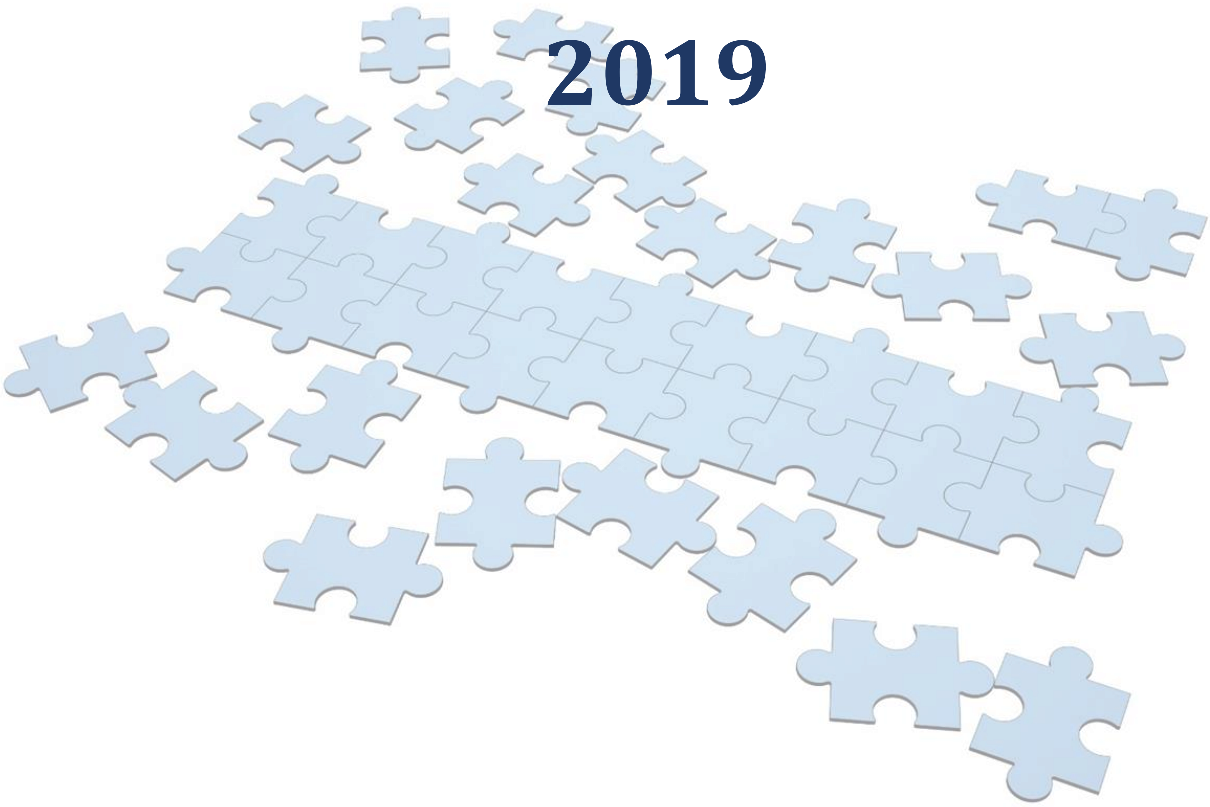
ANNUAL REPORT OF SID BANK 2019



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, 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

Major financial data and performance indicators

Major financial data[1]

EUR thousand	2019	2018	2017
Statement of financial position			
Total assets	2,406,164	2,318,834	2,451,641
Total deposits by the non-banking sector measured at amortised cost	827,545	548,452	454,828
Total loans to the non-banking sector	816,550	706,787	597,740
Total equity	463,860	422,051	409,893
Allowances and provisions for credit losses	66,472	80,917	145,380
Off-balance sheet items	274,689	360,760	89,272
Statement of profit or loss			
Net interest	23,932	22,986	20,294
Net non-interest income	41,524	7,969	2,641
Labour costs, general and administrative costs	(15,562)	(13,270)	(12,394)
Depreciation/amortisation	(914)	(881)	(852)
Impairments and provisions (credit losses)	(11,603)	853	6,648
Pre-tax profit from ordinary and discontinued operations	37,238	17,519	16,224
Corporate income tax on profit from ordinary and discontinued operations	(5,198)	(3,205)	(2,268)
Net profit for the financial year	32,040	14,314	13,956
Statement of other comprehensive income			
Other comprehensive income before tax	11,829	(12,735)	2,603
Corporate income tax on other comprehensive income	(2,061)	2,418	(495)
Number of employees as at 31 December	201	185	170
Shares			
Number of shareholders	1	1	1
Number of shares	3,121,741	3,121,741	3,121,741
Nominal value of one share or corresponding amount of share capital of one no-par-value share	96.10	96.10	96.10
Book value of one share	149.47	136.00	132.08
Long-term credit rating as at 31 December			
Standard & Poor's	AA-	A+	A+

[1] 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, Nos. 69/17 and 73/19).

Selected indicators[2]

(in %)	2019	2018	2017
Shareholder equity			
Common equity Tier 1 capital ratio	34.0	34.2	36.8
Tier 1 capital ratio	34.0	34.2	36.8
Overall capital ratio	34.0	34.2	36.8
Leverage ratio	16.5	16.3	15.5
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 exposures	2.5	3.7	-
Non-performing loans and other financial assets / classified loans and other financial assets	4.0	6.1	-
Allowances and provisions for credit losses / non-performing exposures	60.3	66.5	-
Collateral received / non-performing exposures	33.3	28.8	-
Profitability			
Interest margin	1.0	1.0	0.8
Financial intermediation margin	2.8	1.3	0.9
Return on assets (ROA) after tax	1.4	0.6	0.6
Return on equity before tax	8.3	4.2	4.0
Return on equity after tax	7.2	3.4	3.5
Operating costs			
Operating costs/average assets	0.7	0.6	0.5
Operating costs/net income	25.2	45.7	57.8

Liquidity in 2019	January–March	April–June	July–September	October–December
Liquidity coverage ratio (%)	823%	455%	764%	1,019%
Liquidity buffer, in EUR thousand	242,938	243,738	246,028	245,537
Net liquidity outflows, in EUR thousand	67,113	72,293	53,079	33,115

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

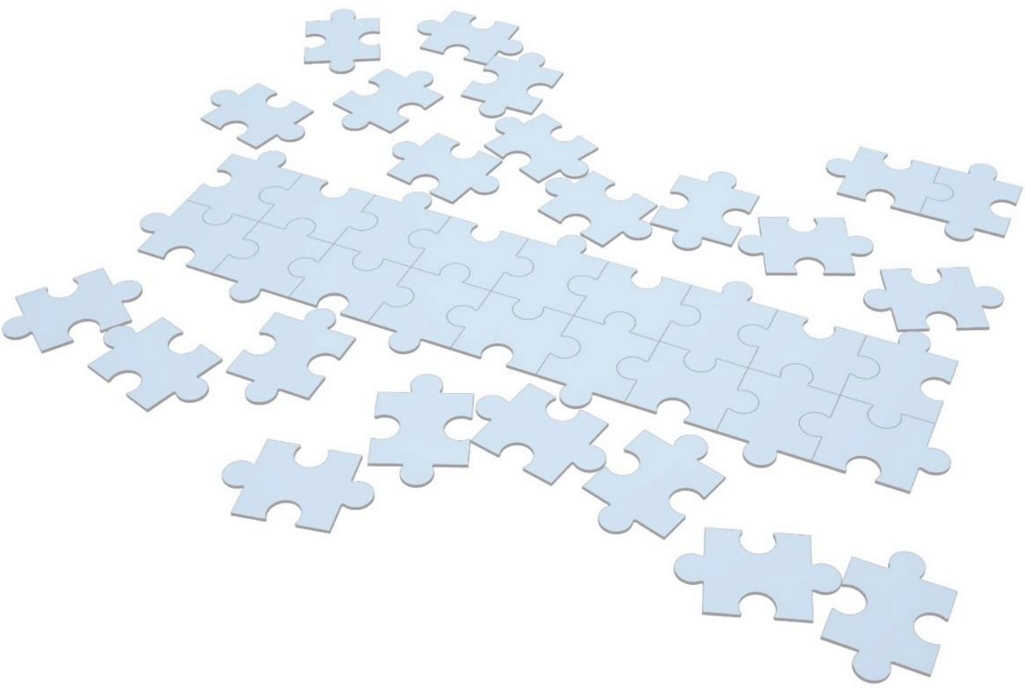
For reasons of comparability, the "Non-performing loans and other financial assets / classified loans and other financial assets" indicator has been recalculated for 2018 in accordance with the methodology that applies to the calculation of indicators for 2019. According to the methodology that applied to the calculation of indicators for 2018, the aforementioned indicator for 2018 stood at 5.6.

List of abbreviations and terms

AJPES	Agencija Republike Slovenije za javnopravne evidence in storitve (Agency of the Republic of Slovenia for Public Legal Records and Related Services)
ALM	Assets Liabilities Management
GDP	Gross Domestic Product
BGN	Bloomberg Generic Price
BPI	Banque publique d'investissement
CET1	Common Equity Tier 1 Capital
CFI	Capital Finance International
CMSR	Centre for International Cooperation and Development
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
CVA	Credit Valuation Adjustment
O-SIIS	Other Systemically Important Institutions
EAD	Exposure at Default
EAPB	European Association of Public Banks
EBA	European Banking Authority
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
ECP	European Cohesion Policy
ELTI	European Long-Term Investors
EU	European Union
EUA	European Emission Allowances
EUAA	European Aviation Allowances
EWS	Early Warning System
FARS	Financial Administration of the Republic of Slovenia
GODECP	Government Office for Development and European Cohesion Policy
GURS	Surveying and Mapping Authority of the Republic of Slovenia
HBOR	Croatian Bank for Reconstruction and Development
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
AOP	Annual Operational Plan
MEIP	Minimum Export Insurance Premiums
MF	Ministry of Finance
MEDT	Ministry of Economic Development and Technology
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
IAS	International Accounting Standards
SMEs	Small and Medium-Sized Enterprises
IFRS	International Financial Reporting Standards as adopted by the EU
NEFI	Network of European Financial Institutions for Small and Medium-Sized Enterprises
N/A	Not applicable
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Co-operation and Development
IASB	International Accounting Standards Board
IFRIC	IFRS Interpretations Committee
POCI	Purchased or Originated Credit-Impaired Assets
PD	Probability of Default
PwC	PricewaterhouseCoopers
RS	Republic of Slovenia
RWA	Risk-Weighted Assets
SSH	Slovenian Sovereign Holding
SEGIP	Slovenian Equity Growth Investment Programme
SID-PKZ	SID - Prva kreditna zavarovalnica
SPPI	Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
TLTROs	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

Dear Stakeholders,

The final year of the previous decade was characterised by what seemed to be a relatively stable dynamic, but was really quite significant. The economic cycle finally underwent a downturn, as global economic growth stood at 2.9%, while economic growth in the EU was just 1.3%. It was at 2.4% in Slovenia, which was 20% less than expected, and thus brought to an end a five-year period of high growth, in the context of low inflation (1.6%) and an extremely low unemployment rate (4.5%). Despite the European Central Bank lowering interest rates, and the appropriate response and actions of market participants, the volatility of financial, commodities and trade markets increased, as the result of geopolitical and trade disputes and Brexit, and particularly in anticipation of a certain negative, so-called black swan event. The latter occurred at the end of the year, but did not yet affect developments in the European and Slovenian economy.

SID Bank and the SID Bank Group performed well and, taking into account certain one-off events, recorded a historically record year in terms of profit, which amounted to EUR 32 million, while the Bank was selected at the end of the previous year as the best regional development bank in south-eastern Europe on the basis of the nominations made by the highly respected international magazine CFI. In terms of our mission, profit is not our main objective, but primarily our impact. However, this indicates a turning point both in a business sense following several years of continued growth and in the current business model for the operation of our institution as a national development and promotional bank and banking group, with the sale of the SID-PKZ insurance company.

Developments on the Slovenian banking and corporate markets in recent years culminated in 2019 in the consolidation of banks and companies, and in their continued privatisation. This lowered the possibility and need for granting a larger number of loans to banks and enterprises by SID Bank, including the mediation of European funds.

Last year SID Bank nevertheless provided EUR 357 million in new financing and EUR 635 million in new insurance operations or EUR 3.7 billion in total financial services to over two thousand Slovenian companies, in particular SMEs and exporters. To that end, we finance and insure Slovenian companies during their sustainable growth and development, and over their entire life cycle, primarily during their internationalisation, particularly on new markets. In the previous year new markets were mostly in Africa and in the Middle East, which was linked to growth in exports (4.4%). The funds mobilised by SID Bank in the previous year and funds that were managed by us thus collectively accounted for total assets of EUR 2.4 billion, which corresponded to 3.8% growth, while the volume of non-marketable insurance operations rose to EUR 1.3 billion, representing an increase of 57%.

