,305	133,480	(162,307)	261,586	118,963	379,027	15,798	394,825

	SID Bank Group							
31 Dec 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remune-rated items	Non-remu-nerated items	Total
Financial assets as at 31 Dec 2018	**433,526**	**380,740**	**865,388**	**379,592**	**235,901**	**2,295,147**	**6,711**	**2,301,858**
Cash, cash balances at central banks and other demand deposits at banks	121,184	0	0	0	0	121,184	0	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	4,513	0	11,154	0	0	15,667	0	15,667
Financial assets measured at fair value through other comprehensive income	38,076	4,964	66,591	362,426	185,689	657,746	4,942	662,688
Financial assets measured at amortised cost	269,753	375,776	787,643	17,166	50,212	1,500,550	1,769	1,502,319
Loans and advances to banks	60,057	236,893	512,400	0	0	809,350	0	809,350
Loans and advances to customers	209,616	138,883	275,243	17,166	50,212	691,120	0	691,120
Other financial assets	80	0	0	0	0	80	1,769	1,849
Financial liabilities as at 31 Dec 2018	**265,239**	**327,060**	**903,355**	**302,876**	**91,899**	**1,890,429**	**1,790**	**1,892,219**
Financial liabilities measured at amortised cost	265,239	327,060	903,355	302,876	89,001	1,887,531	1,790	1,889,321
Deposits by banks	22,497	20,796	0	0	0	43,293	0	43,293
Deposits by customers	39,210	0	0	0	0	39,210	0	39,210
Loans from banks and central banks	22,257	116,006	827,805	196,883	0	1,162,951	0	1,162,951
Loans from customers	181,057	190,250	75,542	31,231	31,162	509,242	0	509,242
Debt securities	0	0	0	74,762	57,839	132,601	0	132,601
Other financial liabilities	218	8	8	0	0	234	1,790	2,024
Hedging derivatives	0	0	0	0	2,898	2,898	0	2,898
Interest rate sensitivity gap as at 31 Dec 2018	**168,287**	**53,680**	**(37,967)**	**76,716**	**144,002**	**404,718**	**4,921**	**409,639**
Financial assets as at 31 Dec 2017	283,920	394,246	1,049,582	478,580	238,563	2,444,891	17,788	2,462,679
Financial liabilities as at 31 Dec 2017	251,736	258,141	1,206,726	203,821	115,826	2,036,250	2,860	2,039,110
Interest rate sensitivity gap as at 31 Dec 2017	**32,184**	**136,105**	**(157,144)**	**274,759**	**122,737**	**408,641**	**14,928**	**423,569**

Sensitivity analysis

The SID Bank Group's exposure to interest rate risk comes entirely from SID Bank's remunerated items. SID Bank conducts an analysis of the sensitivity of remunerated assets and liabilities to changes in interest rates on an annual basis. Analysis of the sensitivity of interest-sensitive asset and liability items is made under the assumption of a sudden change of 100 basis points in market interest rates. The impact on net interest income is calculated for a period of one year.

Had market interest rates risen by 100 basis points, SID Bank's net interest income in 2018 would have increased by EUR 2,003 thousand (compared with EUR 883 thousand in 2017). The change would have been reflected in higher income in the statement of profit or loss. Had market interest rates fallen by 100 basis points, the changes would have been of the same magnitude as after a rise in interest rates, but in the opposite direction. For larger or smaller changes in market interest rates, the results have been calculated proportionately.

In addition to an analysis of the sensitivity of net interest income for a period of one year and an analysis of the economic value of equity, SID Bank also regularly carries out an analysis of the sensitivity of the market values of the securities portfolio using an approximate modified duration in line with the internal methodology.

In the area of interest rate risk in the banking book, in 2019 the Bank is planning to upgrade the measurement and/or assessment and performance of a sensitivity analysis in line with the new European Banking Authority (EBA) guidelines and/or with the changes in regulatory requirements within the scope of the measurement of interest rate risk in the banking book.

3.4 Currency risk

Currency risk is the risk of a loss arising from adverse changes in exchange rates.

SID Bank identifies, measures, manages and monitors currency risk in accordance with the adopted current currency risk management policy. The management body reviews and adopts the currency risk management policy at least once a year. The implementation of the policy is monitored and supervised by the asset-liability and liquidity management committee.

When taking up and managing currency risk, SID Bank takes into account the adopted currency risk appetite. The process of managing currency risk includes both the setting of internal limits and the regular measurement, monitoring and reporting of exposure to currency risk on the basis of the calculation of the overall net position in foreign currencies. The Bank manages exposure to currency risk chiefly by matching asset and liability positions in foreign currencies and trading in derivatives in significant foreign currencies.

In the management of currency risk, SID Bank determines the potential loss that would arise as a result of a change in exchange rates by means of the open foreign exchange position, which is the difference between the sums of all assets and liabilities in foreign currencies. The Bank has a limit system in place for limiting currency risk via limits on open foreign exchange positions. The daily open net foreign exchange position in 2018 was within the internally set limits.

Neither the transactions executed by SID Bank and the SID Bank Group in foreign currencies nor the currency risk are materially significant. Owing to the low level of exposure to currency risk, SID Bank and SID Bank Group do not carry out analyses of currency sensitivity.

The subsidiaries of the SID Bank Group match the structure of assets and liabilities in foreign currencies to the greatest extent possible. The insurer matches the liabilities structure with the currency structure of the assets, whereby the largest part of the currency mismatch arises from insurance technical provisions and insurance technical provisions ceded to reinsurers.

Exposure to currency risk for on-balance-sheet and off-balance-sheet financial instruments

	SID Bank				SID Bank Group			
31 Dec 2018	EUR	USD	Other curren-cies	Total	EUR	USD	Other curren-cies	Total
Financial assets as at 31 Dec 2018	**2,286,363**	**15,498**	**1**	**2,301,862**	**2,286,359**	**15,498**	**1**	**2,301,858**
Cash, cash balances at central banks and other demand deposits at banks	120,904	279	1	121,184	120,904	279	1	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	15,667	0	0	15,667	15,667	0	0	15,667
Financial assets measured at fair value through other comprehensive income	662,688	0	0	662,688	662,688	0	0	662,688
Financial assets measured at amortised cost	1,487,104	15,219	0	1,502,323	1,487,100	15,219	0	1,502,319
Loans and advances to banks	805,430	3,920	0	809,350	805,430	3,920	0	809,350
Loans and advances to customers	679,821	11,299	0	691,120	679,821	11,299	0	691,120
Other financial assets	1,853	0	0	1,853	1,849	0	0	1,849
Financial liabilities as at 31 Dec 2018	**1,876,469**	**15,725**	**25**	**1,892,219**	**1,876,469**	**15,725**	**25**	**1,892,219**
Financial liabilities measured at amortised cost	1,873,571	15,725	25	1,889,321	1,873,571	15,725	25	1,889,321
Deposits by banks	31,496	11,797	0	43,293	31,496	11,797	0	43,293
Deposits by customers	39,210	0	0	39,210	39,210	0	0	39,210
Loans from banks and central banks	1,159,023	3,928	0	1,162,951	1,159,023	3,928	0	1,162,951
Loans from customers	509,242	0	0	509,242	509,242	0	0	509,242
Debt securities	132,601	0	0	132,601	132,601	0	0	132,601
Other financial liabilities	1,999	0	25	2,024	1,999	0	25	2,024
Hedging derivatives	2,898	0	0	2,898	2,898	0	0	2,898
Net on-balance-sheet position as at 31 Dec 2018	**409,894**	**(227)**	**(24)**	**409,643**	**409,890**	**(227)**	**(24)**	**409,639**
Irrevocable commitments given as at 31 Dec 2018	**275,340**	**0**	**0**	**275,340**	**275,340**	**0**	**0**	**275,340**
Financial assets as at 31 Dec 2017	2,414,345	18,718	1	2,433,064	2,443,937	18,718	24	2,462,679
Financial liabilities as at 31 Dec 2017	2,021,722	16,517	0	2,038,239	2,022,588	16,520	2	2,039,110
Net on-balance-sheet position as at 31 Dec 2017	**392,623**	**2,201**	**1**	394,825	**421,349**	**2,198**	**22**	**423,569**
Irrevocable commitments given as at 31 Dec 2017	**58,139**	**0**	**13,762**	**71,901**	**58,139**	**0**	**13,762**	**71,901**

3.5 Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people and systems, or from external events not arising from credit, market or liquidity risk. Operational risk also includes IT risk, legal risks and risks associated with compliance, but does not include strategic risk and reputation risk. An element of legal risk is compliance risk, which is 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 main regulations and standards of good practice.

Operational risk 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.

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 carried out on a regular basis, and investment in information technology. The Bank continually endeavours to improve the culture of awareness among management and other employees of the importance of effective management of operational risk, which is present in all activities and processes relating to operations.

The system for managing operational risk includes the recording of loss events in the software database and the analysis and resolution thereof with the aim of effectively identifying, assessing and managing operational risk. Control of the entered loss events is carried out by the risk management department, which regularly reports to the management board on their numbers, on any loss valuation, and on proposed measures for reducing the likelihood of the repetition of an individual loss event. Quarterly reports on loss events arising from operational risk are also submitted to the Bank of Slovenia. In the case of a loss event involving significant losses, SID Bank is obliged to notify the supervisory board and the Bank of Slovenia immediately and to submit all relevant documentation.

In terms of the order of loss events in line with the Basel standards, the most common loss events in 2018 were execution, delivery and process management (80% of all loss events), followed by business disruption and systems failures (18%), and customers, products and negative business practices (2%). No loss events involving significant losses were recorded in 2018.

The Bank uses a basic indicator approach for calculating capital requirements for operational risk in line with the provisions of the CRR.

SID Bank assesses operational risk annually by developing a risk profile for the Bank or assessing the risk matrix on the basis of selected elements. SID Bank considers elements in the area of information support, business continuity, the effect of new product launches, outsourcing and the employment rate for company positions as the key elements in the assessment of the materiality of operational risk within the scope of the ICAAP.

By conducting internal audits, the internal audit department ensures the independent and impartial assessment of the internal governance arrangements, including risk management systems and processes and internal controls. With the aim of improving operations and adding value, internal audits are carried out of all areas, business activities, processes and functions of SID Bank in line with the Bank's risk profile and the annual internal audit work plan.

The systemic risks entailed by information technology, which are increasing as the level of computerisation increases, are managed by additional measures such as the business continuity plan, the duplication of critical infrastructure and other measures to increase information security (advanced systems to prevent and detect hacking, incident-management security systems, staff training). The implementation of the business continuity plan is assigned to groups of employees formed in advance (emergencies group, operational security group, first aid and rescue group, asset remediation group). The members of these groups also collaborate in the procedure for amending the business continuity plan, while the body responsible for amending the plan is the compliance department, which ensures mutual coordination and provision of information in cooperation with IT.

In managing operational risk, SID Bank also takes account of the outsourcing policy and the outsourcing plan, the purpose of which is to create a framework for the selection, establishment, implementation and monitoring of contractual relationships with external providers, to prevent inconsistencies, inequalities, ambiguities and imbalanced risk management when outsourcing, and thus the possible adverse consequences on the operations of SID Bank, and to ensure an adequate level of professionalism of outsourced services at SID Bank, monitor the implementation of those services and manage the risk arising from outsourcing. The risk management department drafts an annual review of risk management with external contractors, compiles an annual report and proposes measures. After receiving the management board's approval, the supervisory board's risk committee is briefed on the report, which is then forwarded to the Bank of Slovenia.

As Slovenia's central financial institution in the area of promotion and development, SID Bank is moving into new areas of operation in line with its mission. Operational risk is increasing at the Bank due to the gradual introduction of new products and the increasing complexity of products and processes.

It is primarily through the provision of financing programmes for small and medium-sized enterprises (the promotional-development platform) that SID Bank has obtained a large number of new customers in the last few years; this has, in turn, required the recruitment of new staff and further development of the relevant software support. The associated operational risk is managed using predetermined work processes and a system of powers, by applying the four-eyes principle and by ensuring adequate IT support.

To manage risk arising from new product launches, the Bank has adopted internal rules that set out the rules for launching new products and the powers and responsibilities of the organisational units in the process of launching new products, with an emphasis, among other things, on the production of a comprehensive and impartial risk assessment. All material risks identified during the development or launch of a new product in connection with the planned introduction/launch of a new product must be processed in a timely and thorough manner in the risk management process in accordance with the bylaws governing the management of individual risks. This means, *inter alia*, that means measures are adopted to manage the identified risks at the bank's competent bodies.

SID Bank also has in place an information security function that monitors and controls information security procedures, and any changes to those procedures, for the purpose of preventing unauthorised access to information in storage, being processed or being transferred. One of the duties of the information security officer is to manage security incidents or potential security incidents. At least once a year, using records of loss events, the information security officer also produces an analysis of all security incidents and proposes appropriate measures in response.

In the event of a cyber incident that constitutes an unwanted or unexpected information security event or a series of such events that could compromise operations and threaten information security, employees who detect or suspect a cyber incident must immediately notify the information security officer and the director of the IT department. They assume responsibility for processing the incident and for reporting to the Bank of Slovenia, in line with the Bank of Slovenia's requirements relating to reporting on significant cyber incidents.

At the end of 2018, SID Bank overhauled its operational risk management system as it pertains to the processing of loss events. It did so by upgrading information support and giving a greater role to directors in resolving loss events. The overhauled system of recording loss events came into operation at the beginning of 2019. In 2018 SID Bank also further automated its reporting, compiled an inventory of overhauled business processes and undertook a number of other measures.

In 2018, as part of the overhaul of the operational risk management system, SID Bank also focused particular attention on fraud risk. The possibility of internal and external fraud was assessed in relation to all business processes at the Bank, in line with the adopted internal methodology for assessing fraud risk. The results obtained during this process were then incorporated into the Bank's risk profile assessment for 2018.