Increased demand for loans, which already began in 2018 primarily for corporate working capital and also for residential real-estate and consumer loans, continued on the domestic credit market in 2019. Demand for project financing in the construction sector was even greater. However, the high liquidity of the banking system, a low LTD ratio (70% on average), low interest rates and high savings hindered the placement of our developmental funds with banks and the corporate sector. Financing in the previous year was therefore carried out primarily in the form of complex products and programmes, and financial engineering. This primarily relied on the coverage of new market gaps for companies, both in Slovenia and in international operations, where commercial banks were still inactive.

In terms of the indirect funding of banks, we upgraded our range of products with the new function of technical and administrative assistance, and provided them, for example, funds that meet the requirements of the MREL ratio. In terms of the direct financing of companies, we expanded our range of services to sole traders and cooperatives, particularly in the scope of products for the direct implementation of the Fund of Funds (European cohesion funds).

Financial engineering was carried out from both national budget funds (MEDT – MF – GODECP) and European cohesion funds of the Fund of Funds. The latter were used for the financing of SMEs, technological and development projects, the energy renovation of building and urban development. We continued with the financing of municipalities and the infrastructure. Project financing was also strengthened with the establishment of a separate new project office that now specialises in the performance of this activity.

As the manager of the Fund of Funds, SID Bank successfully placed funds from the first tranche of European cohesion funds (EUR 63 million) and drew down the second tranche in the amount of EUR 63 million. This solidified the use of refundable financial instruments in certain regions across Slovenia, in particular via smaller banks.

The continuation of equity financing together with the EIF was also successful. Three managers of private capital were provided indirect equity financing for Slovenian companies within the framework of the Slovene Equity Growth Investment Programme (SEGIP). We indirectly or directly financed several companies from this fund in the amount of EUR 5.6 million.

By employing the aforementioned arsenal of financial instruments, we recorded a 6.6% increase in net loans relative to the previous year, which now amount to EUR 1,547 million. To that end, the proportion of indirect financing for banks stood at 47%, with the stock of these loans declining by 1.9%, while the direct financing of corporates accounted for 53% of the portfolio, an increase of 15.5% relative to the previous year.

The bank's liquidity and borrowing in terms of the quality and structure of assets was good and enabled business continuity, regardless of the aforementioned volatile circumstances on the financial market. SID Bank issued a new bond on the capital market in the amount of EUR 200 million in a closed placement and under very favourable terms, which demonstrates a high level of investor confidence. We also completed the early repayment of certain financial liabilities in the amount of EUR 45 million, as the market provided more favourable terms. We also borrowed EUR 50 million via the EIB, with which we have always cooperated well, which also applies to other development banks (KfW, BPI, HBOR, etc.). We were also active in international associations such as EAPB, ELTI, Berne Union, NEFI, etc.

In the area of asset and liability management, we made certain key substantive and organisational upgrades in the previous year and thus improved the management of these risks, as well as the pricing policy and the controlling department as a whole, and thus further solidified the control function.

In terms of operations under Republic of Slovenia authorisation, SID Bank as an authorised institution insured against the non-marketable risks that the private sector was not prepared to take-up. Last year the volume of these operations amounted to EUR 1.3 billion, an increase of 57%. This was primarily a result of an increase in short-term operations in international product value chains due to an increase in export activity and exports by the Slovenian corporate sector.

The structure of these insurance operations remained unchanged, with exposure at the end of the year amounting to EUR 763 million and a positive insurance technical result. In this way, Slovenian companies reduced their risk in higher-risk countries and markets, and thus generated value-added in exports and achieved greater competitiveness.

The Bank's internal organisational structure was amended at the beginning of 2019 due to new tasks and the effects of the revised business model and in accordance with the new strategy developed last year. Differently defined powers and organisational forms contributed to the more efficient management of the Bank, particularly in the previously mentioned new market conditions.

In addition, we carried out a new detailed inventory and the optimisation of all the Bank's business processes, with assistance from an external advisor, which will serve as a solid basis for changes to our information system in the coming years.

In terms of monitoring and back-office operations, in addition to process improvements, the aforementioned inventory and optimisation of processes and certain technological upgrades also included certain HR changes, particularly in relation to reporting to supervisory institutions in accordance with the new EBA and ECB standards. Moreover, we strengthened our function for the management of non-performing loans and successfully sold certain past non-performing loans which, as previously mentioned, was reflected in the amount of profit.

We also upgraded information support for operations by completing certain digitalisation projects. In terms of information security, we hired outside experts to verify our competence in that regard and received a positive assessment.

Internal control mechanisms for all business processes at the Bank are implemented. In accordance with the level of risk and the materiality of a particular business process, the requisite reviews and controls were also carried out during the previous year through the work of the internal audit and compliance functions, while issued recommendations were implemented.

The entire risk management process was carried out in line with major exposures to credit, interest rate and liquidity risks. Special attention was given to the management of revenue risk and strategic risk. We further improved governance mechanisms and rules in these areas. The entire internal governance system and the risk management process therefore function in harmony. Major progress was seen in the upgrade to the methodology for measuring changes in the economic value of equity under the prescribed interest rate scenarios by including an option risk assessment, which derives from embedded automatic interest rate options. In terms of operational risk management, the management of outsourcing and fraud risks and the management of other harmful events was upgraded. We began using a statistical model for assessing the credit quality of borrowers and determining credit ratings. The model was upgraded with a quantitative determination of the impact of soft factors on credit ratings, and took account of limiting factors and other risk factors that facilitate the more unambiguous determination of credit ratings.

The Bank's strong capital position and robustness further strengthened, as the Bank's capital increased by 9.9% to stand at EUR 464 million, while its capital adequacy stood at 34%. The Bank generated a net profit in the amount of EUR 32 million or EUR 17.7 million more than in the previous year which, as previously explained, was the result of one-off events from the sale of a subsidiary and the repayment of a portion of non-performing claims. The Bank's revenue position remained stable, as net interest stood at EUR 23.9 million, an increase of 4.1% on the previous year. The Bank recorded a net interest margin of 1%, while the financial intermediation margin stood at 2.8%. Net non-interest income amounted to EUR 41.5 million (up 421%), which was the result of the aforementioned one-off events. The Bank recorded expenses from impairments and provisions in the amount of EUR 11.7 million. Due to the aforementioned new operations and recruitments, the Bank's operating costs rose by 16.4% to EUR 16.5 million, with operating costs accounting for just 25.2% of revenues.

After the sale of SID-PKZ, the SID Bank Group operated in a narrower sense, but continued its cooperation with this undertaking in the scope of the Coface Group via the relevant reinsurance contract. The liquidation of the Prvi Faktor Group, where all the major objectives were achieved, also proceeded at the same time. CMSR underwent certain corporate changes and is under a new senior management team, but otherwise continued its successful operations of official development aid in developing countries, despite the lack of government budget funds dedicated for that purpose.

The ratings agency Standard & Poor's upgraded SID Bank's rating to AA-/A-1+ with a stable outlook, which is the highest rating ever. Accordingly, the Bank also signed a commitment on respecting human rights based on the Universal Declaration of Human Rights, which was adopted at the UN General Assembly and requires the Bank to respect and adhere to these rights in its internal and external operations.

In the previous year, we also improved our attitude towards the environment, and in accordance with our social responsibility policy further improved our results in this area. This also applies to our attitude to employees and, of course, to all other stakeholders, particularly undertakings, to which we provided new opportunities to do business that focuses on the circular economy, with an emphasis on material and energy efficiency and reduced CO_2 emissions.

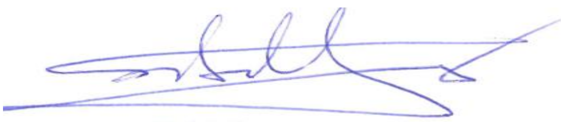
Work in the area of internal communications was also strengthened, prompting a survey conducted on the internal satisfaction of employees. Many new approaches and forms were also undertaken in the area of external communications and PR in various media, in particular in terms of placing funds from the Fund of Funds, which was completed successfully.

On behalf of the management board, we would like to thank all stakeholders, employees, shareholders, all members of supervisory board, companies and others for your cooperation and the trust you have shown in us, and for the energy and attention you have devoted to us. Special thanks go to our employees for their enthusiasm and achievements in fulfilling all of the tasks and duties that have contributed to our joint success.

In the future we will focus primarily on commercial segments or gaps where problems arise and where due to the changed economic situation companies will require our financing, insurance and advice. This is planned for the financing of innovative companies and their increased internationalisation, as well as banks with portfolio guarantees and other forms of non-marketable insurance and, in particular, for the even better management of the Fund of Funds from European cohesion funds. Again we will also provide anti-crisis and counter-cyclical activities, which is the duty of our sound and robust institution in difficult times.

Changes in EU policy in the direction of a green deal with seven strategic guidelines, seventeen main policies and forty-four underlying programmes are expected to provide a decisive advantage to Europe within the global economy. For development banks, all of this means a major challenge and an opportunity for action. We are convinced that this is the right path for the improved competitiveness of the EU and Slovenia. However, the question arises regarding how to execute or implement this in terms of competition, and whether extraordinary events in the coming years will steer this matter in a completely different direction.

In this new decade, however, our competence and decisiveness drive us to continue down the successful path of the previous decade, in particular in financing and insuring against all risks and uncertainties that will emerge due to the reversal of the economic cycle. Only in this way, together with you, our customers and stakeholders, can we create a future and lead the Slovenian economy forward to higher international competitiveness and true sustainable development, with all five elements, during the new turbulent and challenging times of this decade.



Sibil Svilan

Supervisory board report for 2019

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 policies 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 2019 were Monika Pintar Mesarič (chair), Marko Tišma (deputy-chair), Marjan Divjak, Leo Knez and Zlatko Vili Hohnjec.

The supervisory board held 14 ordinary sessions and five (5) correspondence sessions in 2019, 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 members of the supervisory board participated in the sessions in full attendance, while the rare absences were reported in a timely manner in line with the Rules of Procedure and did not obstruct the work of the supervisory board.

The members of the supervisory board participated in discussions, both through comments and guidelines and also through various questions and requests for clarification, and its decisions were taken unanimously. 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 six 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 2018, the final auditor's report on the audit of the financial statements for 2018 and the Bank's financial plan for 2020, 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 also monitored the progress of the final audit for 2018 and the preliminary audit for 2019, and drafted the proposal for the appointment of the auditor 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 in the scope of the discussion of regular quarterly risk reports and the annual report for 2018, the risk policies and selection of risk appetite indicators in the Bank's annual operational plan for 2020, the fraud risk management policies, non-performing exposure management strategy, the outsourcing policies with instructions on implementation and the report on the annual review of the management of external contractors, amendments to rules on the determination of credit ratings, risk analyses accompanying the launch of new products on the market and, in connection with the requirement for aligning SID Bank with the overhauled EBA guidelines for the

management of interest rate risk in the banking book monitored, the implementation of the action plan;
- the nomination and remuneration committee, which held eight regular and two correspondence sessions, and provided the supervisory board with expert support, in particular, in the assessment of the adequacy of remuneration policies and practices and the changes to remuneration policies, the proposed recruitment plan and labour costs in the scope of the Bank's financial plan for 2020, 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 2019 were:
- the annual report for 2018 with the auditor's report, and the proposal for the use of the distributable profit for 2018;
- the Bank's strategy for the period of 2020 to 2023, and the achievement of the strategic indicators in 2019;
- the annual operational plan, with elements of the business policy and risk policy, and the financial plan for 2020;
- the risk management strategy and policy, and the risk appetite;
- regular reports on the performance of the Bank and risk reports;
- fraud risk management;
- the Bank's risk profile assessment for 2019;
- the report on the internal capital adequacy assessment process and internal liquidity assessment process submitted to the Bank of Slovenia, and the Bank of Slovenia's findings in the supervisory review and evaluation process;
- the internal audit department's work plan for 2020 and strategic work plan for 2020 and 2021, the annual internal audit report for 2018 and the quarterly reports by the internal audit department;
- the compliance department's work programme, the report on the implementation of the programme, 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, primarily in the scope of loan funds in connection with financial engineering and financial instruments in the scope of the management of the Fund of Funds (EU cohesion funds), and indirect financing;
- the management strategy and plan to reduce non-performing exposures;
- regular reports on loan reprogramming and corporate restructuring;
- rules on determining credit ratings;
- the outsourcing policy and report on the annual audit of outsourcing;
- the remuneration policy; and
- the 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 March 2020 the supervisory board carried out a self-assessment of its work in 2019 on the basis of the recommendations of the manual governing the assessment of the efficiency 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 responsibly and in line with the interests of the Bank, and that the individual members of the supervisory board and the supervisory board as a whole possess adequate knowledge and experience to enable the high-quality and effective discharging of the duties that fall under the competence of the supervisory board. The supervisory board also discussed the results of the self-assessment with regard to the activities required for the further improvement of the work of the supervisory board.

Approval of the 2019 annual report

The unaudited annual report of SID Bank for 2019 was discussed by the audit committee and the risk committee at sessions on 11 March–12 March 2020, and by the supervisory board at a session on 12 March 2020. The audited annual report, together with the auditor's report on the findings regarding the fulfilment of risk management rules at banks and savings banks for SID Bank and the final report issued to the audit committee on the audit of the financial statements for 2019, were discussed by the audit committee and the risk committee on 9 April 2020. The certified auditor also gave a report at the sessions of both committees. 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 at its session on 9 April 2020, together with the proposal for the use of the distributable profit for 2019 submitted by SID Bank's management board, and had no reservations or comments.

The supervisory board also discussed the independent auditor's report to the shareholders of SID banka, d.d., Ljubljana on the audit of financial statements, in which Deloitte Revizija d.o.o., Ljubljana issued an unqualified opinion regarding the financial statements of SID banka d.d., Ljubljana for 2019. In the auditor's opinion, the financial statements present fairly, in all material aspects, the financial position of the company as at 31 December 2019, and its operating results and cash flows for the year then ended, in accordance with the International Financial Reporting Standards, 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 banka, d.d., Ljubljana for 2019.

Monika Pintar Mesarič
Chair of the Supervisory Board

About SID Bank

SID Bank is a specialised promotional, export and development bank authorised to carry out long-term financial services designed to supplement financial services 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 in 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.

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]

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

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".

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; and
- 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 confirmed 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.

2015

On the basis of the ZBan-2, the Bank of Slovenia issued a decision designating SID Bank an O-SII (other systemically important institution).

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.

2017

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.

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 became the first Slovenian issuer to issue green bonds on the international capital market.

2019

Under the aegis of the Fund of Funds, EU cohesion funds were also used to develop financial instruments in the form of ECP loans for urban development, ECP loans for the renovation of public sector buildings and ECP loans for equity and quasi-equity financing of small and micro enterprises.

The sale and transfer of the entire participating interest in the subsidiary SID-PKZ to Coface was completed and the agreement on the reinsurance of all non-marketable receivables from Coface PKZ was concluded.

SID Bank, in conjunction with the MEDT, developed SID Bank's 'Development and promotional programme for financing under the Investment Incentives Act'.

In 2019 SID Bank received the prestigious Best Regional Development Bank – Southeast Europe 2019 award, which is presented by Capital Finance International.

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 to a great extent 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; and
- economic and public infrastructure.

As at 31 December 2019 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; and
- credit rating services: collection, analysis and dissemination of information about creditworthiness.

[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.

Insurance against non-marketable risks

SID Bank provides insurance for international business transactions against non-marketable risks 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 the insured (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 the 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 EIB: research, development and innovation, SMEs, energy efficiency and urban development.

Management of emission allowances and Kyoto units

Under the Act Amending the 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.

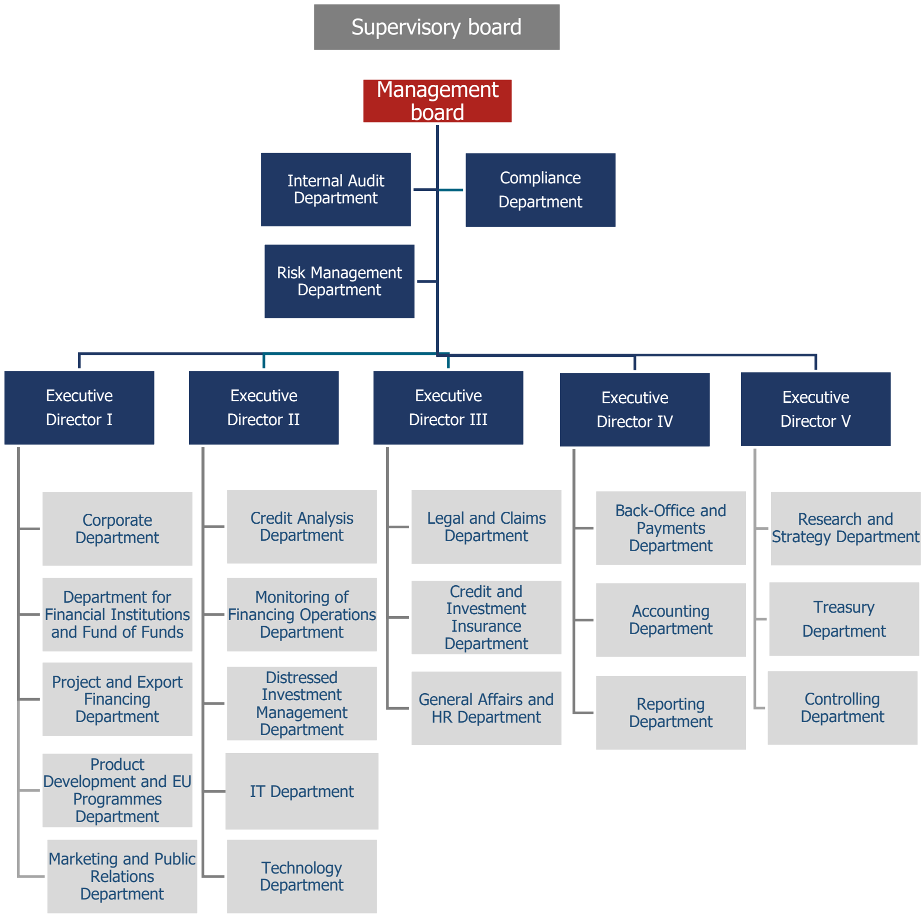
Guarantee schemes and sureties for investments

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 were carried out in 2019 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 2019 are presented in detail in the section entitled Operations under Republic of Slovenia authorisation.

Organisational structure of SID Bank as at 31 December 2019



Effective 1 April 2019 the internal organisational structure of SID Bank was changed in order to adjust its organisational structure and processes to more efficient management according to the Bank's business model. To that end, the powers of the Bank's organisational units were newly defined and allocated.

A core new feature is the creation of a new pillar (V) responsible for areas relating to strategy, research, controlling and treasury, including an asset and liability management (ALM) function, and for the areas that the Bank strengthened in strategic terms in 2019.

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 2019	Number of shares	Proportion of share capital (in %)
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 2019, which amounted to EUR 300,000 thousand as at 31 December 2019.

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 3 July 2019 the SID Bank general meeting passed a resolution allocating the distributable profit for 2018 in the amount of EUR 16,356,651.19 to other profit reserves.

The Bank's total shareholder equity amounted to EUR 463,860 thousand as at 31 December 2019, while the audited book value of one share stood at EUR 149.47 (31 December 2018: EUR 136.00).

About the SID Bank Group

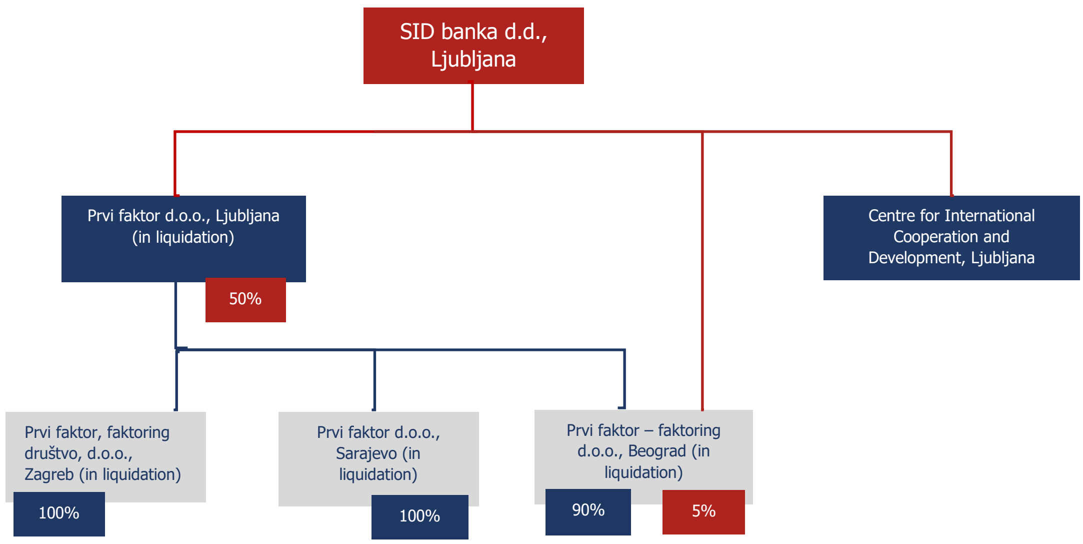
SID Bank Group

As at 31 December 2019, in addition to SID Bank, the SID Bank Group also comprised:

- Prvi Faktor Group, which SID Bank jointly controls on the basis of an agreement; and
- the Centre for International Cooperation and Development (CMSR), of which SID Bank is a co-founder and in which it does not have any financial stake, but holds 33% of the voting rights.

Based on the principle of immateriality, which defines as immaterial information whose omission or non-disclosure does not affect the decisions of the users of the financial statements, SID Bank does not include either of the companies referred to in the previous paragraph in consolidation, as the combined total assets of the two companies amount to less than 1% of SID Bank's total assets.

Organisational structure of the SID Bank Group as at 31 December 2019



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

SID Bank 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 1,584,209.50 as at 31 December 2019.

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 2019 were Klemen Hauko and Marcel Mišanović Osti until 23 May 2019, and then just Klemen Hauko from that moment on. SID Bank was represented at the general meeting in 2019 by its proxies Saša Keleman and Branko Jerak.

Prvi faktor, Ljubljana (in liquidation) is also the founder and:

- 100% owner of Prvi faktor, faktoring društvo, d.o.o., Zagreb (in liquidation). The company was established on 17 December 2003. Its share capital stood at HRK 19,466,600 (or EUR 2,615,571.48 according to the middle exchange rate of the CNB as at 31 December 2019). The company has been in liquidation since 31 December 2016. The liquidators of the company in 2019 were Jure Hartman and Marko Ugarković until 10 July 2019, and then just Jure Hartman from that moment on. The chair of the company's supervisory board is Klemen Hauko, while Igor Jarc and Matjaž Jevnišek are the other members.
- 100% owner of Prvi faktor d.o.o., Sarajevo (in liquidation). The company was established on 27 February 2006. The company's share capital stood at KM 2,838,162 (or EUR 1,451,129.18 according to the middle exchange rate of the Central Bank of Bosnia and Herzegovina as at 31 December 2019). The company has been in liquidation since 29 December 2016. The previous director and current liquidator of the company is Đenan Bogdanić;
- 90% owner of Prvi faktor – faktoring d.o.o., Beograd (in liquidation). The company was established on 24 February 2005. The company has been in liquidation since 3 August 2017. The company's share capital stood at RSD 299,196,366 (or EUR 2,544,342.57 according to the middle exchange rate of the NBS as at 31 December 2019). 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 2019. SID Bank was represented at the general meeting in 2019 by the Bank's management board or its proxies Saša Keleman and Branko Jerak.

Centre for International Cooperation and Development

SID Bank is a co-founder of the Centre for International Cooperation and Development (hereinafter: CMSR) together with the Republic of Slovenia. 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, as well as macroeconomic, political and other analysis of sovereigns, assessments of country risk and publicity activities.

The CMSR's management bodies are the director and the council. The institute is represented by its director Klemen Potisek. The council had six members as at 31 December 2019. SID Bank's representatives on the council are Bojan Pecher, who is also chair of the council, and Igor Jarc.

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 a public company in the sense of the Financial Instruments Markets Act.

SID Bank applied the following codes and recommendations in its operations in 2019:

- 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 d.d.'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 statutory arrangements for the operations of SID bank in the ZSIRB and ZBan-2.

Corporate Governance Code

Corporate governance framework

Recommendation 1
SID Bank operates in accordance with the fundamental principles of operations, which are set out in the ZSIRB. The principle concerning the financial value of services of the Bank for the endusers of these services specifies that 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
The ZSIRB stipulates that only the Republic of Slovenia can be a shareholder in SID Bank, and as a result the recommendation is 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 comply with the ZGD-1 and 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 and the Regulation on the application of the Guidelines on the assessment of the suitability of members of the management body and key function holders).

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). Furthermore, SID Bank also takes into account 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, notwithstanding the ZGD-1, 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, with the sole shareholder in SID Bank being the Republic of Slovenia (Article 4 of the ZSIRB).

Recommendation 28.2
It is applied *mutatis mutandis*.

Corporate governance code for companies with capital assets of the state

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, with the sole shareholder in SID Bank being the Republic of Slovenia (Article 4 of the ZSIRB).