When assessing its exposure to fraud risk, the Bank proceeded from the assumption that fraud was the intentional/deliberate committing of an act for the purpose of acquiring an unlawful pecuniary benefit for oneself or a third party. Measures to prevent fraud are divided into short-term measures, which include internal controls/procedures in particular, and long-term measures, to be implemented through the strengthening of organisational culture on the part of the Bank. SID Bank also monitors fraud risk within the context of operational risk via a loss events database that classifies loss events as follows, in line with Article 324 of the CRR:

- internal fraud (unapproved activities, theft and fraud, malicious activities in the Bank's information system);
- external fraud (theft and fraud, malicious activities in the Bank's information system);
- negative employment practices (relations with employees, safe environment, diversity/discrimination);
- clients, products and negative business practices (consent/disclosure/fiduciary requirements, inappropriate business and market practices, deficiencies in products, recusal/surety/exposure, consulting activities);
- damage to movable property and real estate (disasters and other events);
- business disruptions and system failures;
- execution, delivery and process management.

There were no instances of fraud at SID Bank in 2018.

3.6 Capital management

Capital management

SID Bank and the SID Bank Group must always have adequate capital at their disposal as a reserve against the various risks to which they are exposed in their operations. This is a continuous process of determining and maintaining an amount and quality of capital that is adequate, taking the risks defined in the capital management policy into account. Fulfilment of the capital requirements and of the requirements relating to buffers and the leverage ratio is based on the provisions of the CRR.

Capital risk relates to the inadequate composition of capital with regard to the scope and type of operations or to the difficulties that the Bank faces in obtaining fresh capital, particularly in the event of the need for a rapid increase or in the event of adverse conditions in the business environment.

The role and responsibilities of the supervisory board in the management of capital risk are to assess the adequacy of the Capital Risk Management and Capital Management Policy and assess the implementation of that policy. The management board is responsible for adopting an adequate capital risk management policy, ensuring an adequate amount and quality of capital, and meeting the regulator's capital requirements.

As insurance corporations (SID-PKZ) are not included in prudential consolidation, which is based on the provisions of the CRR, and following the liquidation of Prvi Faktor Group companies and the subsequent reduction in the Prvi Faktor Group's total assets, the Bank has, since the beginning of 2017, no longer been obliged to meet prudential requirements on a consolidated basis, but only individually (for SID Bank).

Capital for capital adequacy purposes

Capital is divided into three categories with regard to its attributes and the requirements: common equity Tier 1 (CET1), additional Tier 1 (T1) and Tier 2 (T2). SID Bank's capital is comprised solely of the highest quality common equity Tier 1 capital. The Bank does not hold any additional Tier 1 capital or Tier 2 capital.

The Bank does not take into account the net profit for the financial year, which for 2018 amounted to EUR 14,314 thousand, in the calculation of capital for capital adequacy purposes until SID Bank's general meeting adopts the resolution on the distribution of profit.

The bank calculates the capital requirement for credit risk using the standardised approach, in accordance with Part Three, Title II, Chapter 2 of the CRR. To calculate the amounts of the risk-weighted exposures for credit risk, the ratings for individual categories of risk are not used; rather, the risk weights for the individual categories of risk are assigned with respect to the degree of risk of the customer's country. In order to determine the level of credit quality of a central government (Article 114 of the CRR), the Bank uses SID Bank's rating as a nominated export credit agency, as set out in Article 137 of the CRR.

The Bank uses a basic indicator approach for calculating capital requirements for operational risk (Articles 315 and 316 of the CRR).

The capital requirement for credit valuation adjustment (CVA) risk is calculated using the standardised method, as set out in Article 384 of the CRR.

The capital requirement for currency risk is calculated in accordance with Articles 351 to 354 of the CRR, and is calculated when the sum of the total net foreign currency position exceeds 2% of the total capital for capital adequacy purposes. As at the of 2018, SID Bank was not required to formulate capital requirements for currency risk, as the limit was not exceeded.

Reconciliation of items of common equity Tier 1 capital with the statement of financial position, the prudential filters, the risk exposure and the capital adequacy ratios

SID Bank	31 Dec 2018	31 Dec 2017
Total regulatory capital	422,052	409,893
of which:		
Paid-up capital instruments	300,000	300,000
Share premium (paid-in surplus)	1,139	1,139
Treasury shares	(1,324)	(1,324)
Profit reserves and retained earnings (including net profit)	118,506	94,635
Accumulated other comprehensive income	3,731	15,444
Net profit for financial year (not taken into account)	(14,314)	(13,956)
Prudential filters	(1,680)	(10,319)
Intangible assets	(999)	(804)
Surplus of deductions from items of additional Tier 1 capital over additional Tier 1 capital	(681)	(731)
Elements or deductions of common equity Tier 1 capital: other	0	(426)
Other transitional adjustments to common equity Tier 1 capital	0	(8,359)
Common equity Tier 1 capital (CET1)	406,057	385,619
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital (T1)	406,057	385,619
Tier 2 capital (T2)	0	0
Capital for capital adequacy purposes	406,057	385,619
Total exposure to credit risk	1,119,749	969,785
of which:		
Central governments or central banks	15,150	21,343
Regional governments or local authorities	10,980	8,582
Public sector entities	6,457	6,877
Multilateral development banks	2,400	2,400
Institutions	215,751	239,782
Corporates	796,877	610,598
Exposures in default	33,685	37,601
Equities	32,848	37,266
Other	5,601	5,336
Exposure to market risk (currency risk)	0	0
Exposure to operational risk	55,106	77,152
Exposure to credit valuation adjustment risk	13,127	2,117
Total risk exposure (RWA)	1,187,983	1,049,055
Surplus of common equity Tier 1 capital (CET1)	352,598	338,411
Surplus of Tier 1 capital (T1)	334,778	322,675
Total surplus capital	311,019	301,694
Common equity Tier 1 capital ratio (CET1)	34.18%	36.76%
Tier 1 capital ratio (T1)	34.18%	36.76%
Total capital ratio	34.18%	36.76%

Breakdown of capital requirements by type of risk and structure

SID Bank	31 Dec 2018	Structure %	31 Dec 2017	Structure %
Capital requirements				
For credit risk	89,580	94.3	77,583	92.4
For operational risk	4,409	4.6	6,172	7.4
For credit valuation adjustment risk	1,050	1.1	169	0.2
Total	95,039	100	83,924	100

Capital requirements for credit risk

SID Bank	31 Dec 2018	31 Dec 2017
Exposure class		
Central governments or central banks	1,212	1,707
Regional governments or local authorities	878	687
Public sector entities	517	550
Multilateral development banks	192	192
Institutions	17,260	19,183
Corporates	63,750	48,848
Exposures in default	2,695	3,008
Equities	2,628	2,981
Other	448	427
Total	**89,580**	**77,583**

Assessment of internal capital requirement

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. Checks are made at least every three years, upon material changes in the risks to which the Bank is exposed (e.g. upon new product launches) and upon substantial changes to the organisational structure and the operation of the system of internal controls to ensure that the assumptions of the methodology for assessing the risk profile of SID Bank are appropriate.

The risk profile represents a basis for the integral risk management process, the internal capital adequacy assessment process, the planning of internal audit procedures, compliance and direct supervision by the Bank of Slovenia.

The results of the risk profile assessment for 2018 indicate that the risks with the highest risk scores at SID Bank are strategic risk, profitability risk, operational risk, reputation risk and credit risk. The results of the risk profile assessment for 2018 in general confirm the previous risk score for SID Bank.

SID Bank uses a building-block approach in the internal assessment of risk-based capital requirements. In the first element (risks subject to minimum capital requirements), SID Bank assesses the risk-based capital requirements in the amount of the minimum capital requirements, as set out in the section on capital for capital adequacy purposes. In the second element (risks not fully covered by minimum capital requirements), SID Bank did not identify any material risks. In the third element (risks not subject to minimum capital requirements), SID Bank identifies interest rate risk in the banking book, concentration risk, profitability risk and strategic risk as significant. In 2018 SID Bank also allocated, within the context of capital requirements, additional capital for a capital conservation buffer in the amount of the difference between what was prescribed for 2018 and what will apply as of 1 January 2019, and additional capital for a buffer for other systemically important institutions in the amount that will apply as of 1 January 2020. In the fourth element (external factors), the bank identifies risk-based capital requirements on the basis of stress tests, whereby it takes account of the fact that this is an additional component of capital intended to be used in crisis situations.

On a quarterly basis, SID Bank calculates the internal capital requirements and checks whether the level of capital is appropriate. The calculations are then reviewed by the asset-liability and liquidity management committee. Once a year, the management body approves the Bank's risk profile score and the internal capital adequacy assessment process.

In 2018 the Bank of Slovenia, during its regular supervisory review and evaluation process (SREP) assessed the risks to which SID Bank was exposed and found that the strategies and processes in place for the continuous assessment and provision of adequate internal capital ensured risks were recognised to an adequate degree. As at 31 December 2018, SID Bank exceeded the Bank of Slovenia's requirements with respect to the level of capital ratios.

Capital buffers

Under the provisions of the ZBan-2 and European banking legislation, the Bank of Slovenia has to define requirements regarding the maintenance of capital buffers that a bank shall meet for the purpose of preventing or mitigating macroprudential and systemic risks. Capital buffers represent an additional requirement for the Bank in determining the required level of capital, as banks must use their highest-quality capital (CET1) to meet not only the requirements arising from risks under Pillar 1 and Pillar 2 of the Basel Agreement, but also the requirements regarding capital buffers.

The combined buffer requirement means the total capital that banks must maintain to meet the requirements in connection with:

– the capital conservation buffer;
– the institution-specific countercyclical capital buffer;
– the buffer for globally systemically important institutions (not relevant for SID Bank);
– the buffer for other systematically important institutions;
– the systemic risk buffer.

As at the end of 2018, SID Bank met the requirements relating to capital buffers, as explained below.

The Bank covers the capital conservation buffer with common equity Tier 1 (CET1) capital, which in 2018 amounted to 1.875% of the total risk exposure. The countercyclical capital buffer is implemented to protect the banking system against potential losses insofar as these are related to an increase in risks in the system as a result of excessive growth in lending. The instrument increases the resilience of the banking system, and prevents excessive growth in lending The buffer rate may range from 0% to 2.5% of the total risk exposure amount (and may exceptionally be higher), and depends on the level of risk in the system. The current buffer rate for exposure in Slovenia, in effect as of 1 January 2016, is 0%. The institution-specific countercyclical capital buffer rate comprises the weighted average of countercyclical buffer rates that apply in countries in which the related credit exposures of the Bank are located. SID Bank discloses the required data on the geographical distribution of credit exposures relevant to the calculation of the countercyclical capital buffer, capital requirements and the level of the institution-specific countercyclical capital buffer in Section 1 (Disclosures under Part 8 of the CRR). As at 31 December 2018, the level of SID Bank's institution-specific countercyclical capital buffer stood at 0.01% of total risk exposure, which arises from the relevant credit exposure to Norway, whose countercyclical capital buffer rate is set at 2%, and the United Kingdom, whose countercyclical capital buffer rate is set at 1%. Pursuant to a Bank of Slovenia resolution, SID Bank will have to provide a buffer for other systemically important institutions (O-SII) on a consolidated basis through its common equity Tier 1 (CET1) capital in the amount of 0.25% of total risk exposure from 1 January 2019 on, and in the amount of 0.5% of total risk exposure from 1 January 2020 on.

Leverage ratio

SID Bank's asset-liability and liquidity management committee regularly monitors the movement of the leverage ratio. During the assessment of the risk profile, checks are also made to ensure that the Bank's leverage ratio is appropriate.

The leverage ratio stood at 16.3% as at 31 December 2018 (end of 2017: 15.5%), significantly in excess of the regulatory value and the adopted limit value within the framework of the risk appetite indicators. With respect to the structure of the statement of financial position and the level of the leverage ratio, the Bank concludes that the risk of excessive leverage is low. Detailed disclosures of the leverage ratio are given in the section on Disclosure under Part Eight of the CRR.

3.7 Fair value of financial assets and liabilities

Fair value of financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid when transferring a liability in a standard transaction between market participants at the measurement date under current market terms, regardless of whether the price can be directly observed or estimated using another valuation technique.

The fair value of financial assets and financial liabilities traded on an active market is based on the published market prices. SID Bank and the SID Bank Group establish fair value for all other financial instruments using other valuation techniques.

An active market is a market on which frequent transactions are made using assets or liabilities, whereby public information on prices is provided on a regular basis.

SID Bank and the SID Bank Group measure fair value using a fair value hierarchy that reflects the significance of the input data.

– Level 1: quoted prices on active markets for identical assets or liabilities to which SID Bank and the SID Bank Group have access as at the measurement date. For the SID Bank Group, level 1 includes investments in bonds, to which the MTS price applies within the MTS Slovenia trading system, and the Composite Bloomberg Bond Trader (CBBT) price.

– Level 2: inputs other than the quoted prices included in level 1 that can be directly (prices) or indirectly (derived from prices) observed for assets or liabilities. In level 2, SID Bank and the SID Bank Group include financial instruments valued through the use of quoted prices for similar assets and liabilities on active markets, quoted prices for equivalent or similar assets and liabilities on inactive markets, or inputs other than quoted prices and that can be observed as assets or liabilities, e.g. interest rates and yield curves. Level 2 also includes investment in bonds, which are valued on the basis of the Bloomberg Generic Price (BGN), as this price is identical to the interbank or OTC market price. While the BGN is not a direct price that SID Bank and the SID Bank Group could use to sell securities on the valuation date, its use does ensure impartiality in valuation. The price is a reflection of the actual transactions on the market and is an appropriate indicator of the prices that could be achieved through the sale of bonds on the market. The prices of sellers do not deviate from the applied price to a materially significant extent. SID Bank and the SID Bank Group do not have any loans at level 2 measured at fair value.

– Level 3: SID Bank and the SID Bank Group include in this category financial instruments for which fair value is calculated according to models that mainly use unobservable inputs, and financial instruments that were valued at historical cost in the previous period. The fair value of loans mandatorily at fair value is calculated through the discounting of estimated cash flows at a uniform interest rate at recognition. Estimated future cash flows for loans to going concerns are calculated on the basis of contractual cash flows, the likelihood of repayment and macroeconomic forecasting factors. For loans to companies that are not going concerns, estimated future cash flows are calculated taking account of liquidation of collateral, the haircut, the collateral redemption period and macroeconomic forecasting factors. Observable inputs are developed on the basis of market data such as public information on actual events and transactions. Unobservable inputs are inputs for which market data is not available and are developed using the best available information on the assumptions that market participants would use when pricing the asset or liability.