6. Supervisory board

Recommendation 6.4
In addition to the ZBan-2 and the ZGD-1, the nomination and appointment procedures 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, notwithstanding the ZGD-1, 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 the competent 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 the competent 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 (section of this chapter: Information on the 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 the competent 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 into account the requirements set out in Section 4 of the ZBan-2 (Articles 86 to 93), Section 3.2 of the Regulation on the 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. 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 Bank's supervisory board. Information about sponsorship and donation agreements is published on the SID Bank website (https://www.sid.si/o-banki/informacije-javnega-znacaja).

Cost optimisation

Recommendation 4.4
Taking into account the amendments to tax regulations, SID Bank paid annual leave allowance in 2019 in the amount of the average monthly wage in the Republic of Slovenia, and the performance-related payment in line with SID Bank's own collective agreement, which sets out the procedures and criteria for defining payments. Given that the payment details constitute a business secret, SID Bank did not publish this information.

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 conducted the process of regular self-assessment under the proven European model of business excellence developed by the European Foundation for Quality Management (EFQM), which will be concluded in 2020 with a discussion by the supervisory board.

SID Bank is a signatory of the Slovenian corporate integrity guidelines. The guidelines are published online at http://www.zdruzenje-ns.si/mediji/aktualne-novice/slovenske-smernice-korporativne-integritete.

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

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 process, 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; and
- 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 of the financial report), and the compliance function, including the information security management 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 due to legal sanctions and measures by supervisory authorities that the Bank could suffer because of the wilful or negligent failure of its operations to comply with applicable legislation and standards of good practice.

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 compliance department at SID Bank has been operating since 2008. 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.

In 2019 the number of employees in the department increased by one, meaning three employees have been working in the department since that time.

The compliance department is an independent and impartial organisational unit that is functionally and organisationally separate from the Bank's other organisational units, and is answerable directly to the management board. The information security specialist also operates within the compliance department.

The compliance department operates in line with its annual work plan (March 2019 – February 2020), which in addition to regular audits of compliance also includes the performance of the advisory function, in particular in the area of introducing new bank products, assessment of the legality and ethics in the conduct of the bank's stakeholders, participation in the bank's criminal and civil proceedings, and the training of employees and the bank's management body. The compliance department also pays special attention to the implementation of issued recommendations. The compliance department reports half-yearly to the management body on the realisation of the annual work plan, and on the implementation of recommendations issued on a quarterly basis.

Again in 2019, during compliance audits, the compliance department cooperated with the internal audit department by exchanging information and findings, and with the risk management department in the area of introducing new bank products.

The compliance department implemented its strategic task and upgraded its fraud risk management system in 2019.

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/sites/www.sid.si/files/documents/kodeks_eticnih_vrednot_in_strokovnih_standardov.pdf), which sets 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 reports of suspected breaches and/or complaints filed by employees or third parties. The system for reporting suspected breaches/complaints (whistleblowing) allows for the anonymous reporting of suspected breaches and complaints. The department received and handled seven reports of suspected breaches or complaints in 2019. In six of these cases, it was established that the alleged breach did not occur, and in one case, after assessing the content of the report and the circumstances surrounding the case, no procedure was even initiated.

The director of the compliance department also performed the function of the prevention of money laundering and terrorist financing officer in 2019, and is also currently a member of the committee for assessing the suitability of the management body.

Internal Audit

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 ZBan-2, 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 aim of the functioning 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, and thereby contribute 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 2019 envisaged 12 comprehensive and complex audits, of which ten, together with an extraordinary audit, were completed during the year or at the beginning of 2020, while three audits were brought forward to the annual plan for the 2020 financial year due to their substantive complexity, the current situation in the audited area and the need for the use of external experts. An external regular periodic assessment of the quality of the work of the internal audit department also commenced at the end of 2019/beginning of 2020.

The internal audit department also devoted considerable attention to progress in the implementation of recommendations. In addition to regular audits and the follow-up of recommendations, in 2019 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 internal audits that have been carried out.

The internal audit department had three employees in 2019, 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.

There were no changes to the management board or supervisory board during 2019.

There were also no changes to SID Bank’s applicable articles of association in 2019, which means that the articles of association approved at the general meeting of 6 July 2016, when they were adopted by the Republic of Slovenia, as 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 sent 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 for a five-year mandate. 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 characteristics of candidates. The policy states that 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. Within the framework of the regular annual assessment of the management body, the supervisory board's work was assessed as suitable, both in terms of individual members and the body as a whole, irrespective of its incomplete composition in accordance with the ZSIRB. 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 and, partially, in terms of diverse knowledge and experience in legal areas, supervision and auditing. As a result, increased focus was placed on these criteria when determining the profiles of supervisory board members to be recruited, which are defined by the nomination and remuneration committee in the procedure for appointing new supervisory board members. In 2019 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 2018, when the resignation of one member left it with just five members.

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 2019.

As at 31 December 2019 the supervisory board consisted of Monika Pintar Mesarič as chair, Marko Tišma as deputy-chair, Marjan Divjak, Leo Knez and Zlatko Vili Hohnjec.

First name and surname	Date of Appointment	Duration of Mandate	Duration (until)	Position
Monika Pintar Mesarič	22/2/2018	5 years	2023	chair
Marko Tišma	28/7/2016	5 years	2021	deputy-chair
Marjan Divjak	18/5/2017	5 years	2022	member
Leo Knez	22/2/2018	5 years	2023	member
Zlatko Vili Hohnjec	18/5/2017	5 years	2022	member

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. Its 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 eight ordinary sessions in 2019, and held two correspondence sessions.

As at 31 December 2019 the committee consisted of Monika Pintar Mesarič as chair, Marko Tišma as deputy-chair and Zlatko Vili Hohnjec.

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 over the Bank. 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 in 2019.

As at 31 December 2019 the audit committee consisted of Zlatko Vili Hohnjec as chair, Marjan Divjak as deputy-chair and Leo Knez.

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 2019.

As at 31 December 2019 the risk committee consisted of Leo Knez as chair, Marjan Divjak as deputy-chair and Marko Tišma.

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 2019 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 criteria, meaning that the two management board members satisfy all the suitability assessment criteria together and without the need for additional training. There was no need to formulate new assessments of the suitability of the management board in 2019, 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 2019, 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, on limits of exposure 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 placements on the money and capital markets in Slovenia and in the rest of the world, and on the use 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 the management of 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.

This committee has the most members of all the Bank's committees with nine. Regular sessions focusing on liquidity management are held weekly, while asset-liability management is discussed monthly.

Government operations 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 six members, and meets at regular 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). It meets regularly once a week.

Committee for the assessment of the suitability of members of the management body

The committee for the assessment of the suitability of members of the management body and key function holders has three members, who were 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 the supervisory board’s nomination and remuneration committee carry out the fit and proper assessment process for 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 their term of office. An annual performance assessment is also carried out 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 as a member of the committee for the assessment of the suitability of members of the management body. It is then discussed by the supervisory board’s nomination and remuneration committee, which formulates a position on it.

The fit and proper assessment process for the selection of members of SID Bank's management body complies with the applicable banking legislation.[6] Alongside the selection policy for members of SID Bank's management body, the procedure also takes account of specific 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 or management board.

In 2019 the committee for the assessment of suitability drafted two comprehensive and two partial fit and proper assessments of candidates for members of SID Bank's supervisory board.

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:

[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.

- 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.

In 2019 the commission discussed the highest number of transactions in connection with the reinsurance of short-term credits, which increased due to the changes made to the reinsurance contract concluded with Coface PKZ, including medium-term export financing transactions in Serbia, Montenegro, the Ukraine, Belarus and Africa. For this reason, the number of correspondence sessions increased (13 correspondence sessions and seven ordinary sessions in 2019). The commission also discussed other transactions concerning the internationalisation of Slovenian exporters in South-Eastern Europe, Russia, Belarus and in other Eastern Europe countries. In relation to long-term export transactions to EU markets, the commission adopted decisions on collateral for guarantees requested by the ordering entities. It was also briefed on the problems associated with the Slovenian component, which in the context of globalisation and Slovenia's membership in the EU is becoming increasingly relevant, and provided the required guidelines to SID Bank.

In order to update the operations of the authorised institution, the commission proposed an increase in the government's fee to the Bank, with which SID Bank could partially co-finance the planned upgrade of the information system in the area of insurance for the account of the state.

The commission operates with six regular members, representatives of the Ministry of Finance, whose representative has a decisive role (right of veto), the Ministry of Economic Development and Technology, the Ministry of Foreign Affairs, the Chamber of Commerce and Industry and the Bank Association of Slovenia. As at 31 December 2019 the commission consisted of Franc Stanonik as chair, Matej Čepeljnik as deputy-chair, Jože Renar, Iztok Grmek, Stanislava Zadravec Caprirolo and Jernej Tovšak. Mr Grmek replaced Alenka Suhadolnik in 2019.

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. Both 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 full in 2019, irrespective of the definition of the criteria in the profile of members of the management body, while other criteria relating to professional experience, skills and competencies, and age were satisfied.

Ljubljana, 3 March 2020

Management board of SID Bank

Goran Katušin
Member

Sibil Svilan
President

Social responsibility

Activity and role of SID Bank

Within the scope of its mission and entrusted authorisations, SID Bank, through its activity, contributes to the fulfilment of social objectives that are in line with the key elements of Slovenia's sustainable development: a successful economy, social security and concern for the environment. SID Bank's activities are based on long-term development policies of the EU and Slovenia, which set out the priority areas with the requisite social consensus.

SID Bank promotes Slovenia's sustainable development with its contribution to ensuring economic growth that is sustainable and stable in the long term through ensuring and upgrading the system of development financing. Concern for social responsibility is integrated into the entire activity of SID Bank and is a part of all its activities.

SID Bank's role is intermediation in the area of market gaps, and the resulting creation of wider social benefits in terms of:

– 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;
– close-to-nature development with a high degree of protection for the environment and habitat, and energy and material efficiency;
– advanced public and economic infrastructure;
– social progress, providing equal opportunities, education and employment; and
– other economic activities that contribute 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.

The funds that SID Bank pours into the economy for strictly dedicated use are seen as a permanent investment in the realisation of the Bank's vision. These funds also represent one of the foundations for the performance of promotional and development tasks within the scope of the selection of national economic policies. The ultimate objective of the SID Bank's work is to ensure the opportunities to satisfy the needs of future generations.

Socially responsible approach to customers and the environment

Effects of the Bank's activities

Financing socially beneficial infrastructure projects and target groups in the economy is the basic way in which SID Bank provides support for Slovenia's sustainable development policies. Using the standardised methodology of macroeconomic multipliers, defined by independent assessors, SID Bank's services facilitated EUR 2.4 billion in sales by Slovenian firms, EUR 1 billion of GDP, EUR 1 billion of exports and more than 5,900 new jobs in 2019. The scope of these effects is derived from SID Bank's focus on working in market gaps and development activities. Here it should be emphasised that 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 carries out.

Circular economy and green economy

SID Bank was one of the first petitioners to support the establishment of the circular economy concept in Slovenia. Support for the circular economy was again one of SID Bank's priorities in 2019, as it is aware that it has the potential to increase competitiveness, promote sustainable economic growth and create new jobs. SID Bank provides support through its existing financial programmes, either directly or indirectly via commercial banks. Through its development promotion programmes, SID Bank steers its activities towards 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 firms and their investments in projects for energy efficiency, renewables, the 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 firms 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: long-term resilience, material efficiency, concern for the natural environment, energy efficiency, and innovative/technological punch. This system enables SID Bank to adjust the range and price of its services according to a modelled assessment of firms, which provides an added initiative for firms to transform themselves into firms with more sustainably oriented business models.

Responsible lending and borrowing

As a member of the Bank Association of Slovenia, SID Bank was among the initiators who formulated the principles of responsible lending for banks operating in Slovenia. These principles represent guidelines and recommendations to fulfil the objective of being responsible to its customers, owners and other stakeholders. In practice SID Bank has built the concept of responsible lending into the internal decision-making process. 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.

The principles of responsible lending, as formulated by the BAS, comprise:

- ethical standards and responsibility to customers;
- knowing customers;
- financing policy;
- financing based on expected cash flows; and
- suitable purpose and conditions of financing.

As a development bank, SID Bank is required to ensure the long-term financial viability of its business model. Because it does not operate with 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 both reinvests the Bank's equity and earmarks all profits for the additional financing of the real sector. SID Bank’s role is thus not to support all enterprises that demand loans, but only those that are economically and financially justifiable, and yet include a sustainable development component.

In its transactions with customers, SID Bank devotes particular attention to preventing corruption risks 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 the activities of other market participants in the area of financing.

Accessibility to services

Within the scope of issued mandates, SID Bank continuously strives to implement the non-discrimination principle that dictates the assurance of equal access and treatment of all users of its services, and the provision of equal services under the same terms to all equally eligible entities. Special attention in 2019 was also devoted to the suitable regional allocation of development funds and the pursuit of the coverage of key phases of the production chain.

SID Bank additionally contributes to the accessibility of financial services by developing new products and adapting its existing offer to the requirements of the economy and economic policy.