Financial assets measured at fair value

The financial instruments that SID Bank and the SID Bank Group disclose at fair value in the statement of financial position are non-trading financial assets mandatorily at fair value through profit or loss and measured at fair value through other comprehensive income and hedging derivatives.

Hedging derivatives that include interest rate swaps are valued taking account of market interest rates and yield curves.

The fair value of non-trading financial assets mandatorily at fair value through profit or loss and measured at fair value through other comprehensive income is determined using prices quoted on active markets for identical assets, prices quoted on active markets for similar assets and prices quoted for identical and similar assets on inactive markets.

Financial instruments measured at fair value – fair value hierarchy

The table shows financial instruments measured at fair value as at the reporting date with respect to the level at which they are classified in the fair value hierarchy.

	SID Bank							
	31 Dec 2018				31 Dec 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	15,667	15,667	n.a.	n.a.	n.a.	n.a.
Financial assets measured at fair value through other comprehensive income	33,938	570,250	58,500	662,688	n.a.	n.a.	n.a.	n.a.
Debt securities	33,938	570,250	46,683	650,871	n.a.	n.a.	n.a.	n.a.
Equities	0	0	11,817	11,817	n.a.	n.a.	n.a.	n.a.
Available-for-sale financial assets (under IAS 39)	n.a.	n.a.	n.a.	n.a.	32,048	628,282	70,191	730,521
Debt securities	n.a.	n.a.	n.a.	n.a.	32,048	618,393	63,846	714,287
Equities	n.a.	n.a.	n.a.	n.a.	0	9,889	6,345	16,234
Total financial assets	**33,938**	**570,250**	**74,167**	**678,355**	**32,048**	**628,282**	**70,191**	**730,521**
Hedging derivatives	0	2,898	0	2,898	0	93	0	93
Total financial liabilities	**0**	**2,898**	**0**	**2,898**	**0**	**93**	**0**	**93**

	SID Bank Group							
	31 Dec 2018				31 Dec 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	15,667	15,667	n.a.	n.a.	n.a.	n.a.
Financial assets measured at fair value through other comprehensive income	33,938	570,250	58,500	662,688	n.a.	n.a.	n.a.	n.a.
Debt securities	33,938	570,250	46,683	650,871	n.a.	n.a.	n.a.	n.a.
Equities	0	0	11,817	11,817	n.a.	n.a.	n.a.	n.a.
Available-for-sale financial assets (under IAS 39)	n.a.	n.a.	n.a.	n.a.	50,513	629,300	70,191	750,004
Debt securities	n.a.	n.a.	n.a.	n.a.	50,513	619,411	63,846	733,770
Equities	n.a.	n.a.	n.a.	n.a.	0	9,889	6,345	16,234
Total financial assets	**33,938**	**570,250**	**74,167**	**678,355**	**50,513**	**629,300**	**70,191**	**750,004**
Hedging derivatives	0	2,898	0	2,898	0	93	0	93
Total financial liabilities	**0**	**2,898**	**0**	**2,898**	**0**	**93**	**0**	**93**

Financial assets not measured at fair value

The table shows the fair values of financial assets not measured at fair value. Financial assets are stated at fair value at the reporting date, according to the level in the fair value hierechy in which they are classified.

	SID Bank				SID Bank Group			
31 Dec 2018	Level 2	Level 3	Fair value	Carrying amount	Level 2	Level 3	Fair value	Carrying amount
Cash, cash balances at central banks and other demand deposits at banks	121,184	0	121,184	121,184	121,184	0	121,184	121,184
Financial assets measured at amortised cost	817,190	753,959	1,571,149	1,502,323	817,186	753,959	1,571,145	1,502,319
Loans and advances to banks	815,337	0	815,337	809,350	815,337	0	815,337	809,350
Loans and advances to customers	0	753,959	753,959	691,120	0	753,959	753,959	691,120
Other financial assets	1,853	0	1,853	1,853	1,849	0	1,849	1,849
Total financial assets	**938,374**	**753,959**	**1,692,333**	**1,623,507**	**938,370**	**753,959**	**1,692,329**	**1,623,503**
Financial liabilities measured at amortised cost	1,208,663	681,152	1,889,815	1,889,321	1,208,663	681,152	1,889,815	1,889,321
Deposits by banks	43,293	0	43,293	43,293	43,293	0	43,293	43,293
Deposits by customers	0	39,210	39,210	39,210	0	39,210	39,210	39,210
Loans from banks and central banks	1,163,346	0	1,163,346	1,162,951	1,163,346	0	1,163,346	1,162,951
Loans from customers	0	509,341	509,341	509,242	0	509,341	509,341	509,242
Debt securities	0	132,601	132,601	132,601	0	132,601	132,601	132,601
Other financial liabilities	2,024	0	2,024	2,024	2,024	0	2,024	2,024
Total financial liabilities	**1,208,663**	**681,152**	**1,889,815**	**1,889,321**	**1,208,663**	**681,152**	**1,889,815**	**1,889,321**

	SID Bank				SID Bank Group			
31 Dec 2017	Level 2	Level 3	Fair value	Carrying amount	Level 2	Level 3	Fair value	Carrying amount
Cash, cash balances at central banks and other demand deposits at banks	71,071	0	71,071	71,071	75,950	0	75,950	75,950
Loans and advances (under IAS 39)	1,035,253	599,138	1,647,698	1,631,472	1,040,506	599,138	1,639,691	1,636,725
Loans and advances to banks	1,033,700	0	1,033,700	1,032,179	1,038,952	0	1,038,952	1,037,431
Loans and advances to customers	0	599,138	612,445	597,740	0	599,138	599,138	597,740
Other financial assets	1,553	0	1,553	1,553	1,554	0	1,601	1,554
Total financial assets	**1,106,324**	**599,138**	**1,718,769**	**1,702,543**	**1,116,456**	**599,138**	**1,715,641**	**1,712,675**
Financial liabilities measured at amortised cost	1,233,423	805,270	2,038,693	2,038,145	1,234,294	805,270	2,039,564	2,039,016
Deposits by banks	25,264	0	25,264	25,264	25,264	0	25,264	25,264
Deposits by customers	0	0	0	0	0	0	0	0
Loans from banks and central banks	1,205,968	0	1,205,968	1,205,542	1,205,968	0	1,205,968	1,205,542
Loans from customers	0	454,950	454,950	454,828	0	454,950	454,950	454,828
Debt securities	0	350,320	350,320	350,320	0	350,320	350,320	350,320
Other financial liabilities	2,191	0	2,191	2,191	3,062	0	3,062	3,062
Total financial liabilities	**1,233,423**	**805,270**	**2,038,693**	**2,038,145**	**1,234,294**	**805,270**	**2,039,564**	**2,039,016**

The carrying amounts for cash are assumed to be approximately equal to their fair values.

The fair values of loans are calculated using discount curves composed of probability of default values for large Slovenian enterprises.

The fair value of financial liabilities with variable interest rates is approximately equal to their carrying amounts as at the reporting date. Market interest rates are used to calculate the fair value of liabilities for variable interest rate loans measured at amortised cost. Loans with fixed interest rates account for 5.6% of liabilities for loans measured at amortised cost at SID Bank and the SID Bank Group. Both conclude that there are no material differences between the fair value of the loans and their carrying amounts.

SID Bank and SID Bank Group recognise and measure issued debt securities and loans according to amortised cost. For instruments included in the hedge ratio for purposes of calculation of the effects of the hedge accounting, the fair value is calculated using valuation techniques and the expected current value. The expected current value is calculated using inputs that are not quoted prices and that can be observed, i.e. interest rates and yield curves.

Table of transfers between levels

2018	SID Bank and SID Bank Group Transfers from level 1 to level 3	 Transfers from level 3 to level 1	 Transfers from level 2 to level 3
Financial assets measured at fair value			
Financial assets measured at fair value through other comprehensive income	14,074	2,297	4,942
Debt securities	14,074	2,297	0
Equities	0	0	4,942

Transfers from level 1 to level 3 and transfers from level 3 to level 1 at the SID Bank Group are the consequence of changes to the price of investments in bonds, which in 2018 are valued on the basis of the Ljubljana Stock Exchange price. Transfers from level 2 to level 3 are the consequence of a change to the method of valuing investments in equities.

	SID Bank		SID Bank Group		
2017	Transfers from level 2 to level 3	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 3	Transfers from level 2 to level 1
Financial assets measured at fair value					
Available-for-sale financial assets (under IAS 39)	3,596	14,073	590	3,596	14,073
Debt securities	3,596	14,073	590	3,596	14,073

Transfers from level 2 to level 1 and transfers from level 2 to level 3 at the SID Bank Group are the consequence of the inclusion of investments in bonds, which in 2017 were valued on the basis of the Ljubljana Stock Exchange price at level 1 or 3, while in 2016 they were valued on the basis of the price according to the Bloomberg model and classified as level 2.

4 Management body's concise statement on the SID Bank's approach to the measurement of risk appetite

In accordance with Article 435(1)(f) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (hereinafter: the CRR), the second paragraph of Article 17 of the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, and the EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA GL/2016/11), the management body hereby issues the following concise statement on risk management:

1. The overall risk level and the levels and types of individual material risks are subject to comprehensive identification once a year in the process of drawing up the Bank's risk profile, which is approved by its management body. During the internal capital adequacy assessment process (ICAAP), once a year the management body approves the assessment of the internal capital requirement and the capital available to cover losses in the event of the realisation of the risks taken up. The assessed risk absorption capacity is taken into account when the business strategy is being drafted and the business objectives and risk appetite are being defined. The risk profile of SID Bank is presented in detail in the Risk management segment in section 3 of the financial report, in subsection 3.6 Capital management. The management also approves the internal liquidity adequacy assessment process (ILAAP) once a year, in which the Bank carries out a comprehensive assessment of the established systems for the management of liquidity risk, including an assessment of liquidity risk in connection with the Bank's risk profile and strategy.

   When assessing its risk absorption capacity, which represents the maximum overall level of risk, SID Bank takes into account:
   - its risk profile assessment;
   - the result of the ICAAP, covering both the ordinary and extraordinary operations of SID Bank;
   - the Bank of Slovenia's expectations after each completed supervisory review and evaluation process in terms of maintaining the total capital ratio and the proportion of common equity Tier 1 capital for covering the recognised assessment of the internal capital requirement, which are both prescribed by the Bank of Slovenia;
   - the leverage ratio;
   - the result of the ILAAP and SID Bank's liquidity with regard to its risk profile;
   - the plan of risk management activities, which sets out the measures available for the management of identified and measured or assessed risks;
   - other restrictions derived from SID Bank's bylaws and regulations and standards, or the requirements of the Bank of Slovenia and other competent and supervisory authorities.

2. SID Bank's risk appetite, taking into account its risk absorption capacity, is assessed by SID Bank once a year, or more frequently in the event of significant changes in risk exposure. The management body sets out the risk appetite at least once a year, in parallel with the process of adopting the annual operational plan, thereby ensuring that the risk appetite has been aligned to any changes in the business model and in the current business strategy.

   The risk appetite framework takes account of all material risks identified within the framework of the risk profile, and is reflected in the risk appetite indicators approved by the management body, including threshold values set with regard to the bank's planned activities, and also the limits set in the policies for the take-up and management of individual risks and other bylaws of SID Bank. Where these risk appetite indicators have prescribed regulatory values, SID Bank has set significantly more stringent target values. In accordance with the disclosures under the CRR, the selected risk appetite indicators for SID Bank are presented below. The major financial data and performance indicators of SID Bank are disclosed in the introductory section of the annual report, within the framework of the section entitled Major financial data and performance indicators of SID Bank and the SID Bank Group. The selected risk appetite indicators recorded at the end of 2018 are cited below, together with the target values for the risk appetite:

- common equity Tier 1 capital ratio (CET1): 34.2% (target value: ≥ 15%),
- leverage ratio: 16.3% (target value: > 5%),
- liquidity coverage ratio (LCR): 458% (target value: > 150%),
- net stable funding ratio (NSFR): 140% (target value: > 110%),
- coverage of NPEs by total impairments, allowances and provisions for credit losses: 83.5% (target value: > 50%),
- operational risk assessment score (profile): 2.8 (target value: ≤ 3).

In addition, the Bank has identified risk appetite indicators for the purpose of directing the business and mitigating individual types of risks, in particular:

- profitability and risks for the purpose of directing the business: ratio of risk-weighted assets to total assets, gross earnings before impairments and provisions, taxes (excluding the performance of the loan funds) relative to average risk-weighted assets, interest margin;
- supervision of individual types of risks for risk mitigation: limits on the NPE ratio, limits on the change in the economic value of equity in the standard yield curve shock, limits on overall net position in foreign currencies and net positions in individual currencies in terms of ratio to capital.

The risk appetite framework is approved annually by the management board and the supervisory board, and is monitored regularly and reported at the extended session of SID Bank's management board, where the executive directors and directors of individual organisational units attend in addition to the management board. Regular reporting of the achieved risk appetite indicator values is also provided to the supervisory board's risk committee.

The scope of risk take-up complements the set of internal policies for the management of individual types of risk, via which SID Bank transfers limits regarding risk appetite into operational restrictions for the appropriate direction of the business. Risk management policies and internal rules set out the limits for the management of credit risk, market risk and liquidity risk, including the procedures for dealing with transgressions of the limits and notification of the management board.

In order to manage the credit risk inherent in investments for managing the Bank's liquidity, bylaws set out limits on exposures to individual persons, and in case the persons comprise a group of connected clients also a limit on the group and a limit on the individual persons. In managing these investments, SID Bank pursues a policy of investing its surplus liquidity in high-quality liquid financial instruments. In credit operations, limits are not predetermined or determined in general; rather, creditworthiness is determined when an individual investment operation is reviewed with reference to the company's calculated borrowing capacity, which includes an assessment of long-term sustainable annual cash flow, less the normalised volume of replacement investments, normalised taxes, long-term expected dividends and gains, and the current and envisaged financial debt. Bylaws are used for the entire portfolio to set out the method of identifying and measuring concentration risk, on an individual basis, by economic sector, by country and by rating. The powers to approve transactions are set out in the bylaws and the articles of association of SID Bank with regard to the investment value and current exposure.

Quantitative limits are also set for the management of market risks. Limits on changes in net interest income and changes in the economic value of the Bank's equity (limits on weighted interest rate gaps) are set for interest rate risk. The limits are significantly more stringent than those prescribed by banking regulations. Position limits (stop loss) are set for the management of position risk. A limit on net exposure in a particular foreign currency and on net exposure in all foreign currencies relative to the Bank's capital is set for currency risk.

Quantitative limits are also set for the management of liquidity risk, and are more stringent than those prescribed in regulations. The Bank also carries out regular planning and monitoring of cash flows, and assessment of the effects of new transactions on the liquidity ratio and the liquidity coverage ratio for the coming period. In addition, it also regularly verifies its liquidity position, including the consideration of internally defined liquidity scenarios, and has drafted a plan of liquidity risk management for contingencies. The management body annually reviews and approves the ILAAP result, which covers an assessment of liquidity needs and an assessment of available liquidity within the framework of ordinary operations, and in adverse situations. The Bank's liquidity position is verified regularly by decision-making bodies through the monitoring of various indicators, including in relation to the achievement of planned ratios. The Bank regularly carries out an assessment of the adequacy of the Bank's funding, with a particular focus on the annual planning of business needs. The financial plan for the next three financial years is approved annually by the management body.

3. The Bank manages other material risks, among which it highlights strategic risk, reputation risk and profitability risk, and risks that are difficult to measure, such as certain subtypes of operational risk, i.e. compliance risk, business continuity risk, the risk of money laundering and terrorist financing and other unethical business practices, through qualitative risk management measures and internal control mechanisms. SID Bank's appetite to take up risks that are difficult to measure and reputation risk is low, with a focus on minimising their impact on its performance. The management of these risks is carried out, in particular, through set internal rules and controls over the implementation of the Bank's organisational, operational and work procedures and additional monitoring by independent functions and internal control departments. Notwithstanding the above, other material risks and risks that are difficult to measure are subject to qualitative measurement within the process of formulating a risk profile and are quantified in accordance with the predetermined criteria. SID Bank manages other material risks by defining an internal capital requirement. Where necessary, or depending on the assessment of residual risk, the internal capital requirement and the appropriate coverage by capital are also determined in the case of risks that are difficult to measure.

4. As a development bank in accordance with the Slovene Export and Development Bank Act (ZSIRB), SID Bank is required to fully comply with the act governing banking, with exception of parts that are explicitly excluded. This relates to special features during the assessment of large exposures, capital requirements, the establishment of bank branches, with regard to the obligation to draw up a recovery plan and the application of the provisions with regard to deposits covered by guarantee, as SID Bank is not allowed to take deposits from the public. Additional restrictions on operations are set out in the ZSIRB and the rules governing state aid that apply in the EU, which require SID Bank to provide financial services only in segments where market gaps appear or are identified, and prohibit it from competing with other commercial banks. Furthermore, the purpose of SID Bank's funding must comply with the purposes defined by the law. SID Bank is not allowed to finance firms that are classed as firms in difficulty. The Bank and its management body take account of these and other prescribed requirements in the adoption and implementation of its business objectives, strategies and policies.

Ljubljana, 5 March 2019

Management board of SID Bank

Supervisory board

Goran Katušin
Member

Sibil Svilan, M.Sc.
President

Monika Pintar Mesarič
Chair

5 Reporting by operating segment

Allocation and disclosure by operating segment is carried out on the basis of the attributes of individual business activities at the 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 senior management in the governance of the SID Bank Group. Performance across operating segments is monitored on the basis of accounting policies as presented in section 2.3.25. Reports are compiled in accordance with the IFRS. The majority of the SID Bank Group's operations are in the domestic market, for which reason it does not disclose additional itemisation by geographical area.

The SID Bank Group's business activities can be divided into two operating segments:

– banking, and
– insurance of receivables.

Each operating segment is organised as a legal entity in the form of an independent undertaking. Within the SID Bank Group, banking services are provided by the controlling company SID Bank, and insurance of receivables is pursued at SID-PKZ. The individual operating segments include products and services that differ from the other operating segment in terms of risk and return. Transactions between the two operating segments are executed under normal commercial terms.

Analysis by operating segment

2018	Banking	Insurance of receivables	Total	Intragroup relations	Relations to third parties
Interest income	31,122	0	31,122	0	31,122
Interest expenses	(8,136)	0	(8,136)	0	(8,136)
Net interest	22,986	0	22,986	0	22,986
Dividend income	618	0	618	(582)	36
Fee and commission income	591	0	591	0	591
Fee and commission expenses	(300)	0	(300)	0	(300)
Net fees and commission	291	0	291	0	291
Net gains on financial assets and liabilities not measured at fair value through profit or loss	3,218	0	3,218	0	3,218
Net (losses) on financial assets and liabilities held for trading	(6)	0	(6)	0	(6)
Net gains on non-trading financial assets mandatorily at fair value through profit or loss	655	0	655	0	655
Changes in fair value in hedge accounting	(129)	0	(129)	0	(129)
Net foreign exchange (losses)	(8)	0	(8)	0	(8)
Net gains on derecognition of non-financial assets	3	0	3	0	3
Other net operating gains	3,362	0	3,362	(43)	3,319
NET INCOME	30,990	0	30,990	(625)	30,365
Other information by segment	(13,471)	0	(13,471)	0	(13,471)
Administrative expenses	(13,270)	0	(13,270)	0	(13,270)
Depreciation and amortisation	(881)	0	(881)	0	(881)
Net (losses) on change in repayment terms	(35)	0	(35)	0	(35)
Provisions	(322)	0	(322)	0	(322)
Impairments	1,037	0	1,037	0	1,037
Profit from continuing operations	17,519	0	17,519	(625)	16,894
Corporate income tax on continuing operations	(3,205)	0	(3,205)	0	(3,205)
Net profit from continuing operations	14,314	0	14,314	(625)	13,689

2018	Banking	Insurance of receivables	Total	Intragroup relations	Relations to third parties
Net profit after tax from discontinued operations	0	967	967	(2,275)	(1,308)
Net profit for financial year	14,314	967	15,281	(2,900)	12,381
ASSETS AND LIABILITIES					
Total assets	2,318,834	56,442	2,375,276	(10,735)	2,364,541
Non-current assets held for sale and discontinued operations	8,413	56,442	64,855	(10,731)	54,124
Liabilities (excluding equity) by segment	1,896,783	30,056	1,926,839	(4)	1,926,835
Liabilities associated with non-current assets held for sale and discontinued operations	0	30,056	30,056	(4)	30,052
Total equity	422,051	26,386	448,437	(10,731)	437,706

The intragroup relations column shows all income and expenses generated between undertakings in the SID Bank Group, dividend income from the subsidiary, mutual claims and liabilities of undertakings in the SID Bank Group, investments in subsidiaries and other consolidation bookings.

2017	Banking	Insurance of receivables	Total	Intragroup relations	Relations to third parties
Interest income	29,119	0	29,119	0	29,119
Interest expenses	(8,825)	0	(8,825)	0	(8,825)
Net interest	20,294	0	20,294	0	20,294
Dividend income	3,440	0	3,440	(3,353)	87
Fee and commission income	232	0	232	0	232
Fee and commission expenses	(459)	0	(459)	0	(459)
Net fees and commission	(227)	0	(227)	0	(227)
Net (losses) on financial assets and liabilities not measured at fair value through profit or loss	(1,523)	0	(1,523)	0	(1,523)
Net gain on financial assets and liabilities held for trading	385	0	385	0	385
Changes in fair value in hedge accounting	21	0	21	0	21
Net foreign exchange (losses)	(1,186)	0	(1,186)	0	(1,186)
Net (losses) on derecognition of assets	(5)	0	(5)	0	(5)
Other net operating gains	1,732	0	1,732	(53)	1,679
NET INCOME	22,931	0	22,931	(3,406)	19,525
Other information by segment	(6,707)	0	(6,707)	6	(6,701)
Administrative expenses	(12,394)	0	(12,394)	6	(12,388)
Depreciation and amortisation	(852)	0	(852)	0	(852)
Provisions	(917)	0	(917)	0	(917)
Impairments	7,452	0	7,452	0	7,452
Net gains on non-current assets held for sale and associated liabilities	4	0	4	0	4
Profit from continuing operations	16,224	0	16,224	(3,400)	12,824
Corporate income tax on continuing operations	(2,268)	0	(2,268)	0	(2,268)
Net profit from continuing operations	13,956	0	13,956	(3,400)	10,556
Net profit after tax from discontinued operations	0	1,158	1,158	48	1,206
Net profit for financial year	13,956	1,158	15,114	(3,352)	11,762

2017	Banking	Insurance of receivables	Total	Intragroup relations	Relations to third parties
ASSETS AND LIABILITIES					
Total assets	2,451,641	54,079	2,505,720	(8,418)	2,497,302
Investments in subsidiaries, associates and joint ventures	8,413	0	8,413	(8,413)	0
Liabilities (excluding equity) by segment	2,041,748	27,959	2,069,707	(5)	2,069,702
Total equity	409,893	26,120	436,013	(8,413)	427,600
Additions/(disposals) of property, plant and equipment and intangible assets	(296)	270	(26)	0	(26)

The intragroup relations column shows all income and expenses generated between undertakings in the SID Bank Group, dividend income from the subsidiary, mutual claims and liabilities of undertakings in the SID Bank Group, investments in subsidiaries and other consolidation bookings.

6 Disclosures on the basis of Part Eight of the CRR

The disclosures under Part Eight of the CRR that are relevant to SID Bank and are not included in the business or financial sections of the annual report are presented in this section below. The disclosures have been compiled with regard to the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 published by the EBA (hereinafter: the EBA guidelines).

In light of the liquidation process and the resulting reduction in the total assets of the undertakings in the Prvi Faktor Group, as of 2017 SID Bank has no longer been required to fulfil requirements on a consolidated basis in accordance with Article 19(1)(a) of the CRR, as the proportionate part of the total assets of the Prvi Faktor Group pertaining to SID Bank no longer exceeds EUR 10 million. In accordance with the CRR, insurance undertakings (that is SID-PKZ within the SID Bank Group) are exempt from prudential consolidation, meaning that the disclosures for SID Bank are prepared on an individual basis in accordance with Article 6 of the CRR.

In accordance with the EBA guidelines, the data for the comparative period relates to the most recently published data in line with the frequency of disclosure as required by the EBA guidelines. Individual tables show only the rows and columns of relevance to SID Bank.

6.1 LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of CRR Regulation

(Article 435(1)(f) of the CRR Regulation)

Quantitative information of LCR

			On an individual basis		On an individual basis
Currency and units			In EUR 000		In EUR 000
Quarter ending on			**31 Mar 2018**		**30 Jun 2018**
Number of data points used in the calculation of averages			12		12
		Total unweighted value (average)	Total unweighted value (average)	Total unweighted value (average)	Total unweighted value (average)
High-quality liquid assets					
1	Total high-quality liquid assets (HQLA)		420,875		359,680
Cash - outflows					
2	Retail deposits and deposits from small business customers, of which:	0	0	0	0
3	Stable deposits	0	0	0	0
4	Less stable deposits	0	0	0	0
5	Unsecured wholesale funding	26,496	26,496	20,063	18,412
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0
7	Non-operational deposits (all counterparties)	26,090	26,090	19,657	18,006
8	Unsecured debt	406	406	406	406
9	Secured wholesale funding		0		0
10	Additional requirements	53,947	20,170	68,812	20,735
11	Outflows related to derivative exposures and other collateral requirements	229	229	229	229

		Total unweighted value (average)	Total unweighted value (average)	Total unweighted value (average)	Total unweighted value (average)
12	Outflows related to loss of funding on debt products	0	0	0	0
13	Credit and liquidity facilities	53,717	19,940	68,583	20,506
14	Other contractual funding obligations	1,819	1,819	487	487
15	Other contingent funding obligations	15,363	1,647	10,947	1,095
16	**Total Cash - outflows**		**50,131**		**40,729**
Cash - inflows					
17	Secured lending (e.g. reverse repos)	0	0	0	0
18	Inflows from fully performing exposures	39,854	34,621	29,792	24,808
19	Other cash inflows	11,389	11,389	3,360	3,360
20	**Total cash inflows**	**51,242**	**46,009**	**33,152**	**28,168**
EU-20a	Fully exempt inflows	0	0	0	0
EU-20b	Inflows subject to 90% cap	0	0	0	0
EU-20c	Inflows subject to 75% cap	51,242	46,009	33,152	28,168
			Total adjusted value		Total adjusted value
21	**Liquidity buffer**		**420,875**		**359,680**
22	**Total net cash outflows**		**19,238**		**18,430**
23	**Liquidity coverage ratio (%)**		**3086%**		**2960%**

			On an individual basis		On an individual basis
Currency and units			In EUR 000		In EUR 000
Quarter ending on			**30 Sep 2018**		**31 Dec 2018**
Number of data points used in the calculation of averages			12		12
		Total unweighted value (average)	Total unweighted value (average)	Total unweighted value (average)	Total unweighted value (average)
High-quality liquid assets					
1	Total high-quality liquid assets (HQLA)		301,612		252,612
Cash - outflows					
2	Retail deposits and deposits from small business customers, of which:	0	0	0	0
3	Stable deposits	0	0	0	0
4	Less stable deposits	0	0	0	0
5	Unsecured wholesale funding	53,463	50,722	75,411	70,289
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0
7	Non-operational deposits (all counterparties)	28,905	26,164	50,853	45,730
8	Unsecured debt	24,559	24,559	24,559	24,559
9	Secured wholesale funding		0		0
10	Additional requirements	98,696	22,370	133,915	29,360
11	Outflows related to derivative exposures and other collateral requirements	257	257	36	36
12	Outflows related to loss of funding on debt products	0	0	0	0
13	Credit and liquidity facilities	98,439	22,113	133,879	29,324
14	Other contractual funding obligations	389	389	289	289
15	Other contingent funding obligations	8,722	2,392	6,790	3,701
16	**Total Cash - outflows**		**75,873**		**103,640**
Cash - inflows					
17	Secured lending (e.g. reverse repos)	0	0	0	0
18	Inflows from fully performing exposures	40,103	36,473	44,056	41,116
19	Other cash inflows	4,148	4,148	10,029	10,029