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 ascribes the appropriate importance to 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 appears 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 founding member of the Slovenian Innovation Hub, a European economic interest grouping where members from commerce, banking and academia and regional and local organisations all work together.

Communication with external audiences

SID Bank's communication with its business partners and the public is in line with its role as a promotional and development bank. As such it carries out its activities indirectly in cooperation with financial institutions as well as directly.

In addition to informing about SID Bank's range of services, which due to their specific character are earmarked for legal entities and available via financial institutions, SID Bank's communication strategy focuses on the Bank's direct contact with external stakeholders, primarily through the active involvement of the Bank's representatives at numerous events in Slovenia and abroad. Bank employees therefore attended 80 conferences, roundtables and similar events in 2019 on behalf of the Bank, which in terms of their topics were in line with SID Bank's mission and activities, and with the SSH's recommendations.

SID Bank regularly organised general training on products, special features and the purposes of financing for the financial intermediaries with whom the Bank cooperates. A presentation of financing opportunities from the green bond financing source was organised for firms operating in the circular economy. A larger group of external stakeholders, which included representatives of state authorities, enterprises, financial and economic experts and the media, was invited to the Knowledge hub, an event organised annually by the Bank where current topics focusing on the new financial situation and new business and development models were discussed.

SID Bank informed the public of its activities and range of services and products through press releases, interviews, PR articles, advertisements, and also by creating two extensive media campaigns that were released/broadcast on TV, radio, print media, via external advertising and online. The aforementioned activities increased the Bank's presence in the media, which is measured with the number of articles about SID Bank, by 45%. SID Bank maintains a more direct contact with potential and existing customers and therefore issues a regular e-news tailored to different target groups that informs customers of the latest developments and financing programmes.

SID Bank continued to strengthen its presence on the Internet in 2019. Via regular website updates and the active management of its profile on the LinkedIn network, it upgraded its communication channels and thus became more accessible to the wider public.

Socially responsible conduct at the Bank

SID Bank is aware that socially responsible conduct cannot be properly developed without enforcing the personal responsibility of all individuals within the organisation. For this reason, awareness of personal and social responsibility is 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 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 internal conduct that is socially responsible. 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 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

Effective internal communication is extremely important for the successful and coordinated work of the organisation as a whole. In the event of such a specialised activity as provided by SID Bank, internal communication and an effective flow of information are crucial for maintaining a high level of professionalism and the quality of services.

Various forms of notifying and communicating with employees are in place at the Bank. They include direct communication between management and employees. Internal communication between employees takes place on a daily basis at various levels with contemporary forms of communication, including a regular dialogue that was established between the Bank's senior management and the trade union. All bylaws and rules are available via an internal software, while the lending of technical materials between departments is also possible. Employees are provided news and the opportunity to attend internal and external training courses in the form of an online notice board. The internal newsletter *Cekin*, which summarises the most relevant information, news and events for the previous period, is published regularly.

The Bank promotes a relaxed atmosphere and inclusive relationships that contribute to the fulfilment of SID Bank's values. Two opportunities during the year are used to bring employees together, i.e. a picnic organised in the spring and the New Year's party in December.

Department team-building events focus on co-shaping a positive corporate culture at the Bank. Employees can also contribute to a better work environment via the application for proposed improvements, through which each employee can propose improvements that are then decided on by a committee established precisely for that purpose that also rewards the best innovations.

Responsibility to employees

SID Bank facilitates flexible working hours, making it easier to achieve work-life balance, in particular by 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 impede 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 recommendations 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 a suitable working environment.

It upholds all applicable legislation and the collective agreement for the banking sector 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 2019 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, with the aim of 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.

Supervisors conduct annual development interviews with employees that represent the basis for assessing the development potential of individuals, the definition of key staff members and the formulation of annual training plans. This way, the Bank is able to identify needs for new knowledge in a timely manner, and 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 95% of all employees attended various forms of training in 2019. 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.

Recruitment was undertaken in line with the annual employment plan in 2019, 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 2019, to replace employees who found new challenges outside the Bank or who took a 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 larger projects. SID Bank had 201 employees at the end of the year, of whom 133 were women and 68 were men. The headcount averaged 192 in 2019.

	2019		2018	
Qualification level	Number	%	Number	%
5 or less	18	9.0	15	8.1
6/1	11	5.5	12	6.5
6/2	43	21.4	37	20.0
7	96	47.8	92	49.7
8/1	27	13.4	24	13.0
8/2	6	3.0	5	2.7
Total	**201**	**100.0**	**185**	**100.0**

SID Bank addresses social responsibility in detail in its social responsibility report, which is drafted annually for the previous calendar year and is available on its website.

SID Bank's strategy

The basis for strategic planning at SID Bank comprises a three-year strategy that covers insight into all key aspects of the Bank's medium-term operations and long-term objectives. SID Bank audited its development strategy for the period 2020–2023 in 2019. Through the regular annual audit of its strategy, SID Bank ensures that the strategic content that allows the Bank to adapt to its external circumstances is up-to-date, and ensures its continued evolution within the framework of the authorisations entrusted to it.

The key external circumstances that SID Bank takes into account in updating its strategy mostly comprise new circumstances on foreign and domestic financial markets, considering the uncertain economic environment, the medium-term projections for macroeconomic changes and the objectives of the state's development policy. These external factors resulted in changes to key internal elements of the strategy, primarily adjustments to the business model, products and services, the method of activity, and risk management.

SID Bank's development strategy for the period of 2020 to 2023 pursues two fundamental objectives: a high multiplier and sustainability effects in society and in business, and the Bank's own performance which ensures long-term financial viability. Over the upcoming medium-term period, SID Bank will direct its actions into increasing the visibility of its role and the scale of its activities in market gaps.

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, the creation of new quality jobs, social inclusiveness and sustainable development. Through its actions and its dedication to its mission and role as liaison, 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, it will work with development incubators, chambers and educational institutions in the domestic environment. 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.

SID Bank will provide firms with development potential debt and equity financing in all their phases of development, and prioritise financial engineering. A major part of activities will focus on project and export financing, and on financing a sustainable infrastructure. 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. In terms of the 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 dedicates a great deal of attention to the satisfaction and development of employees and the promotion of the Bank's internal growth. The Bank’s activities rely on the responsibility, professionalism, commitment, cooperation and creativity of its employees. These values are key to maintaining a high organisational culture, and constitute fundamental principles and guidance in employees’ everyday work, and in mutual contacts with clients and other stakeholders.

Plan of activities in 2020

The coronavirus epidemic broke out following the end of the financial year, exposing economic activity to serious risk. SID Bank reacted swiftly and prepared a framework of anti-crisis measures at the end of February 2020. The first intervention measures focused on firms that were directly affected by the negative consequences of the coronavirus, and enterprises in need of liquidity in order to provide their range of services and products. In that regard, SID Bank is working closely with ministries and is carefully monitoring the activities of the European Commission and European Central Bank, and is adjusting its activity to their measures to be able to support the Slovenian economy to the greatest extent possible.

Thus, given the current outlook, SID Bank will significantly increase the volume of funds placed in the real sector in 2020. Should the situation continue to deteriorate, the Bank is also prepared to establish additional financial engineering funds, as well as guarantee schemes for firms, banks and natural persons as required, in order to ensure the required scope of its countercyclical activities.

In parallel with its intervention role, the Bank will also continue the activities associated with its development role in 2020. The macroeconomic and financial situation and the purpose and objectives of active programmes dictate a significant proportion of SID Bank's activities in the form of direct financing. Activities are planned in the area of longer maturities and higher risks, where market gaps exist. These will be addressed primarily through measures employing financial engineering and the Fund of Funds. The focus in 2020 will also be on using mechanisms to increase the intermediation of development funds via banks, including various forms of co-financing in all transactions where this is possible and where the banks show suitable interest. Regardless of how products are provided, SID Bank's activities will focus in particular on the promotion of the development, research and innovativeness of firms in the direction of increasing the competitiveness of the economy. In addition, SID Bank will also be more active in areas where the needs in the corporate sector are most pronounced, i.e. in long-term funding for investment projects. These programmes facilitate increased competitiveness, higher added value, the preservation of jobs and the creation of new jobs, and contribute to sustainable development objectives.

SID Bank's activities in 2020 will also continue to primarily rely on the proactive management of risks, which is reflected in capital stability, robust liquidity and appropriate cost-effectiveness. The Bank will continue its activities to obtain a suitability assessment for the intermediation of EU Invest programme funds that will additionally enable the sharing of risks and addressing of market gaps.

Due to changes focused on increasing the complexity of its business model, SID Bank will in 2020 complete the comprehensive optimisation of business processes that began in 2019, in the context of the gradual shift towards the digitalisation of operations. The Bank will begin activities aimed at the installation of a new expanded core information system, for the purpose of providing proper IT support for process automation. The Bank’s aim in this regard is to facilitate system connectivity and the digitalisation of its operations with multiple stakeholders, 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, 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.

Risk management

General

The main risks to which SID Bank 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. The Bank thus 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 identified 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 from 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 aggregate level of the Bank. 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 regarding 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 transaction 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 separated 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 the drafting of external and internal reports in order to supervise, monitor and inform the Bank of all types of risks at the Bank's aggregate level, while not being directly involved in the credit process and 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. In addition, he/she 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 that are not under the authority of the project and export financing department, 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 project and export financing department assesses projects that envisage the long-term financing of the public infrastructure, the projects of strategic companies that carry out important infrastructure tasks for the government and hold a natural monopoly, and investments of significant undertakings that are also responsible for major economic development and play a significant role in linking companies in supply chains and in the internationalisation of the corporate sector in accordance with the criteria for the classification of capital investments of the state.

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 distressed investment management department plays a key role in managing non-performing and forborne exposures. It is responsible for the management of NPEs that the credit committee 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 put in place a strategy and seven policies to take-up and manage risks 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 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 the organisation of business processes. Due to the comprehensive and comparable breakdown of risks and 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 within the internal capital adequacy assessment process. In addition, 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. SID Bank has no trading book. SID Bank's exposure to currency risk is low and generally does not exceed the prescribed regulatory limit for the calculation of the capital requirement for currency risk.

The remuneration of employees, who can have a material impact on the Bank's risk profile in the scope of their powers and work tasks and activities, is set in such a way that it does not encourage employees to irresponsibly take disproportionately large risks or risks that exceed the Bank's risk absorption capacity.

The Bank devotes particular attention to the management of operational risks, as they are present in all areas of the Bank's operations. For this reason, management must be upgraded on an annual basis, in particular from an internal point of view (internal procedures, processes, the provision of suitable information support, monitoring and other regulatory requirements). It is aware of the risk of fraud and cyber threats, and has thus also strengthened the management of these subcategories of operational risk.

Risk exposure in 2019

SID Bank retained its strong capital position and sound liquidity position in 2019. The Bank disclosed a high total capital ratio of 34% as at 31 December 2019. It also recorded a leverage ratio of 16.5%, which is significantly higher than the prescribed regulatory figure and allows the Bank to operate stably in the future. The good liquidity position is also reflected in high liquidity ratios and a high liquidity coverage ratio (LCR), well above the regulatory limits. The latter stood at 1,832% at the end of 2019.

The quality of the credit portfolio improved in 2019, primarily as a result of a larger proportion of A-rated exposures, and a decline in the proportion of NPEs. The proportion of A-rated exposures amounted to 53.2% at the end of 2019 (31 December 2018: 30.8%). The proportion of non-performing loans and other non-performing financial assets to classified claims and other financial assets amounted to 4% at the end of 2019. The coverage of NPEs remains relatively high and at the end of 2019 stood at 60.3% (at the end of 2018: 66.5%) and was still above the average of the Slovenian banking system.

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 funds, 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 funds, the Fund of Funds and the Slovene Equity Growth Investment Programme (SEGIP).

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. Key activities related to risk management in 2019:
- an overhaul of internal rules for the management of problem exposures and collateral in accordance with regulatory requirements, taking account of organisational changes;
- intensive monitoring of non-performing exposures in accordance with the regulator’s guidelines and the Bank’s strategy in this area;
- the use of the statistical model in assessing the credit quality of borrowers and determining credit ratings, where 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 for the more unambiguous determination of credit ratings;
- an upgrade of internal and external reporting;
- an upgrade of the methodology for modelling and documenting business processes and, on these bases, the implementation of activities regarding the inventory of business processes;
- an upgrade to the risk profile (added new business processes and elements for risk assessment);
- implementation of activities in the area of interest rate risk measurements in the banking book in accordance with the revised guidelines on the management of interest rate risks inherent in non-trading activities;
- implementation of EBA Guidelines on outsourcing arrangements;
- enhancement of the control environment for managing the risk of fraud, in particular by introducing an in-depth assessment of exposure to the risk of fraud and mechanisms for early detection of fraud indicators and responses thereto;
- the use of the system for managing information and events relating to information security, which contributes to a reduction in the probability of cyber-attacks; and
- 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 2020 SID Bank will take up risk in accordance with the limits set for individual types of risks within the scope of the adopted risk appetite. The financing of commercial banks in the form of subordinated loans and MREL-eligible credit lines, loans in the scope of loan funds and project financing is planned. 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. It will also continue activities in the scope of the management of the Fund of Funds. A high risk-absorption capacity (the Bank's sound capital and liquidity position) and priority participation of the state in covering first loss for individual financing programmes, and risk-sharing facilitate the take-up of greater risks that incur in market gaps.