			On an individual basis		On an individual basis
Currency and units			In EUR 000		In EUR 000
Quarter ending on			**30 Sep 2018**		**31 Dec 2018**
Number of data points used in the calculation of averages			12		12
		Total unweighted value (average)	Total unweighted value (average)	Total unweighted value (average)	Total unweighted value (average)
20	**Total cash inflows**	**44,251**	**40,621**	**54,085**	**51,145**
EU-20a	Fully exempt inflows		0		0
EU-20b	Inflows subject to 90% cap	0	0	0	0
EU-20c	Inflows subject to 75% cap	44,251	40,621	54,085	51,145
			Total adjusted value		Total adjusted value
21	**Liquidity buffer**		**301,612**		**252,612**
22	**Total net cash outflows**		**41,121**		**58,364**
23	**Liquidity coverage ratio (%)**		**1767%**		**1404%**

Qualitative information of LCR

Concentration of funding and liquidity	The specific role of the Bank and the fact that SID Bank does not take deposits from the public have a significant impact on the structure of funding. SID Bank obtains long-term funding supported by a Slovenian government guarantee primarily on international financial markets and at related financial institutions. Disclosure regarding structure of financial liabilities and liquid assets: - Business Report, Performance in 2018 section, Funding and liquidity subsection - Financial Report, section 2.4 - Financial Report, 3.2 Liquidity risk
Derivative exposures and potential collateral calls	Exposure to derivatives is presented in the Financial Report, section 2.4.13.
Currency mismatch in LCR	The liquidity buffer solely comprises items denominated in euros. The liquidity inflows and outflows are also mostly denominated in euros. The proportion denominated in US dollars is small. The proportion of other currencies in liquidity inflows (balances in bank accounts in foreign currencies) is negligible.
Description of degree of centralisation of liquidity management and mutual relations and communication mechanisms between units in group	The Bank calculates the LCR on an individual basis.
Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant to its liquidity profile	-

6.2 The number of directorships held by members of the management body

(Article 435(2)(a) of the CRR Regulation)

Membership in bodies of other persons as at 31 Dec 2018

	Name of other party	Function
Management board		
Sibil Svilan	CMSR	CMSR council chair
	Bank Association of Slovenia	member of supervisory board
	European Association of Public Banks (EAPB)	member of board of directors
Goran Katušin	SID-PKZ	chair of supervisory board
Supervisory board		
Monika Pintar Mesarič	Succession Fund of the Republic of Slovenia (public fund)	member of supervisory board
	Interdepartmental Commission for the ZUKSB	member
	Working group for the preparation of the restructuring plan for the Abanka Vipa and Banka Celje consolidation process	member
	Umbrella Pension Fund for Public-Sector Employees	member
Zlatko Vili Hohnjec	Finančni inženiring Zlatko Vili Hohnjec, s.p.	sole proprietor
	Terme Olimia d.d.	member of supervisory board
	TPC LIVADE d.o.o. S.r.l.	director
	Petin d.o.o. (in bankruptcy)	official receiver
	Bigrad d.o.o. (in bankruptcy)	official receiver
	Gradis Celje d.d. (in bankruptcy)	official receiver
	Finsvet d.o.o. (in bankruptcy)	official receiver
	Avto plus d.o.o. (in bankruptcy)	official receiver
	CPL d.o.o. (in bankruptcy)	official receiver
	ELTI d.o.o. (in bankruptcy)	official receiver
	Društvo Mladi Romi, so.p. (in bankruptcy)	official receiver
	Verada d.o.o. (in bankruptcy)	official receiver
	Papir Servis d.o.o. (in bankruptcy)	official receiver
	PGM Pižem d.o.o. (in bankruptcy)	official receiver
	Polzela d.o.o. (in bankruptcy)	official receiver
	S2-Invest (in bankruptcy)	official receiver
	G Gradnje d.o.o. (in bankruptcy)	official receiver
	SGP Gorica d.o.o. (in bankruptcy)	official receiver
	Istraturist	member
Marko Tišma	Ecofin, ekonomsko finančno svetovanje, Marko Tišma, s.p.	sole trader
	Terme Olimia d.d.	member of supervisory board
	BAMC	non-executive director

6.3 The main features of the capital instruments issued by the Bank

(Article 437 (b)(c) of the CRR Regulation)

1	Issuer	SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana
2	Unique identifier	SIDR, ISIN SI0021102932
3	Governing law(s) of the instrument	Slovene
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital	EUR 300 million
9	Nominal amount of instrument	No nominal amount - per value shares
9a	Issue price	No nominal amount - per value shares
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	20 June 1997
12	Perpeptual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subjet to prior supervisory approval	No
15	Optional call date, contingent call dates, and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	N/A

N/A – not aplicable

SID Bank has no instruments of additional Tier 1 capital or Tier 2 capital. In accordance with Article 4 of the ZSIRB, SID Bank's distributable profit may not be used for distribution to shareholders, but is instead allocated to other profit reserves.

6.4 Disclosure of own funds, regulatory adjustments and prudential filters

(Commission Implementing Regulation (EU) No 1423/2013)

(Article 437 (1)(d)(e) of the CRR Regulation)

		31 Dec 2018	31 Dec 2018	30 Jun 2018	30 Jun 2018
Common Equity Tier 1 capital: instruments and reserves		(A) Amount at disclosure date	C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount	(A) Amount at disclosure date	(C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
1	Capital instruments and the related share premium accounts	299,815		299,815	
	of which: Paid up capital instruments	300,000		300,000	
	of which: Share premium	1,139		1,139	
	of which: Own CET1 instruments	(1,324)		(1,324)	
2	Retained earnings (excluding net profit for the year)	9,557		9,557	
3	Accumulated other comprehensive income (and any other reserves)	98,365		106,401	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	**407,737**		**415,773**	

Common Equity Tier 1 capital: instruments and reserves		31 Dec 2018 (A) Amount at disclosure date	31 Dec 2018 C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount	30 Jun 2018 (A) Amount at disclosure date	30 Jun 2018 (C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
7	Common Equity Tier 1 (CET1) capital: regulatory adjustments	(681)		(701)	
8	Additional value adjustments (negative amount)	(999)		(1,117)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(1,680)**		**(1,818)**	
29	**Common Equity Tier 1 (CET1) capital**	**406,057**		**413,955**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**406,057**		**413,955**	
59	**Total capital (TC = T1 + T2)**	**406,057**		**413,955**	
60	**Total risk-weighted assets**	**1,187,983**		**1,103,488**	
61	Tier 1 (as a percentage of total risk exposure amount)	34.18%		37.51%	
62	Total capital (as a percentage of total risk exposure amount)	34.18%		37.51%	
63	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	34.18%		37.51%	
64	of which: capital conservation buffer requirement	1.886%	0.250%	1.886%	0.250%
65	of which: countercyclical buffer requirement	1.875%	0%	1.875%	0%
66	of which: systemic risk buffer requirement	0.011%	0%	0.011%	0%
67	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0%	0.250%	0%	0.250%
67a	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	0%	0.250%	0%	0.250%
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	6,875		6,489	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	8,413		8,413	

The above table discloses the items of the Bank's own funds under the template from Commission Implementing Regulation (EU) No 1423/2013, which sets out the disclosure of own funds requirements for institutions in accordance with the CRR. The table shows the rows of the template containing amounts that are relevant to SID Bank. Column (C) indicates the remaining amounts determined in accordance with the CRR.

SID Bank has no instruments of additional Tier 1 capital or Tier 2 capital. any additional Tier 1 capital or Tier 2 capital.

The Bank does not take into account the net profit for the financial year, which for 2018 amounted to EUR 14,314 thousand, in the calculation of capital for capital adequacy purposes until SID Bank's general meeting adopts the resolution on the distribution of profit.

6.5 The geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer – breakdown by country

(Article 440(1)(a) of the CRR Regulation)

The table below indicates those credit exposures to individual sovereigns (governments) that are relevant to the calculation of countercyclical capital buffers, i.e. exposures to individual exposure classes set out in Article 112 of the CRR, excluding the exposure classes referred to in points (a) to (f) of the aforementioned article.

The Bank uses a standardised approach for the calculation of exposure values. The Bank has no exposures included in the trading book, and no exposures to securitisation positions.

31 Dec 2018	General credit exposures (010) Exposure value under the Standardised Approach	Own funds requirements (070) of which: General credit exposures	(100) Total	(110) Own funds requirements weights	(120) Countercyclical capital buffer rate
Country code					
SI	777,798	63,331	63,331	0.91	0.00%
US	27,652	2,212	2,212	0.03	0.00%
HR	13,197	1,056	1,056	0.02	0.00%
NL	10,153	812	812	0.01	0.00%
IE	7,259	581	581	0.01	0.00%
CK	6,875	550	550	0.01	0.00%
GB	3,930	314	314	0.00	1.00%
NO	3,285	263	263	0.00	2.00%
AT	2,544	203	203	0.00	0.00%
RS	1,312	105	105	0.00	0.00%
UA	451	54	54	0.00	0.00%
ME	290	35	35	0.00	0.00%
BA	41	3	3	0.00	0.00%
DE	9	1	1	0.00	0.00%
BE	8	1	1	0.00	0.00%
IT	1	0	0	0.00	0.00%
Total	**854,805**	**69,521**	**69,521**	**1.00**	

30 Jun 2018	General credit exposures	Own funds requirements			
	(010) Exposure value under the Standardised Approach	(070) of which: General credit exposures	(100) Total	(110) Own funds requirements weights	(120) Countercyclical capital buffer rate
Country code					
SI	665,632	54,278	54,278	0.90	0.00%
US	25,854	2,068	2,068	0.03	0.00%
NL	14,823	1,186	1,186	0.02	0.00%
HR	9,428	754	754	0.01	0.00%
IE	7,398	592	592	0.01	0.00%
CK	6,489	519	519	0.01	0.00%
AT	4,390	351	351	0.01	0.00%
GB	4,030	322	322	0.01	0.50%
NO	3,300	264	264	0.00	2.00%
FR	1,501	120	120	0.00	0.00%
RS	272	22	22	0.00	0.00%
ME	42	5	5	0.00	0.00%
BA	36	3	3	0.00	0.00%
DE	31	2	2	0.00	0.00%
TR	27	2	2	0.00	0.00%
BE	19	2	2	0.00	0.00%
SN	9	1	1	0.00	0.00%
Total	**743,283**	**60,492**	**60,492**	**1.00**	

(Article 440(1)(b) of the CRR Regulation)

Institution specific countercylical capital buffer rate

An institution-specific countercyclical capital buffer rate is calculated as the weighted average of valid countercyclical buffer rates that apply in countries in which the relevant exposures for the calculation of countercyclical buffers of the bank in question are located. The rate for the Bank stood at 0.012% at the end of 2018. Within the framework of the countries that have already introduced a countercyclical capital buffer rate, the Bank disclosed exposures to Norway and the UK as at 31 December 2018.

		31 Dec 2018	30 Jun 2018
010	Total Risk exposure amount	1,187,983	1,103,488
020	Institution specific countercylical capital buffer rate	0.012%	0.011%
030	Institution specific countercylical capital buffer requirement	144	126

6.6 Template 1 – EU LI1: Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

(Article 436(b) of the CRR Regulation)

	a	c	d	f	g
		Carrying values of items			
31 Dec 2018	Carrying values as reported in published financial statements	Subject to the credit risk framework	Subjekt to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash, cash balances at central bank and demand deposits at banks	121,184	121,184			
Non-trading financial assets mandatorily at fair value through profit or loss	15,667	15,667			16
Financial assets measured at fair value through other comprehensive income	662,688	662,688			663
Loans and receivables	1,502,323	1,502,323			
Property, plant and equipment	4,922	4,922			
Intangible assets	999	0			999
Other assets	2,638	2,638			
Non-current assets held for sale and discontinued operations	8,413	8,413			
TOTAL ASSETS	**2,318,834**	**2,317,835**	**0**	**0**	**1,677**
Financial liabilities measured at amortised cost	1,889,321				
Derivatives – Hedge accounting	2,898		2,898		3
Provisions	1,130				
Other liabities	3,434				
TOTAL LIABILITIES	**1,896,783**	**0**	**2,898**	**0**	**3**

	a	c	d	f	g
		Carrying values of items			
31 Dec 2017	Carrying values as reported in published financial statements	Subject to the credit risk framework	Subjekt to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash, cash balances at central bank and demand deposits at banks	71,071	71,071			
Available-for-sale financial assets	730,521	730,521			731
Loans and receivables	1,631,472	1,631,472			
Property, plant and equipment	4,992	4,992			
Intangible assets	804				804
Investments in subsidiaries, associates and joint ventures	8,413	8,413			
Other assets	4,368	4,368			
	2,451,641	**2,450,837**	**0**	**0**	**1,535**
Financial liabilities measured at amortised cost	2,038,146				
Derivatives – Hedge accounting	93		93		0
Provisions	2,946				
Other liabilities	563				
	2,041,748	**0**	**93**	**0**	**0**

6.7 Template 2 – EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

(Article 436(b) of the CRR Regulation)

	31 Dec 2018	a Total	b Items subject to Credit risk framework	c CCR framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	2,318,834	2,317,835	-
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	1,896,783	-	2,898
3	Total net amount under the regulatory scope of consolidation	2,320,733	2,317,835	2,898
4	Off-balance-sheet amounts	360,760	275,760	85,000
10	**Exposure amounts considered for regulatory purposes**	**2,681,493**	**2,593,595**	**87,898**

In light of the liquidation process and the resulting reduction in the total assets of the undertakings in the Prvi Faktor Group, as of 2017 SID Bank is no longer bound to comply with regulatory requirements on a consolidated basis in accordance with Article 19(1)(a) of the CRR, but on an individual basis. The data in the table above therefore refer to individual financial statements of SID Bank

.

6.8 Template 3 – EU LI3: Outline of the differences in the scopes of consolidation

(Article 436(b) of the CRR Regulation)

Outline of the differences in the scopes of consolidation

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of the entity
SID Prva kreditna zavarovalnica d.d.	Full consolidation			X		Financial and insurance activities
Prvi faktor, Ljubljana - v likvidaciji	Equity method			X		Financial and insurance activities

6.9 Template 4 – EU OV1: Overview of RWAs

(Article 438 (c) - (f) of th CRR Regulation)

			RWAs		Minimal capital requirements	
			31.12.2018	30.09.2018	31.12.2018	30.09.2018
	1	Credit risk (excluding CCR)	1,119,749	1,098,207	89,580	87,857
Article 438(c)(d)	2	*Of which the standardised approach*	*1,119,749*	*1,098,207*	*89,580*	*87,857*
Article 438(c) (d), Article 107	6	CCR	13,127	13,505	1,050	1,080
Article 438(c)(d)	12	*Of which CVA*	*13,127*	*13,505*	*1,050*	*1,080*
Article 438(f)	23	Operational risk	55,106	55,106	4,409	4,409
	24	*Of which basic indicator approach*	*55,106*	*55,106*	*4,409*	*4,409*
Article 437(2), Article 48, Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	26,708	29,839	2,137	2,387
	29	Total	1,214,690	1,196,657	97,176	95,733

6.10 Template 6 – EU INS1: Non-deducted participation in insurance undertakings

(Article 438(c) of the CRR Regulation)

	31 Dec 2018 Values	30 Jun 2018 Values
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	8,413	8,413
Total risk-weighted assets	**21,032**	21,032

The carrying amount in the above table of EUR 8,413 thousand and the risk-weighted exposure amount relate to the investment in the subsidiary SID-PKZ.

6.11 Template 7 – EU CRB-B: Total and average net amount of exposures

(Article 442(c) of the CRR Regulation)

		a	b	a	b
		Net value of exposures at 31 December 2018	Average net exposure amount over 2018	Net value of exposures at 31 December 2017	Average net exposure amount over 2017
16	Central governments or central banks	613,070	577,835	541,743	610,338
17	Regional governments or local authorities	55,174	47,124	41,079	37,328
18	Public sector entities	32,286	33,172	34,386	27,150
19	Multilateral development banks	13,000	13,010	13,050	12,210
21	Institutions	995,042	1,110,900	1,193,831	1,164,403
22	Corporates	832,954	730,208	631,601	589,639
23	*Of which: SMEs*	*248,873*	*223,014*	*193,573*	*114,614*
28	Exposures in default	32,468	35,837	38,265	72,017
33	Equity exposures	20,230	24,866	24,647	23,380
34	Other exposures	5,601	5,575	5,336	5,486
35	Total standardised approach	2,599,825	2,578,525	**2,523,938**	**2,541,951**
36	Total	2,599,825	2,578,525	**2,523,938**	**2,541,951**

6.12 Template 8 – EU CRB-C: Geographical breakdown of exposures

(Article 442(d) of the CRR Regulation)

		a	b	c	d	n
31 Dec 2018		Net value				
		Slovenia	Other EU members	Other non EU Europe countries	Other countries	Total
7	Central governments or central banks	445,806	165,770	-	1,494	613,070
8	Regional governments or local authorities	51,860	2,232	1,083	-	55,174
9	Public sector entities	32,286	-	-	-	32,286
10	Multilateral Development Banks	-	13,000	-	-	13,000
12	Institutions	766,812	172,489	47,146	8,595	995,042
13	Corporates	768,589	31,618	5,129	27,618	832,954
16	Exposures in default	26,796	5,422	250	-	32,468
21	Equity exposures	13,355	6,875	-	-	20,230
22	Other exposures	5,506	61	-	34	5,601
23	**Total standardised approach**	**2,111,009**	**397,467**	**53,608**	**37,741**	**2,599,825**
24	**Total**	**2,111,009**	**397,467**	**53,608**	**37,741**	**2,599,825**

		a	b	c	d	n
31 Dec 2017		Net value				
		Slovenia	Other EU members	Other non EU Europe countries	Other countries	Total
7	Central governments or central banks	301,343	236,145	-	4,255	541,743
8	Regional governments or local authorities	39,939	-	1,140	-	41,079
9	Public sector entities	34,386	-	-	-	34,386
10	Multilateral Development Banks	-	13,050	-	-	13,050
12	Institutions	803,496	367,243	14,262	8,829	1,193,830
13	Corporates	549,810	38,210	7,844	35,737	631,601
16	Exposures in default	31,314	6,757	194	-	38,265
21	Equity exposures	18,302	6,346	-	-	24,648
22	Other exposures	5,264	58	-	14	5,336
23	**Total standardised approach**	**1,783,854**	**667,809**	**23,440**	**48,835**	**2,523,938**
24	**Total**	**1,783,854**	**667,809**	**23,440**	**48,835**	**2,523,938**

6.13 Template 9 – EU CRB-D: Concentration of exposures by industry or counterparty types

(Article 442(e) of the CRR Regulation)

31 Dec 2018		Net values: Financial and insurance activities	Public administration and defence, compulsory social security	Manu-facturing	Transport-ation and storage	Trade; maintenance and repair of motor vehicles	Others	Total
7	Central governments or central banks	120,871	492,199	-	-	-	-	613,070
8	Regional governments or local authorities	-	55,174	-	-	-	-	55,174
9	Public sector entities	23,287	8,999	-	-	-	-	32,286
10	Multilateral Development Banks	13,000	-	-	-	-	-	13,000
12	Institutions	995,042	-	-	-	-	-	995,042
13	Corporates	27,668	-	275,284	150,153	115,546	264,304	832,954
16	Exposures in default	1,381	-	8,058	6,514	14,107	2,408	32,468
21	Equity exposures	15,287	-	-	4,942	-	-	20,230
22	Other exposures	5,398	-	-	-	12	190	5,601
23	**Total standardised approach**	**1,201,935**	**556,372**	**283,342**	**161,609**	**129,665**	**266,902**	**2,599,825**
24	**Total**	**1,201,935**	**556,372**	**283,342**	**161,609**	**129,665**	**266,902**	**2,599,825**

31 Dec 2017		Net values: Financial and insurance activities	Public administration and defence, compulsory social security	Manu-facturing	Electricity, gas, steam and air conditioning	Transport-ation and storage	Others	Total
7	Central governments or central banks	70,778	470,965	-	-	-	-	541,743
8	Regional governments or local authorities	-	41,079	-	-	-	-	41,079
9	Public sector entities	23,736	9,348	-	-	-	1,302	34,386
10	Multilateral Development Banks	13,050	-	-	-	-	-	13,050
12	Institutions	1,193,831	-	-	-	-	-	1,193,831
13	Corporates	40,237	-	195,332	133,258	82,035	180,738	631,600
16	Exposures in default	1,517	-	7,525	-	9,834	19,390	38,266
21	Equity exposures	14,758	-	-	-	9,889	-	24,647
22	Other exposures	5,165	4	-	-	-	167	5,336
23	**Total standardised approach**	**1,363,072**	**521,396**	**202,857**	**133,258**	**101,758**	**201,597**	**2,523,938**
24	**Total**	**1,363,072**	**521,396**	**202,857**	**133,258**	**101,758**	**201,597**	**2,523,938**

Within the framework of exposure to other economic sectors, the largest exposures as at 31 December 2018 were disclosed against the sector of electricity, gas, steam and air conditioning supply in the amount of EUR 121,538 thousand, and the sector of professional, scientific and technical activities in the amount of EUR 52,460 thousand.

6.14 Template 10 – EU CRB-E: Maturity of exposures

(Article 442(f) of the CRR Regulation)

The table below shows net on-balance-sheet and off-balance-sheet exposures, broken down by individual exposure class in terms of residual maturity, excluding credit protection effects.

The final maturity date of a transaction is taken into account in the case of instalment repayment upon maturity of individual transactions.

		a	b	c	d	e	f
		Net exposure value					
31 Dec 2018		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
7	Central governments or central banks	120,871	54,689	224,563	210,677	2,271	613,070
8	Regional governments or local authorities	-	47	3,360	51,767	-	55,174
9	Public sector entities	-	-	14,074	18,211	-	32,286
10	Multilateral Development Banks	-	-	-	1,000	12,000	13,000
12	Institutions	313	85,815	190,263	718,651	-	995,042
13	Corporates	8	44,898	252,278	535,771	-	832,954
16	Exposures in default	2,967	6,722	16,679	6,099	-	32,468
21	Equity exposures	-	-	-	-	20,230	20,230
22	Other exposures	0	358	-	-	5,243	5,601
23	**Total standardised approach**	**124,158**	**192,530**	**701,217**	**1,542,177**	**39,743**	**2,599,825**
24	**Total**	**124,158**	**192,530**	**701,217**	**1,542,177**	**39,743**	**2,599,825**

		a	b	c	d	e	f
		Net exposure value					
31 Dec 2017		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
7	Central governments or central banks	70,955	85,140	289,985	95,663	-	541,743
8	Regional governments or local authorities	-	-	1,574	39,505	-	41,079
9	Public sector entities	-	1,302	14,073	19,011	-	34,386
10	Multilateral Development Banks	-	-	-	1,050	12,000	13,050
12	Institutions	1	364,243	218,172	611,415	-	1,193,831
13	Corporates	1	34,681	253,843	343,076	-	631,601
16	Exposures in default	2,744	113	29,338	6,070	-	38,265
21	Equity exposures	-	-	-	-	24,647	24,647
22	Other exposures	-	127	-	-	5,210	5,337
23	**Total standardised approach**	**73,701**	**485,606**	**806,985**	**1,115,790**	**41,857**	**2,523,939**
24	**Total**	**73,701**	**485,606**	**806,985**	**1,115,790**	**41,857**	**2,523,939**

6.15 Template 11– EU CR1-A: Credit quality of exposures by exposure class and instrument

(Article 442(g) and (h) of the CRR Regulation)

		a	b	c	e	f	g
		Gross carrying values of					
	31 Dec 2018	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Accumu-lated write-offs in 2018	Credit risk adjustments charges in 2018	Net value (a+b-c)
16	Central governments or central banks	0	613,085	15	0	(1)	613,070
17	Regional governments or local authorities	0	55,216	42	0	2	55,174
18	Public sector entities	0	32,291	5	0	(2)	32,286
19	Multilateral development banks	0	13,000	0	0	0	13,000
21	Institutions	0	995,769	726	0	(23)	995,042
22	Corporates	0	848,601	15,647	887	2,816	832,954
23	*of which SME*	*0*	*259,716*	*-10,843*	*759*	*(4,324)*	*270,558*
28	Exposures in default	53,818	0	21,351	0	(1,939)	32,468
33	Equity exposures	20,558	15,287	15,616	0	0	20,230
34	Other exposures	0	5,601	0	0	0	5,601
35	Total standardized approach	74,377	2,578,850	53,401	887	853	2,599,825
36	**Total**	**74,377**	**2,578,850**	**53,401**	**887**	**853**	**2,599,825**
37	Of which: Loans	53,818	1,499,429	37,110	0	248	1,516,137
38	Of which: Debt securities	0	651,126	255	0	789	650,871
39	Of which: Off-balance-sheet exposures	0	275,760	420	0	(184)	275,340

		a	b	c	e	f	g
		Gross carrying values of					
	30 Jun 2018	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Accumu-lated write-offs	Credit risk adjustments charges of the period	Net value (a+b-c)
16	Central governments or central banks	0	591,923	15	0	0	591,909
17	Regional governments or local authorities	0	47,166	42	0	2	47,124
18	Public sector entities	0	32,734	5	0	(1)	32,729
19	Multilateral development banks	0	13,000	0	0	0	13,000
21	Institutions	0	1,199,323	644	0	54	1,198,679
22	Corporates	0	720,267	-1,882	804	4,246	722,149
23	*of which SME*	*0*	*220,523*	*7,099*	*750*	*(1,411)*	*213,424*
28	Exposures in default	55,382	0	19,433	0	0	35,949
33	Equity exposures	27,280	14,301	15,616	0	0	26,565
34	Other exposures	0	5,334	0	0	1	5,334
35	Total standardized approach	**82,662**	**2,624,649**	**33,873**	**804**	4,303	2,673,438
36	Total	**82,662**	**2,624,649**	**33,873**	**804**	4,303	2,673,438
37	Of which: Loans	55,382	1,635,938	16,935	804	4,344	1,674,385
38	Of which: Debt securities	0	664,175	947	0	97	663,228
39	Of which: Off-balance-sheet exposures	0	179,004	374	0	(138)	178,630

6.16 Template 12 – EU CR1-B: Credit quality of exposures by industry or counterparty types

(Article 442(g) of the CRR Regulation)

	a	b	c	e	f	g
	Gross carrying values of					
31 Dec 2018 Sector	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Accumulated write-offs in 2018	Credit risk adjustments charges in 2018	Net values (a+b-c)
Public administration and defence, compulsory social security	0	556,430	58	0	81	556,372
Trade; maintenance and repair of motor vehicles	17,165	267,599	17,863	0	1,537	266,902
Financial and insurance activities	1,189	1,216,920	16,174	0	671	1,201,935
Manufacturing	11,170	285,181	13,009	74	2,033	283,342
Transportation and storage	8,424	155,803	2,617	0	(2,130)	161,609
Others	15,870	117,474	3,679	814	(1,339)	129,665
Total	**53,818**	**2,599,408**	**53,401**	**887**	**853**	**2,599,825**

	a	b	c	e	f	g
	Gross carrying values of					
30 Jun 2018 Sector	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Accumu-lated write-offs of the period	Credit risk adjustments charges of the period	Net values (a+b-c)
Public administration and defence, compulsory social security	0	534,579	57	0	0	534,522
Financial and insurance activities	1,610	1,419,123	16,626	0	2	1,404,107
Electricity, gas, steam and air conditioning	0	128,827	1,624	0	54	127,202
Manufacturing	10,433	239,403	(5,585)	0	(1)	255,420
Trade; maintenance and repair of motor vehicles	17,253	100,951	3,502	0	1	114,702
Others	26,086	229,046	17,648	804	4,247	237,484
Total	**55,382**	**2,651,928**	**33,873**	**804**	**4,303**	**2,673,438**

6.17 Template 13 – EU CR1-C: Credit quality of exposures by geography

(Article 442(h) of the CRR Regulation)

	Gross carrying values of					
31 Dec 2018 Geographical area	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Accumu-lated write-offs in 2018	Credit risk adjustments charges in 2018	Net values
Slovenia	44,301	2,115,707	48,999	878	74	2,111,009
Other EU members	5,029	392,175	-263	0	536	397,467
Other non EU european countries	4,488	53,649	4,529	0	283	53,608
Other countries	0	37,877	136	9	(40)	37,741
Total	**53,818**	**2,599,408**	**53,401**	**887**	**853**	**2,599,825**

	Gross carrying values of					
30 Jun 2018 Geographical area	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Accumu-lated write-offs	Credit risk adjustments charges of the period	Net values
Slovenia	44,800	2,017,453	28,877	804	4,111	2,033,376
Other EU members	5,955	549,137	182	0	90	554,911
Other non EU european countries	4,627	35,984	4,647	0	166	35,964
Other countries	0	49,355	168	0	(64)	49,187
Total	**55,382**	**2,651,928**	**33,873**	**804**	**4,303**	**2,673,438**

The table indicates on-balance sheet and off-balance sheet gross and net exposures. Provisions for off-balance-sheet liabilities are disclosed within the scope of specific credit risk adjustments.