SID Bank continuously amends and upgrades the risk management system in terms of system integrity and sensibility, taking account of the scope, type and complexity of transactions. SID Bank will devote particular attention in the coming year to:
- further upgrading internal risk reporting;
- optimising the process of introducing new products and managing potentially identified new specific risks in the scope of developing new products for the Bank;
- upgrading the methodology for documenting business processes with the revised methodology for determining risks and internal controls; and
- upgrading risk management in accordance with new regulatory requirements.

As part of the amendment to existing risk management techniques, upgrades to portfolio risk management, stress testing, further upgrades to the measurement of interest rate risk in the banking book and the further automation of the asset-liability management system are planned.

The Bank plans to upgrade the methodology for assessing projects and newly established corporates, and the methodology for assessing sole traders and cooperatives. The Bank will continue to actively manage non-performing exposures in accordance with the adopted management strategy and the plan to reduce non-performing exposures and maintain the diligent implementation of the lending process and the appropriate risk management culture.

New product concepts, intensifying activities linked to the regulatory framework, the need to increase the value of achieving effects and the fulfilment of mandates and activities aimed at the higher visibility and added value of SID Bank in the national institutional environment require greater focus on the management of operational risks from an internal perspective, which includes adjustments to internal procedures and processes, taking account of regulatory requirements, and the provision of the required information support.

The Bank will continue to devote its attention to potential cyber threats and attacks, in terms of raising the awareness of employees, the exchange of best practices among financial institutions and concern for the continuous upgrading of the information system.

SID Bank has already identified certain imbalances on the international financial markets, and partly also in the economy in the past two years, and therefore incorporated the possibility of a major economic crisis into its policy regarding the assessment of expected credit losses. The coronavirus outbreak can also be seen as a trigger that could cause major economic stagnation if the situation fails to normalise over a shorter time period. The profitability of a certain segment of the economy can deteriorate temporarily or for a protracted period, while liquidity problems may arise faster for companies. As a result, the quality of SID Bank's credit portfolio may deteriorate, and allowances and provisions for credit losses may increase. The increase in allowances and provisions for credit losses can result from a significant increase in the credit risk of individual financial assets in the period from initial recognition, and their consequent assignment to stage 2, where allowances and provisions for credit losses are measured on the basis of the lifetime expected credit losses on the financial instrument, as well as from new default events and the resulting reclassification of performing financial assets to non-performing financial assets. SID Bank's high capital adequacy and sound liquidity position allow it to take-up increased risk in the scope of the existing and new intervention financing programmes for the economy, which will strive to mitigate the consequences of the coronavirus outbreak for Slovenia's economy.

The current economic and market situation is unpredictable and will depend on the duration of the coronavirus outbreak and on the success of individual countries in dealing with this situation. SID Bank expects the low interest rate period to continue and for economic activity to decline, which could have a significant impact on profitability risk and on liquidity reserve management. The Bank plans to increase its revenues in the coming years, primarily through the development and placement of suitable products, where the interest elasticity with respect to the market situation is lower (existence of market gaps or receipt of fees for placement). The market situation will continue to impact the management of liquid assets, where the Bank will continue to pursue a policy of investing its surplus liquidity in high-quality liquid financial instruments. It will also focus its attention on the proper structure and sufficient diversification of liquidity reserves, having regard for potential adverse developments on the financial markets. By upgrading its balance sheet management system, SID Bank will also properly address these risks, which are becoming even more pronounced in the current macrofinancial environment. On the other hand, through the optimisation of processes and procedures and by providing the required information support, the Bank will also contribute to the optimisation of costs.

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. In addition, the Bank manages the funds from the European cohesion policy (funds from the Fund of Funds).

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. This 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. All transactions of EUR 5 million or more are decided on by the international trade promotion commission. The government operations committee also plays a significant role in adopting business plans and strategic programme documents in connection with the establishment of financial instruments funded via the European cohesion policy.

SID Bank manages the risks inherent in operations under Republic of Slovenia authorisation in accordance with its bylaws in a similar way as in the banking segment. The responsible committees discuss reports on interest rate risk, currency risk, liquidity risks, operational risks (via loss events) and credit risk (monitoring the limits on investment operations by the treasury department and concentration of exposure by country).

In the area of credit and investment insurance against non-marketable risks of a commercial and non-commercial nature, 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.

As at 31 December 2019, contingency reserves amounted to EUR 160,553 thousand. Based on the use of the value-at-risk technique (VaR) and data according to the situation as at 31 December 2019, we can assert with 95% certainty that the claims over the next one-year period will not exceed the amount of the contingency reserves.

The coronavirus outbreak could impact the operations under Republic of Slovenia authorisation in the segment where 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. Risks of the non-repayment of already insured credits (loans) and investments could increase, while there is also a possibility of an increase in high-risk operations in the insurance portfolio due to the implementation of economic measures to mitigate the effects of the coronavirus outbreak. 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)

by signing this declaration hereby confirms the adequacy of the risk management framework at SID Bank, 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 framework or 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, 3 March 2020

Management board of SID Bank

Goran Katušin
Member

Sibil Svilan
President

Supervisory board

Monika Pintar Mesarič
Chair

Performance in 2019

Macroeconomic environment in 2019[7]

International environment

The deterioration in the global economic situation in 2019 resulted in slowing global economic growth, which at 2.9% was down 0.7 percentage points on the recorded growth in 2018. Sentiment did not improve until the end of the year, when certain favourable indications regarding trade negotiations between the US and China and the arrangement of UK's exit from the EU (Brexit) emerged. The uncertainties facing the global economy at the beginning of this decade are linked to the continuation of trade disputes, geopolitical instabilities in the context of intensified national policies and threatening climate changes, and to continued growth in financial inequality and the new traps of technological development.

At the beginning of 2020, the coronavirus pandemic suddenly broke out, and was initially reflected in a crisis of the health system and of the social system during the pandemic. At the same time, the pandemic evolved into the most significant global economic challenge, with unpredictable but no doubt far-reaching economic effects. The first response of the financial markets was of unimaginable dimensions, as stock market indices dropped by roughly one third on average. Despite the reduced potential for the functioning of monetary and fiscal policy than in the years leading up to the 2008 crisis, large-scale fiscal incentives are expected to bring a significant increase in budget deficits and monetary incentives, in forms that still facilitate an impact on the economy.

The economic growth rate in developing countries stood at 3.7% in 2019, down 0.8 percentage points on 2018. Recovery in the economic growth of certain countries was expected in 2019, despite the major structural effects on slowing economic growth in China (slowed growth in labour and productivity, over-leveraging, and environmental pollution).

Economic growth in advanced economies slowed to 1.7% in 2019. Slowing growth in exports and investments, and a lower inflation rate than the target rate brought a laxer monetary policy in numerous economies. With central bank interest rates approaching the lower threshold, and in the context of low, even negative, long-term interest rates, the ability of monetary policy to spur economic growth was fairly limited. The service sector and the labour market were the main factors of economic growth in most advanced economies in 2019. A greater role was attributed to fiscal policy, in part via an increase in incentives for productivity growth, including investments in research, education and improvements to the physical infrastructure.

Economic growth in the euro area was also impacted by lower international trade and the uncertainty surrounding Brexit since early 2018. The most significant implications were seen in the automotive industry, while the situation in the service sector remained stable. Economic growth stagnated around 1.2% in 2019. Growth was supported by monetary policy stimulus and stable consumption in the context of the favourable situation on the labour market. In the context of an almost 10-year period of relatively strong economic growth, the financial systems of major euro area economies could become more vulnerable; future credit risks are potentially underestimated, while collateral is equally overvalued. The income risk of banks also remains significant in the context of additional uncertainties regarding changes to interest rates.

[7] Data from publicly accessible publications of the SORS, Bank of Slovenia, IMAD, European Commission, ECB, BIS and IMF, released up to the publication of this annual report

Growth in investments in the euro area, which is affected by cyclical factors associated with a decline in foreign demand, remained limited in the short term. Production capacity utilisation declined in 2019. Nevertheless, aggregate demand remained encouraging for many corporate investments. In the context of low interest expense and favourable lending standards, financing remained favourable in 2019. In the context of favourable growth on the capital markets in 2019 (16% growth in the STOXX Europe 600 stock index), corporate deleveraging was seen, despite the fact that the aggregate debt of European corporates as a proportion of GDP was still higher than before the crisis. Growth in productivity remained low in the context of further growth in employment and low growth in GDP.

Growth in consumption remained a significant component of economic growth in the euro area. Growth in disposable income also had a stimulating effect on the relatively favourable situation on the housing market, with slightly more moderate growth in the construction sector. Euro area inflation in 2019 was 1.2%, which is still significantly below the ECB target.

The structural deficit in the euro area rose to 1% of GDP in 2019, while gross government debt in the euro area declined to 84.5% of GDP, despite the restructuring of the debt with higher interest rates and the consequent decline in interest expenditure. Prior to the reversal of the cycle, the establishment of fiscal reserves in countries with high debt was very important for the euro area.

Slovenian economy

Annual growth in Slovenian GDP was down 1.7 percentage points in 2019 to stand at 2.4%, primarily due to the reduction in inventories and lower investment growth. Growth in household consumption remained relatively favourable at 2.6%, while growth in exports declined to 4.4%. A significant decline in export demand remained one of the major risks in 2019 which, given the high dependence of Slovenia's economy on exports, could also affect confidence in the entire industrial sector. In the context of higher labour costs and weak productivity growth, which was in part the result of the economy being in a stagnant period of the cycle, the deterioration in price and cost efficiency at the end of 2019 had a significant effect on export growth trends.

The favourable situation on the labour market continued in 2019, with an unemployment rate of just over 4.5%. Companies were under pressure during the second half of the year from expectations of a declining level of both export and domestic orders, and from an increase in labour costs. In 2019 future economic trends depended greatly on the ability to accelerate productivity growth, in which long-term adverse demographic trends played a crucial role. Investments in research and development, the activities of companies in the area of innovation, investments in ICT and sustainable development, the adaptation of knowledge and skills to development challenges, enhanced cooperation between companies and the research and educational sector and between companies of various sizes were all important in 2019 for long-term economic growth.

At 5.6%, high nominal annual growth in household disposable income continued in 2019, as the result of an increase in wages and high employment, and enabled a 14.5% saving rate, despite the fact that conditions for saving remained unfavourable in the context of low interest rates and consumption remained high. In the context of high real estate prices, growth in household investments dropped to the level from 2016. This is also likely due to the mismatch between the supply of housing and the financial capacities of households. Year-on-year growth in housing loans was 7%.

The slower annual growth in investments in 2019 to 3.2% contributed most to the declining growth in aggregate demand. The decline in growth was mostly seen in non-residential buildings and facilities at the end of the investment cycle in municipalities, while the continued slowdown in investments in equipment and machinery and in intellectual property products was unfavourable in the context of fewer new orders.

Growth in exports fell to 4.4% in 2019. Annual growth in merchandise exports slowed significantly in the context of weak foreign demand. With the decline in investments, growth in merchandise imports for investments and intermediate consumption slowed sharply, resulting in the widening of the merchandise trade surplus in the context of still-robust domestic private consumption. At 6.6% of GDP, the current account surplus remained at a high level in 2019, primarily due to the continued increase in the surplus of trade in services. The current account surplus facilitated a reduction in net debt to the rest of the world via domestic savings to barely EUR 1.2 billion of net external debt, with net foreign investments in Slovenia increasing due to an increase in foreign equity.

Inflation reached 1.6% in Slovenia in 2019, and was higher than in the euro area. Inflation was primarily under domestic factors as the result of a jump in wage growth and higher unit labour costs, and the resulting strengthening of private consumption, in particular service price inflation.

Economic growth in 2019 contributed to the improvement of certain fiscal indicators. There was a budget surplus of 0.5% of GDP, while the public debt declined to 66.1% of GDP in the context of high revenues and a significant decline in interest expenditure. The European Commission believes that the structural balance should reach -1% of GDP. The debt servicing burden fell to 7.6% of the government's annual disposable income, with the required yield on 10-year government bonds in 2019 falling to around 0%.

Significant uncertainty relating to the coronavirus outbreak also emerged in Slovenia at the beginning of 2020. In the context of measures to curb the pandemic a major economic shock is expected, potentially similar to the crisis in 2009 and potentially greater. Production chains have been broken in many places or their functioning has been limited, while demand has also been limited. Declining confidence will additionally affect investments and consumption. Many different factors in declining economic growth appeared simultaneously in most (advanced) global economies.

Banking environment

The total assets of the Slovenian banking system increased by 6.3% in 2019 on account of higher growth in loans and deposits. Income risk and the increased maturity mismatch between assets and liabilities remain two of the most important challenges facing the Slovenian banking system in the context of slow growth in interest income. The banks’ liquidity position remained very favourable in 2019. The quality of the credit portfolio continues to improve. However, the assessed quality of the portfolio could deteriorate in the event of a significant slowdown in 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. The slowdown in economic growth is making profit generation more of a challenge for banks. The Bank of Slovenia therefore warned that sensible profit distribution is important, particularly at banks with low capital surpluses.

The increase in the banks’ capital requirements due to strengthened lending activity outstripped the increase in internal capital via profitability (positive operating result). The Slovenian banking system’s total capital ratio has matched the euro area average, while its CET1 ratio is much higher. Capital requirements declined with the optimisation of business processes and the improved quality of the credit portfolio.

There has been a consolidation process in the banking system in recent years aimed at achieving synergies and greater resilience in business models. In 2020 NKBM finalised the purchase of Abanka, with the banks merging soon, meaning that two large banking groups will dominate the Slovenian banking sector. Only a third of banks' capital was under domestic ownership in 2019, while that proportion will continue to decline significantly as the result of the aforementioned merger.

The profitability of banks improved slightly in 2019 in the context of higher growth in non-interest income, the continued net release of impairments and growth in net income. Interest expenses (a record proportion of total liabilities accounted for by demand deposits) declined to a minimum level, while growth in interest income was moderate due to maturing high-yield investments from the past. In an environment of low interest rates, quantity effects (the stock of assets and liabilities) prevailed over price effects in the growth in net interest income.

The remaining NPEs, mostly from the crisis years, declined at an accelerated rate in the banks' balance sheets in 2019 to 2.2%, while the incurrence of new exposures was negligible in the given macroeconomic environment. Impairments as a proportion of the banking system's total assets declined to an historically low level of less than 2% at the end of 2019. As a result, the banks found themselves in a potentially vulnerable position in the event of a significant reversal in the economic cycle, when credit risk assessments deteriorate quickly and require a higher proportion of impairments.

The LTD ratio of the non-banking sector stopped its decline at just over 75% in 2019, with slightly higher growth in loans. That low ratio indicated the banks' reduced dependence on debt securities and financing via banks in the rest of the world, while liabilities to the Eurosystem continued to account for a low proportion.

The proportion of fixed-rate loans is increasing in all loan categories, which exposes banks without adequate collateral to additional income risk. Due to elevated risks in the context of the sharp increase in consumer loans, the Bank of Slovenia modified the macroprudential measure in the area of household lending in November 2019, changing it from a recommendation to a binding measure.

The surplus funds (net saving) of enterprises dropped to just 1.2% of GDP in 2019, despite declining annual growth in corporate investments. This suggests that companies will more actively seek external sources of financing, primarily with longer maturities, in the context of given demand and investments. Year-on-year growth in corporate deposits at banks has been slowing since mid-2018, but remained the second most important source of bank funding in 2019, at just over 16% of total assets. In the context of declining internal corporate financing, year-on-year growth in corporate loans increased to 4.8% in 2019. These loans accounted for almost 22% of total assets. With the increased proportion of foreign ownership in corporate equity, which increased by 10 percentage points in 2019 relative to 2008 to more than 25%, and the internationalisation of Slovenian companies, all other forms of financing in the rest of the world, which already accounted for almost one third of the total debt financing, increased simultaneously.

According to the data from a Bank of Slovenia survey, banks recorded year-on-year growth in demand for loans for the first time in ten years in 2018, with that trend continuing in 2019. High demand for the refinancing of existing loans with more favourable loans granted by other banks was seen in 2019. Growth in demand for loans for investment purposes declined in the first half of 2019. Slightly higher demand for project financing was seen in the construction sector, while demand for loans for current operations should also strengthen. According to the Bank of Slovenia's data, mostly smaller banks noted pressure from competing larger banks, which adjusted their range of services and products to smaller enterprises due to the lack of demand from large enterprises.

SID Bank's operations in 2019 were marked by the still relatively favourable trends in the domestic macroeconomic environment, and by a very slow increase in corporate lending by banks. On the other hand, the year was marked by rising uncertainty in the international economic environment. The reduction in surplus corporate funds, despite slowing growth in investments, confirmed the need for sustainable support of the external financing of corporations. SID Bank thus implemented supplementary measures with respect to the activities of financial intermediaries that ensure the Bank's presence in the area of market gaps, and thus prevented its activities from crowding commercial banks out of the functioning segments of the market. In these circumstances SID Bank focused 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, and financial instruments for strengthening the capital position of non-financial corporations, with an emphasis on supporting SMEs.

Great emphasis was also placed on the preparation and promotion of financing programmes from the Fund of Funds, where SID Bank strived to use EU cohesion policy funds in an efficient and timely manner. Given the rising uncertainty and the expected slowing economic growth in the international environment, the Bank also drew up certain initiatives in 2019 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 and low deposit interest rates, the placement of the development funds of SID Bank in the real economy was severely hampered in 2019. Corporate saving also remained at a relatively high level. Under these conditions, most banks had 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 remained the long maturity of funds that it provided for promoting purpose-specific financing. Given the level of investment activity in the country, corporate demand for such financing at banks was limited.

Performance of SID Bank

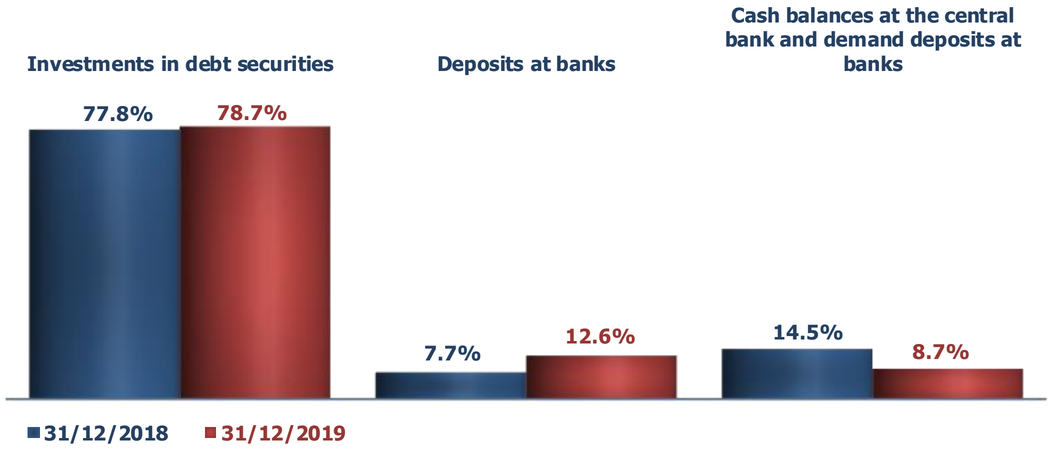
Funding and liquidity

In 2019 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 835,663 thousand at the end of 2019, which was similar to the level at the end of 2018 (2018: EUR 836,519 thousand). Through a new bond issue on the capital market in the nominal amount of EUR 200,000 thousand and by borrowing at the European Investment Bank in the nominal amount of EUR 50,000 thousand, the Bank maintained an adequate amount of liquid assets, despite increased credit activity and the repayment of a portion of its financial liabilities.

Investments in debt securities (EUR 658,019 thousand) accounted for the largest proportion of liquid assets at the end of 2019, followed by short-term interbank deposits (EUR 104,915 thousand), balances at the central bank and demand deposits at banks (EUR 72,729 thousand).

Structure of liquid assets

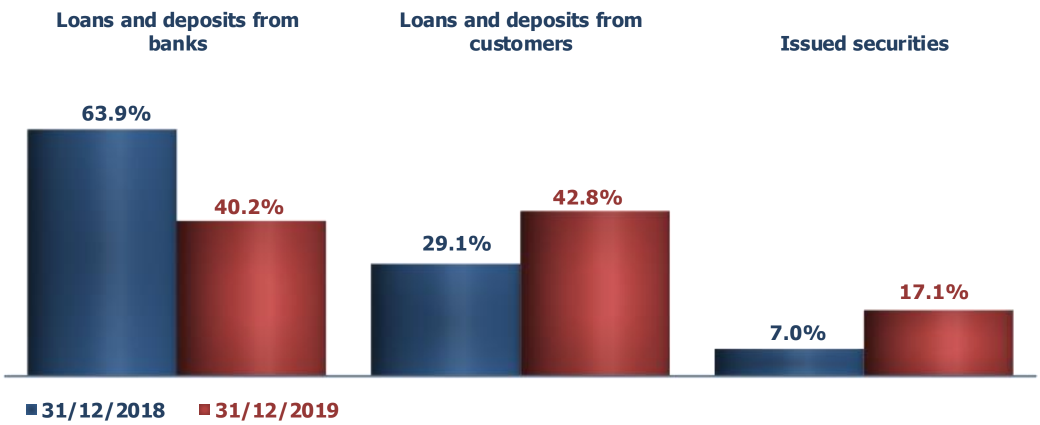


The Bank manages investments in debt securities for the purposes of managing liquidity, asset-liability management, and the stabilisation of the interest margin. In investing in debt securities, the Bank follows a conservative and prudent strategy, as the majority of the portfolio consists of marketable,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

The structure of the securities portfolio shifted in 2019 towards securities with lower credit risk, most notably sovereign issuers, while the average maturity of the portfolio lengthened from 3.4 years to 3.8 years.

The main challenges in managing liquid assets relate to low income potential due to low or even negative interest rates. Uncertainties on the financial markets as a result of geopolitical risks, trade wars, other protectionist measures and the slowdown in economic growth also have an effect on investment management. The expansionary monetary policy of central banks and the flight to safe haven assets lead to a decline in interest rates on the money market and lower yields on bonds, thereby prolonging the period for which market participants expect negative or record low market interest rates.

Structure of financial liabilities



SID Bank obtained funding on the domestic and international financial markets to diversify 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 2019.

With the aim of generating new value for the target groups of final beneficiaries and to improve access to favourable long-term funding, the Bank's credit lines also include long-term purpose-specific funding from the

European Investment Bank, the KfW bank, the Council of Europe Development Bank and the MEDT, in addition to other sources of funding.

In June 2019 SID Bank issued a seven-year bond in the nominal amount of EUR 200,000 thousand on the international capital market in a private placement. The bond was issued under favourable price terms with a yield to maturity of 0.18% at issue, which was a spread of 25 basis points at issue over domestic government bonds of comparable maturity. Favourable price terms are a reflection of domestic and international investors' confidence in SID Bank, and the associated government guarantee. The funds from the issued bonds are earmarked for the increase in credit activity, the repayment of a portion of financial liabilities and for maintaining a sufficient amount of liquid assets.

In 2019, via the active liability management, SID Bank made an early repayment of promissory notes with less favourable interest rates than other financial liabilities in the total nominal amount of EUR 45,000 thousand. The early repayment of promissory notes had a favourable impact on the average interest rate on financial liabilities and also on the Bank's total interest margin.

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

Financing

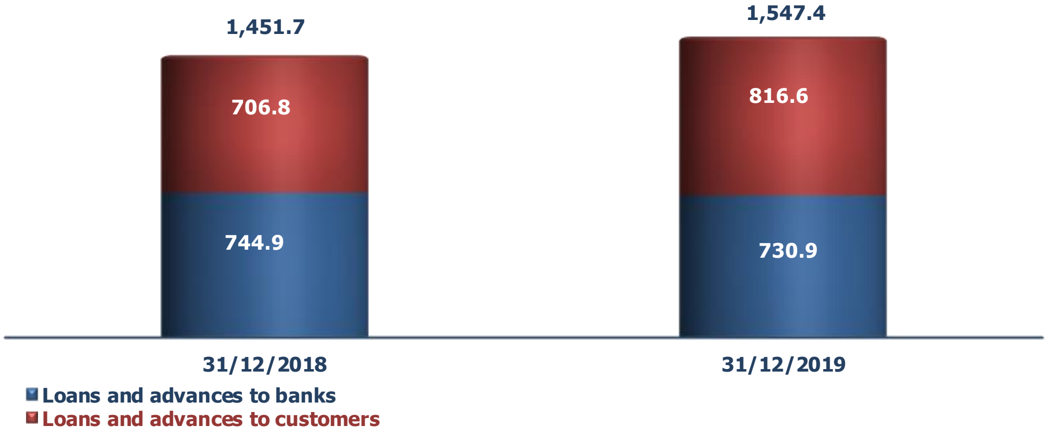
The financing of customers is carried out with previously established and new instruments, and is based on purpose-specific loans to commercial banks, corporate loans with or without the status of state aid (primarily in the form of financial engineering instruments and Fund of Funds), loans to municipalities, export credits, project financing, the purchase of receivables, accession to debt and other forms of risk take-up, etc. 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.