6.18 Template 14 – EU CR1-D: Ageing of past-due exposures

(Article 442(g) and (h) of the CRR Regulation)

		Gross carrying values					
	31 Dec 2018	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 leto	> 1 leto
1	Loans	1,674	3	336	9	1,109	18,140
2	Debt securities	-	-	-	-	-	-
3	Total exposures	1,674	3	336	9	1,109	18,140

		Gross carrying values					
	30 Jun 2018	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 leto	> 1 leto
1	Loans	133	4	0	994	3,107	15,297
2	Debt securities	0	0	0	0	0	0
3	Total exposures	133	4	0	994	3,107	15,297

6.19 Template 15 – EU CR1-E: Non-performing and forborne exposures

(Article 442(g) and (i) of the CRR Regulation)

	a		b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
					Of which non-performing				On performing exposures		On non-performing exposures			
	31.12.2018		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne		Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne exposures
010	Debt securities	651,126	0	0	0	0	0	0	(255)	0	0	0	0	0
020	Loans and advances	1,719,417	341	3,887	96,951	96,951	38,151	85,254	(15,759)	203	(64,483)	(12,397)	27,910	25,202
030	Off-balance-sheet exposures	275,760	0	0	0	0	0	0	420	0	0	0	0	0

	a		b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
					Of which non-performing				On performing exposures		On non-performing exposures			
	30.06.2018		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne		Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne exposures
010	Debt securities	664,175	0	0	0	0	0	0	(947)	0	0	0		0
020	Loans and advances	1,848,428	133	19,403	98,233	98,233	38,186	87,581	2,498	14,831	62,284	(10,830)	31,097	33,182
030	Off-balance-sheet exposures	179,004	0	0	0	0	0	0	374	0	0	0	0	0

6.20 Template 16 - EU CR 2-A: Changes in the stock of general and specific credit risk adjustments

(Article 442 (i) of the CRR Regulation)

		31 Dec 2018 Accumulated specific credit risk adjustment	30 Jun 2018 Accumulated specific credit risk adjustment
1	**Opening balance**	17,883	24,345
2	Increases due to amounts set aside for estimated loan losses during the period	29,894	18,289
3	Decreases due to amounts reversed for estimated loan losses during the period	(10,331)	(23,948)
4	Decreases due to amounts taken against accumulated credit risk adjustments	(83)	(804)
6	Impact of exchange rate differences	2	1
9	**Closing balance**	**37,365**	**17,883**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	115	0

The table shows stocks and flows in the credit risk adjustments of financial assets, excluding provisions for off-balance sheet items.

6.21 Template 17 – EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities

	31 Dec 2018	a Gross carrying value defaulted exposures
1	Opening balance	59,854
2	Loans and debt securities that have defaulted or impaired since the last reporting period	2,807
3	Returned to non-defaulted status	0
4	Amounts written off	(948)
5	Other changes	(7,851)
6	Closing balance	53,862

6.22 Template 18 – EU CR3: CRM techniques – Overview

(Article 453(g) of the CRR Regulation)

Total exposures secured by financial guarantees

	31 Dec 2018			30 Jun 2018		
	Exposures unsecured – Carrying amount	Exposures to be secured	Exposures secured by financial guarantees	Exposures unsecured – Carrying amount	Exposures to be secured	Exposures secured by financial guarantees
Total loans	1,516,137	0	0	1,611,743	62,642	62,642
Total debt securities	650,871	0	0	715,478	8,020	8,020
Total exposures	**2,167,008**	**0**	**0**	**2,327,221**	**70,662**	**70,662**
Of which defaulted	32,468	0	0	35,724	225	225

The table above shows the carrying amount of secured and unsecured loans and debt securities. Only exposures that the Bank has taken into account for credit risk mitigation when calculating capital requirements are disclosed as secured. The management of credit protection is described in detail in section 3.1 of the financial report.

6.23 Template 19 – EU CR4: Standardized approach – credit risk exposure and credit risk mitigation effects

(Article 453(f)(g) of the CRR Regulation)

The table shows on-balance sheet and off-balance sheet exposures by individual class, i.e. net exposures before the application of conversion factors and before the reduction in exposures resulting from the effects of using eligible collateral, exposures after the use thereof, the amount of risk-weighted assetsand the breakdown by individual exposure class.

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM			
	31.12.2018	On-Balance Sheet amount	Off-Balance Sheet amount	On-Balance Sheet amount	Off-Balance Sheet amount	RWA	RWA density
1	Central governments or central banks	565,040	48,030	565,040	24,015	15,150	1.3%
2	Regional governments or local authorities	47,036	8,138	47,036	4,069	10,980	1.0%
3	Public sector entities	32,286	0	32,286	0	6,457	0.6%
4	Multilateral development banks	1,000	12,000	1,000	12,000	2,400	0.2%
6	Institutions	920,693	74,350	920,693	40,500	215,751	19.3%
7	Corporates	693,482	139,473	693,482	103,025	796,877	71.2%
10	Exposures in default	32,468	0	32,468	0	33,685	3.0%
15	Equity exposures	20,230	0	20,230	0	32,848	2.9%
16	Other exposures	5,601	0	5,601	0	5,601	0.5%
17	**Total**	**2,317,835**	**281,990**	**2,317,835**	**183,608**	**1,119,749**	**100.0%**

	30 Jun 2018	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM			
		On-Balance Sheet amount	Off-Balance Sheet amount	On-Balance Sheet amount	Off-Balance Sheet amount	RWA	RWA density
1	Central governments or central banks	526,040	65,869	555,642	32,935	15,514	1.5%
2	Regional governments or local authorities	40,858	6,266	40,746	3,133	9,427	0.9%
3	Public sector entities	32,729	0	32,729	0	6,546	0.6%
4	Multilateral development banks	1,000	12,000	1,000	12,000	2,400	0.2%
6	Institutions	1,155,195	43,484	1,144,328	24,946	243,089	23.6%
7	Corporates	663,738	58,411	646,578	29,082	675,681	65.4%
10	Exposures in default	35,949	0	35,724	0	35,953	3.5%
15	Equity exposures	26,565	0	26,565	0	39,184	3.8%
16	Other exposures	5,334	0	5,334	0	5,334	0.5%
17	**Total**	**2,487,408**	**186,030**	**2,488,646**	**102,096**	**1,033,128**	**100.0%**

6.24 Template 20 – EU CR5: Standardized approach – exposures by asset classes and risk weights

(Article 444(e) of the CRR Regulation)

	31 Dec 2018	Risk weight								
	Exposure clasess	0%	20%	50%	100%	150%	250%	Total	Of which unrated	Deducted
1	Central governments or central banks	564,056	8,794	12,441	1,494	0	2,271	589,055	589,055	(423)
2	Regional governments or local authorities	0	50,522	0	0	584	0	51,105	51,105	(2)
3	Public sector entities	0	32,286	0	0	0	0	32,286	32,286	(14)
4	Multilateral development banks	1,000	12,000	0	0	0	0	13,000	13,000	0
6	Institutions	0	931,802	0	29,390	0	0	961,192	961,192	(111)
7	Corporates	0	0	0	795,765	741	0	796,506	796,506	(101)
10	Exposures in default	0	0	0	30,033	2,435	0	32,468	32,468	(16)
15	Equity exposures	0	0	0	11,817	0	8,413	20,230	20,230	(12)
16	Other exposures	0	0	0	5,601	0	0	5,601	5,601	(999)
17	**Total**	**565,056**	**1,035,403**	**12,441**	**874,101**	**3,759**	**10,683**	**2,501,443**	**2,501,443**	**(1,677)**

	30 Jun 2018	Risk weight								
	Exposure clasess	0%	20%	50%	100%	150%	250%	Total	Of which unrated	Deducted
1	Central governments or central banks	572,042	0	12,806	141	0	3,588	588,577	588,577	(405)
2	Regional governments or local authorities	0	43,378	0	0	501	0	43,879	43,879	(2)
3	Public sector entities	0	32,729	0	0	0	0	32,729	32,729	(14)
4	Multilateral development banks	1,000	12,000	0	0	0	0	13,000	13,000	0
6	Institutions	0	1,157,731	0	11,543	0	0	1,169,274	1,169,274	(129)
7	Corporates	0	0	0	675,618	42	0	675,660	675,660	(113)
10	Exposures in default	0	0	0	35,265	459	0	35,724	35,724	(17)
15	Equity exposures	0	0	0	18,152	0	8,413	26,565	26,565	(18)
16	Other exposures	0	0	0	5,334	0	0	5,334	5,334	(1,117)
17	**Total**	**573,042**	**1,245,838**	**12,806**	**746,054**	**1,001**	**12,001**	**2,590,742**	**2,590,742**	**(1,816)**

6.25 Template 25 – EU CCR1: Analysis of CCR exposure by approach

(Article 439(e)(f)(i) of the CRR Regulation)

	31 Dec 2018	Notional	EAD post CRM	RWAs
2	Original exposure	85,000	6,650	1,330
11	**Total**	**85,000**	**6,650**	**1,330**

	30 Jun 2018	Notional	EAD post CRM	RWAs
2	Original exposure	85,000	7,400	1,480
11	**Total**	**85,000**	**7,400**	**1,480**

6.26 Template 26 – EU CCR2: CVA capital charge

(Article 439(f) of the CRR Regulation)

		31 Dec 2018		30 Jun 2018	
		Exposure value	RWAs	Exposure value	RWAs
4	All portfolios subject to the standardised method – RWA	6,650	13,127	7,400	15,254
5	**Total subject to the CVA capital charge**	**6,650**	**13,127**	**7,400**	**15,254**

6.27 Template 32: EU CCR5–B: Composition of collateral for exposures to counterparty credit risk

	a	b	c	d
	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
31 Dec 2018	Segregated	Unsegregated	Segregated	Unsegregated
Deposits	0	0	0	2.840
Total	0	0	0	2.840

6.28 Encumbered and unencumbered assets

(Article 443 of the CRR Regulation)

(Commission Implementing Regulation (EU) No 2016/200)

The table below shows the medians of consecutive quarterly mean values of the Bank's encumbered and unencumbered assets over a 12-month period using interpolation. The Bank has assets (eligible securities and loans) pledged at the central bank as collateral for the loan received from the drawdown of targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia and the ECB.

2018	Encumbered assets Carrying amount	Encumbered assets Fair value	Unencumbered assets Carrying amount	Unencumbered assets Fair value
Loans on demand	0	0	103,166	103,166
Equity instruments	0	0	16,893	16,893
Debt securities	129,252	129,252	544,659	544,659
Loans and advances other than loans on demand	42,974	43,051	1,557,330	1,561,031
Other assets	0	0	19,999	19,999
Total assets	**172,227**	**172,303**	**2,242,047**	**2,245,748**

2017	Encumbered assets Carrying amount	Encumbered assets Fair value	Unencumbered assets Carrying amount	Unencumbered assets Fair value
Loans on demand	0	0	76,652	76,652
Equity instruments	0	0	15,506	15,506
Debt securities	124,707	124,707	647,389	647,389
Loans and advances other than loans on demand	48,222	48,274	1,547,929	1,550,795
Other assets	0	0	19,242	19,242
Total assets	**172,929**	**172,981**	**2,306,718**	**2,309,584**

6.29 Exposures to equities outside the trading book

(Article 447 of the CRR Regulation)

	31 Dec 2018	31 Dec 2017
Carrying amount	11,817	16,234
Realised gains	0	1

Equities in the amount of EUR 4,942 thousand were acquired from the conversion of receivables, while the amount of EUR 6,875 thousand relates to investments in EIF shares.

All these securities are classed as available-for-sale financial assets, are not quoted on a stock exchange, and are disclosed at fair value.

6.30 Leverage ratio

(Article 451 of the CRR Regulation)

Summary of reconciliation of accounting assets and leverage ratio exposure measure

		31 Dec 2018 Transitional definition	31 Dec 2018 Fully phased in definition	30 Jun 2018 Transitional definition	30 Jun 2018 Fully phased in definition
1	Total assets as per published financial statements	2,594,594	2,594,594	2,667,529	2,667,529
4	Adjustments for derivative financial instruments	(6,650)	(6,650)	(7,400)	(7,400)
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	(98,802)	(98,802)	(84,308)	(84,308)
7	Other adjustments	9,297	9,297	11,779	11,779
8	Total leverage ratio exposure	2,498,439	2,498,439	2,587,600	2,587,600

Leverage ratio: common disclosure

		31 Dec 2018		30 Jun 2018	
		Transitional definition	Fully phased in definition	Transitional definition	Fully phased in definition
On-balance sheet exposures (excluding derivatives and SFTs					
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,317,835	2,317,835	2,488,646	2,488,646
2	Asset amounts deducted in determining Tier 1 capital	(3,004)	(3,004)	(3,142)	(3,142)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2,314,831	2,314,831	2,485,504	2,485,504
Derivative exposures					
EU05a	Exposure determined under Original Exposure Method	6,650	6,650	7,400	7,400
11	Total derivative exposures (sum of lines 4 to 10)	6,650	6,650	7,400	7,400
Other off-balance sheet exposures					
17	Off-balance sheet exposures at gross notional amount	275,760	275,760	179,004	179,004
18	(Adjustments for conversion to credit equivalent amounts)	(98,802)	(98,802)	(84,308)	(84,308)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	176,958	176,958	94,696	(94,696)
Capital and total exposures					
20	Tier 1 capital	406,057	406,057	413,955	413,955
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	2,498,439	2,498,439	2,587,600	2,587,600
Leverage ratio					
22	**Leverage ratio**	**16.25%**	**16.25%**	**16.00%**	**16.00%**

Breakdown of on-balance-sheet exposures

		31 Dec 2018		30 Jun 2018	
		Transitional definition	Fully phased in definition	Transitional definition	Fully phased in definition
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**2,317,835**	**2,317,835**	**2,488,646**	**2,488,646**
EU-3	Banking book exposures, of which:	2,317,835	2,317,835	2,488,646	2,488,646
EU-5	Exposures treated as sovereigns	566,040	566,040	556,642	556,642
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereign	79,322	79,322	73,475	73,475
EU-7	Institutions	920,693	920,693	1,144,328	1,144,328
EU-10	Corporates	693,482	693,482	646,578	646,578
EU-11	Exposures in default	32,468	32,468	35,724	35,724
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	25,831	25,831	31,899	31,899

The list of all disclosures required under Part 8 of the Regulation (EU) no. 575/2013

Article	Requirement	Section of Annual report	Chapter	Page
435	**Risk management objectives and policies**			
1.	**Risk management objectives and policies**			
	(a) the strategies and processes to manage those risks	BUS	Risk Management	46 – 49
		FIN	3	158 – 161
	(b) the structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements	BUS	Risk Management	46 – 48
		FIN	3	158 – 161
	(c) the scope and nature of risk reporting and measurement systems	BUS	Risk Management	46 – 49
		FIN	3	158 – 161
		FIN	3.1	161 – 184
		FIN	3.2	185 – 188
		FIN	3.3	191 – 192
		FIN	3.4	194 – 195
		FIN	3.5	196 – 198
		FIN	3.6	198 – 202
	(d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	FIN	2.3.12	114 – 115
		FIN	3.3	191 – 192
	(e) a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy	BUS	Declaration of the management body on the adequacy of the risk management framework	52
	(f) a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	FIN	4	207 – 209
2.	**Information regarding governance arrangements**			
	(a) the number of directorships held by members of the management body	FIN	6.2	216
	(b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	BUS	Corporate governance statement	36
	(c) the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	BUS	Corporate governance statement	24 – 36
	(d) whether or not the institution has set up a separate risk committee and the number of times the risk committee has met	FIN	3	160
	(e) the description of the information flow on risk to the management body	BUS	Risk Management	46 – 48
		FIN	3	159 – 161
436	**Scope of application**	FIN	2.3.3	103
		FIN	6.6	221
		FIN	6.7	222
		FIN	6.8	222
	(a) the name of the institution to which the requirements of this Regulation apply			

Article	Requirement		Section of Annual report	Chapter	Page
	(b)	an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are fully consolidated, proportionally consolidated, deducted from own funds, neither consolidated nor deducted;			
	(c)	any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;			
	(d)	the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;			
	(e)	if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9			
437	**Own funds**				
	(a)	a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	FIN FIN	3.6 6.4	200 – 201 217 – 219
	(b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	FIN	6.3	217
	(c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	FIN	6.3	217
	(d)	separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35 (ii) each deduction made pursuant to Articles 36, 56 and66 (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79	FIN	6.4	217 – 219
	(e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	FIN	6.3	217
	(f)	where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	N/A		
438	**Capital requirements**				
	(a)	a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities	BUS FIN	Risk Management 3.6	49 201
	(b)	upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU	N/A		
	(c)	for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112	FIN FIN FIN	3.6 6.9 6.11	200 – 201 223 223
	(d)	for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154 (1) to (4) correspond	N/A		
	(e)	own funds requirements calculated in accordance with points (b) and (c) of Article 92(3)	FIN FIN	3.6 6.9	200 – 201 223
	(f)	own funds requirements calculated in accordance with PartThree, Title III, Chapters 2, 3 and 4 and disclosed separately.	FIN	6.9	223
439	**Exposure to counterparty credit risk**				
	(a)	a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures	FIN FIN	3.1 3.6	184 199
	(b)	a discussion of policies for securing collateral and establishing credit reserves	FIN	3.1	184
	(c)	a discussion of policies with respect to Wrong-Way risk exposures	FIN	3.1	184

Article	Requirement		Section of Annual report	Chapter	Page
	(d)	a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	FIN	3.1	184
	(e)	gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements	FIN FIN	6.25 6.27	233 233
	(f)	measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable;	FIN FIN	6.25 6.26	233 233
	(g)	the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure	N/A		
	(h)	the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group	N/A		
440	**Capital buffers**		FIN	3.6	200
	(a)	the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	FIN	6.5	219
	(b)	the amount of its institution specific countercyclical capital buffer.	FIN	6.5	220
441	**Indicators of global systemic importance**		N/A		
442	**Credit risk adjustments**				
	(a)	the definitions for accounting purposes of "past due" and "impaired"	FIN FIN	2.3.11 3.1	111 171
	(b)	a description of the approaches and methods adopted for determining specific and general credit risk adjustments	FIN FIN	2.3.11 3.1	110 – 113 164
	(c)	the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	FIN	6.11	223
	(d)	the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	FIN	6.12	224
	(e)	the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	FIN	6.13	225
	(f)	the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	FIN	6.14	226
	(g)	by significant industry or counterparty type, the amount of: - impaired exposures and past due exposures, provided separately - specific and general credit risk adjustments - charges for specific and general credit risk adjustments during the reporting period	FIN	6.16	228
	(h)	the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area	FIN	6.17	228 – 229
	(i)	the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately The information shall comprise: - a description of the type of specific and general credit risk adjustments - the opening balances - the amounts taken against the credit risk adjustments during the reporting period - the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments - the closing balances.	FIN FIN FIN	6.20 6.21 2.4.5	230 230 130 - 132
443	**Unencumbered assets**		FIN	6.28	233
444	**Use of ECAIs**				

Article	Requirement		Section of Annual report	Chapter	Page
	(a)	the names of the nominated ECAIs and ECAs and the reasons for any changes	FIN	3.6	199
	(b)	the exposure classes for which each ECAI or ECA is used	N/A		
	(c)	a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book	FIN	3.6	199
	(d)	the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA	N/A		
	(e)	the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted	FIN	6.24	232
445	**Exposure to market risk**		FIN	3.4	194 – 195
446	**Operational risk**		FIN	3.5	196 – 198
447	**Exposures in equities not included in the trading book**				
	(a)	the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices	FIN FIN	2.3.11 2.3.27	105 – 114 122 – 125
	(b)	the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value	FIN	2.4.3	128
	(c)	the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures	FIN	6.29	234
	(d)	the cumulative realised gains or losses arising from sales and liquidations in the period	FIN	6.29	234
	(e)	the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in Common Equity Tier 1 capital	N/A		
448	**Exposure to interest rate risk on positions not included in the trading book**		FIN	3.3	191 – 194
	(a)	the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk			
	(b)	the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency			
449	**Exposure to securitisation positions**		N/A		
450	**Remuneration policy**		FIN	2.6.3	152 – 157
	Institutions shall disclose at least the following information, for those categories of staff whose professional activities have a material impact on its risk profile:				
	(a)	information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders			
	(b)	information on link between pay and performance			
	(c)	the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria			
	(d)	the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU			
	(e)	information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based			
	(f)	the main parameters and rationale for any variable component scheme and any other non-cash benefits			
	(g)	aggregate quantitative information on remuneration, broken down by business area;			

Article	Requirement		Section of Annual report	Chapter	Page
	(h)	aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of theinstitution, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person			
	(i)	the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;			
	(j)	upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.			
451	**Leverage**		FIN FIN	3.6 6.30	202 234 – 235
	(a)	the leverage ratio and how the institution applies Article 499(2) and (3)			
	(b)	a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements			
	(c)	where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11)			
	(d)	a description of the processes used to manage the risk of excessive leverage			
	(e)	(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.			
452	**Use of the IRB Approach to credit risk**		N/A		
453	**Use of credit risk mitigation techniques**				
	(a)	the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting			
	(b)	the policies and processes for collateral valuation and management	FIN	3.1	162 – 164
	(c)	a description of the main types of collateral taken by the institution	FIN	3.1	162 – 164
	(d)	the main types of guarantor and credit derivative counterparty and their creditworthiness	FIN	3.1	184
	(e)	information about market or credit risk concentrations within the credit mitigation taken;	FIN	3.1	162 – 164
	(f)	for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, onor off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral, and other eligible collateral	FIN FIN	6.22 6.23	231 231 – 232
	(g)	for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155.	FIN FIN	6.22 6.23	231 231 – 232
454	**Use of the Advanced Measurement Approaches to operational risk**		N/A		
455	**Use of Internal Market Risk Models**		N/A		
492	**Transitional provisions for disclosure of own funds**		FIN	6.4	217 – 219

Article	Requirement		Section of Annual report	Chapter	Page
	(a)	the nature and effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Articles 467 to 470, 474, 476 and 479			
	(b)	the amounts of minority interests and Additional Tier 1 and Tier 2 instruments, and related retained earnings and share premium accounts, issued by subsidiaries that are included in consolidated Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds in accordance with Section 4 of Chapter 1			
	(c)	the effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Article 481			
	(d)	the nature and amount of items that qualify as Common Equity Tier 1 items, Tier 1 items and Tier 2 items by virtue of applying the derogations specified in Section 2 of Chapter 2.			
	(e)	the amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484			

BUS: Business report
FIN: Financial report
N/A: Not applicable

7 Disclosures in accordance with the Regulation on the books of account and annual reports of banks and savings banks

(Article 20c of regulation)

Country	Undertaking	Business activities	Turnover[8]	Headcount (FTE, integer)	Pre-tax profit/(loss)	Corporate income tax	Grants received
2018							
EU Member States							
Slovenia	SID banka d.d., Ljubljana	banking	32,331	166	17,519	(3,205)	0
	SID - Prva kreditna zavarovalnica d.d., Ljubljana	insurance	17,013	69	1,207	(239)	0
	Prvi faktor, faktoring družba, d.o.o., Ljubljana (in liquidation)	factoring	250	6	(731)	0	0
Croatia	Prvi faktor, faktoring družba, d.o.o., Zagreb (in liquidation)	factoring	1,212	5	183	0	0
Third countries							
Bosnia and Herzegovina	Prvi faktor d.o.o., Sarajevo (in liquidation)	factoring	0	0	(15)	0	0
Serbia	Prvi faktor, faktoring družba, d.o.o., Beograd (in liquidation)	factoring	119	3	360	0	0
2017							
EU Member States							
Slovenia	SID banka d.d., Ljubljana	banking	32,791	154	16,224	(2,268)	0
	SID - Prva kreditna zavarovalnica d.d., Ljubljana	insurance	17,833	65	1,297	(138)	0
	Prvi faktor, faktoring družba, d.o.o., Ljubljana (in liquidation)	factoring	199	7	1,180	0	0
Croatia	Prvi faktor, faktoring družba, d.o.o., Zagreb (in liquidation)	factoring	2,014	11	822	0	0
Third countries							
Bosnia and Herzegovina	Prvi faktor d.o.o., Sarajevo (in liquidation)	factoring	4	2	4	0	0
Serbia	Prvi faktor, faktoring družba, d.o.o., Beograd (in liquidation)	factoring	152	3	3,892	0	0

[8] Turnover in banking includes interest income, fee and commission income and dividend income. Turnover in insurance includes gross insurance premium, and fee and commission income.

8 Operations under Republic of Slovenia authorisation

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

As an authorised institution, on behalf of and for the account of the Republic of Slovenia, SID Bank insures against those commercial and non-commercial or risks that, in light of their nature and level of risk, the private reinsurance sector is not willing to take up or has limited capacity to take up.

Operations on behalf of and for the account of the Republic of Slovenia are not included in SID Bank's financial statements. They are recorded in separate items, as determined by the Bank of Slovenia for the administration of these operations.

Insurance on behalf of and for the account of the Republic of Slovenia	31 Dec 2018	31 Dec 2017
Assets		
Customer funds in current accounts	9,002	237
Financial assets measured at fair value through other comprehensive income	132,736	n.a.
Available-for-sale financial assets (under IAS 39)	n.a.	117,196
Loans	14,128	17,351
Loans and advances to banks	14,128	17,351
Equity investments	1,977	1,073
Other assets	396	864
Total assets	**158,239**	**136,721**
Liabilities		
Contingency reserves	154,281	132,167
Accumulated other comprehensive income	1,534	2,597
Other financial liabilities	4	4
Other liabilities	2,420	1,953
Total tax liabilities	**158,239**	**136,721**
Memorandum account for brokerage	**601,854**	**586,797**

The memorandum account for insurance brokerage on behalf of and for the account of the Republic of Slovenia represents the exposure from valid insurance policies and commitments.

Operations on its own behalf and for the account of the Republic of Slovenia

SID Bank was appointed the manager of the Fund of Funds in 2017, within the framework of the implementation of financial instruments of the European cohesion policy.

SID Bank manages the Fund of Funds on its own behalf and for the account of the Republic of Slovenia.

The purpose of the fund is the promotion and financing of sustainable economic growth and development, investments in innovation, and current operations, through debt and equity financing in four areas: research, development and innovation, SMEs, energy efficiency, and urban development.

The operations of the Fund of Funds that SID Bank manages on its own behalf and for the account of the Republic of Slovenia are not included in the financial statements of SID Bank, but are instead recorded in separate items.

	31 Dec 2018	31 Dec 2017
Assets		
Funds in settlement account	27,892	31,062
Available-for-sale financial assets (under IAS 39)	n.a.	3,176
Financial assets mandatorily at fair value through profit or loss	27,537	n.a.
Loans and advances	5,995	28,785
Loans and advances to banks	5,995	28,785
Other assets	1	0
Total assets	**61,425**	**63,023**
Liabilities		
Financial liabilities	61,393	63,023
Loans from customers	61,693	63,250
Revaluation of loans from customers	(657)	(354)
Other financial liabilities	357	127
Provisions	32	0
Total tax liabilities	**61,425**	**63,023**
Transaction memorandum account	**235,159**	**189,750**
Off-balance-sheet receivables	189,750	189,750
Loans received: east	69,675	69,675
Loans received: west	101,325	101,325
Loans received: unclassified	18,750	18,750
Off-balance-sheet liabilities	45,409	0
Loans granted: east	18,770	0
Loans granted: west	26,639	0