SID Bank's activity in 2019 was primarily focused on development financing and more complex schemes. In the mediation of purpose-specific funding via commercial banks and savings banks, in line with the aforementioned approach the Bank adjusted its range of services with three new programmes and strengthened its function of providing administrative technical assistance to intermediaries (simplifications, consultancy, workshops, development of software support, etc.). It strengthened its partnerships with other stakeholders in the development and implementation of major investment and export projects and in the opening of new markets for the Slovenian economy, promoted investments with the development of "SID Bank's development and incentive programme for financing under the Investment Incentives Act", and joined initiatives focusing on the circular economy, environmental protection and energy efficiency. The Bank also expanded its range of existing financing programmes in the scope of financial engineering to sole traders and cooperatives as final beneficiaries and, in the scope of the direct implementation of the Fund of Funds, also introduced programmes for the financing of urban development projects, investments in research, development and innovations, and projects concerning the comprehensive energy renovation of public buildings.

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.

At the end of 2019 net loans totalled EUR 1,547,405 thousand (2018: EUR 1,451,673 thousand), up 6.6% on the stock at the end of 2018.

Credit portfolio (in EUR million)



Target groups of final beneficiaries

In 2019 SID Bank funds were approved for loans in the amount of EUR 356.8 million made via intermediary banks to 160 final beneficiaries and directly by or co-financed via SID Bank to 141 borrowers. There were 1,369 final beneficiaries financed indirectly via commercial banks and savings banks, and 597 borrowers directly financed by SID Bank as at 31 December 2019. The funds were earmarked primarily for the promotion of research, development and innovations, job preservation and job creation, corporate growth (primarily SMEs), the internationalisation of business, a better infrastructure, energy efficiency, renewable energy sources, the reduction of pollution and increased environmental protection.

In terms of the primary purpose, the development of economic competitiveness accounted for 61% of new loans in terms of total value, regional development for 29%, development of an environment-friendly society and development of a society of knowledge and innovative enterprise for 10%.

In terms of corporate size, a total of 277 SMEs and sole traders (92% of all borrowers) received support in the amount of EUR 167 million, of which 22 were sole traders, who received EUR 2.5 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 (32%), followed by borrowers from the South-East (14%), Coastal-Karst (13%), Gorenjska (12%) and other regions (29%).

Firms in the manufacturing sector were prevalent among borrowers (41% of new loans in terms of value), followed by food service and catering (9%), professional, scientific and technical activities (8%), the supply of electricity, gas and steam (8%), and other sectors.

Indirect financing

The financing of final beneficiaries (sole traders, cooperatives, SMEs, Mid-Caps, large enterprises and municipalities) is being carried out on the basis of long-term purpose-specific financing via commercial banks and savings banks. These intermediaries thus remain the most important partners in financing final beneficiaries, while public funds are also involved in intermediation. To that end, SID Bank is further strengthening its role as the central public financial institution for promoting the economic development and financing of the economy, in collaboration and partnership with commercial banks, savings banks and public funds. In this process, SID Bank combines and ensures the benefits of financing are transferred on the basis of long-term borrowing at development banks, the EIB, KfW, CEB and other sources of funding.

Loans to commercial banks and savings banks accounted for 47% of SID Bank's credit portfolio at the end of 2019 (2018: 51%). Their stock amounted to EUR 730,855 thousand, down 1.9% on the stock of these loans at the end of 2018, which is primarily a reflection of the focus on intensifying the consumption of disposable income at intermediary banks and savings banks and the situation on financial markets.

SID Bank continued to enhance its cooperation with commercial banks and savings banks in 2019 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 aimed at intensifying digitalisation.

On the basis of strategic policies and a selection of measures for the adjustment of the business model for operations via commercial banks and savings banks, SID Bank's activities in 2019 focused on the development of new ways to mediate funds to final beneficiaries via commercial banks and savings banks, and a broad selection of products whose purpose is in line with the ZSIRB. To that end, SID Bank developed a new financial instrument, a subordinated loan earmarked for commercial banks and savings banks with an investment-grade credit rating. In 2019 SID Bank also provided commercial banks and savings banks the possibility of arranging existing and securing new indirect financing operations by ensuring compliance with the MREL. Commercial banks and savings banks can therefore include these sources of funding in the MREL ratio, which contributes to maintaining long-term sources of funding and thus the stability of the banking system. In accordance with the development strategy for the period 2019 to 2023, SID Bank will continue to expand its range of products and services in 2020 for commercial banks and savings banks with products that will focus on the take-up of risks due to liquidity on the banking market.

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. SID Bank developed a new financing programme in 2019 for banks that is based on the ability to select a particular bank by level of interest rate in accordance with the dynamics of mediating funds to final beneficiaries. The Bank therefore tracked the needs and wishes of the banking environment for the greater flexibility and price competitiveness of products, in the context of the simultaneous pursuit of the quicker placement of funds in the real sector. As required, SID Bank also provided long-term sources of funding to commercial banks in the scope of co-financing the investment projects of Slovenian firms.

In the scope of its range of 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 (increasing the number of final beneficiaries and 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 the 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, etc.); and
- activities focused on 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, where significant emphasis will be placed on the financing of green economy projects.

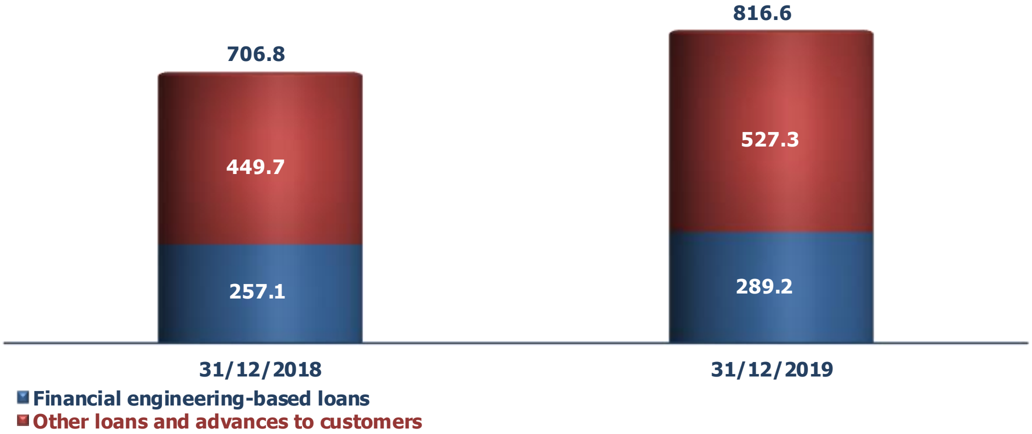
Direct financing

The direct financing of customers is carried out independently via purpose-specific loan funds of financial engineering and via various forms of co-financing with commercial banks. Other forms of direct financing include export credits, the financing of municipalities, project financing, accession to debt, the purchase of receivables, etc.

The largest category within direct lending to corporates and other customers in 2019 was financing in the scope of financial engineering measures, which are carried out in a partnership between SID Bank and the MEDT, while lending is carried out on the basis of notified state aid schemes and *de minimis* aid. The majority of direct financing was accounted for by programmes for investments and employment, development and incentive-based programmes for SMEs and the programme for the financing of investments for the sustainable growth of Slovenian tourism. In addition to the aforementioned, the programmes of direct financing via loan funds also included programmes focused on strengthening the capital of SMEs, the financing of development and innovations, and the financing of investments in the forestry-wood processing chain.

In addition to dedicated lines, a significant proportion of direct financing was accounted for by the co-financing of major investment and infrastructure projects, and green economy projects.

Loans and advances to customers (in EUR million)



Loans to customers amounted to EUR 816,550 thousand at the end of 2019, up 15.5% on the end of 2018. This proportion of the credit portfolio increased by 4 percentage points in 2019 to 53%.

Products based on financial engineering from national budget funds

For the implementation of financial measures of national and European public policies, SID Bank implements a set 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 provide long-term resources for financing micro companies, SMEs and large enterprises and their development projects. 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, and for which state aid schemes and *de minimis* aid was notified.

In the scope of financial engineering measures in 2019, the Bank and the MEDT offered six programmes whose funds could be obtained by firms directly at SID Bank. To that end, the target group of final beneficiaries were also given the opportunity to obtain funds in 2019 for the financing of various projects via the following programmes:

- a programme 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, small inventory, merchandise and labour costs;
- a programme for financing investment projects in the real sector, which is earmarked for financing investments in property, plant and equipment and intangible assets in Slovenia, with 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 programme for financing investments in the forestry and wood processing chain, which is earmarked for financing the construction of new wood processing plants or the 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, with loan amounts of EUR 100 thousand to EUR 5 million, loan maturity of 6 to 15 years, and a maximum moratorium period of half of the loan maturity, but no more than six years;
- a programme for financing investments 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, with 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, and a maximum moratorium period of half of the loan maturity, but no more than five years;

- a programme for financing technological development projects in amounts of EUR 100 thousand to EUR 15 million, with a maturity of 6 to 12 years and a moratorium period. SID Bank used this programme to finance projects that included research and development activity to develop innovations in terms of technology, processes and organisational changes. The funds were earmarked for financing employee wages on the project, contractual research, advisory and other services, and materials, instruments and equipment used on the project; and
- a programme for financing the operations and capitalisation of SMEs and a programme for financing the investments and capitalisation of SMEs. The programmes, aimed at 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 and a loan amount of EUR 100 thousand to EUR 5 million. In addition to the typical development effects in terms of target areas (investments, research and 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 programmes generally contain elements of state aid that are reflected in favourable interest rates on loans. The weighted average maturity of all the loans stood at 9.9 years, while the weighted average maturity of new loans in 2019 extended beyond that period to stand at 12.1 years. The weighted average premium over the benchmark interest rate was 1.97%.

The net stock of loans granted amounted to EUR 289.2 million at the end of 2019. A total of EUR 144.8 million in new loans was approved to 125 customers in 2019 within the scope of financial engineering funds.

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

Direct activities of the Fund of Funds

SID Bank pushed ahead in 2019 with its activities under the aegis of the Fund of Funds. In that regard, financial instruments were developed in the form of ECP loans for urban development (EUR 5 million in ECP resources available) and ECP loans for the complete energy renovation of public sector buildings (EUR 25 million in ECP resources available), which SID Bank began to implement directly and under which final beneficiaries were transferred EUR 2.9 million. The Bank also began actively marketing ECP loans for financing investments in research, development and innovation (EUR 11 million in ECP resources available) and also transferred the majority of available resources to the final beneficiaries.

Financing of municipalities

In 2019 SID Bank continued the promotion of investments in local public infrastructure, local measures regarding the 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 at least 15% had to be provided by the municipality itself.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.

Activities also commenced in 2019 to increase support for the central government and local government (municipalities) in preparing projects and preparations for the new EU financial framework. To that end, SID Bank has already initiated pilot projects in the area of organising technical assistance and other types of advisory services for municipality projects, the sustainable development of individual municipalities and financial engineering. SID Bank also plans to expand its range of borrower target groups in this segment and thus facilitate the municipalities' activity, and the pursuit of their missions.

Infrastructure financing

In 2019 SID Bank strengthened its activities in the financing of strategic investments as one of the most important objectives of Slovenia and the EU.

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 collaboration with commercial banks or independently, thus contributing to more balanced and faster regional development. In addition to its other funding, the Bank also used funds from loans from development-focused international financial institutions, thereby securing long-term funds under favourable terms for the development of infrastructure projects.

Export financing

In 2019 SID Bank continued its promotion of international commercial and development cooperation and international commercial transactions, in particular for promoting long-term business transactions that enable participants entry and operations on 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.

The scope of the long-term financing of Slovenian and foreign companies increased significantly in 2019, as the result of export transactions and investments made by Slovenian corporations on foreign markets. SID Bank thus continued to support Slovenian companies in the internationalisation and strengthening of the export of investment goods and services, primarily to markets outside the EU.

The programme from the loan fund that was mostly used to finance the export strategies of SMEs to markets outside the EU and the OECD was realised in its entirety.

SID Bank also began a series of activities in the area of financing the internationalisation of Slovenian companies in 2019 that will facilitate competitive terms and simpler integration into international commercial flows. The development of concessionary loans, taking into account the need to finance development projects in developing countries and the creation of links between Slovenian stakeholders in this area, represented one of the key activities. The Bank will also be actively involved in the provision of technical assistance for export and development financing.

Project financing and consultancy

SID Bank strengthened its project financing and consultancy activities in 2019. Via the project financing department, it focuses its consultancy services on solving one of the key problems in the area of implementing infrastructure projects, i.e. faster and more effective preparation. In addition, the Bank obtained technical assistance within the framework of the Investment Plan for Europe, based on which the project financing department will strengthen the local EIAH in 2020 and will facilitate the preparation and realisation of strategic investments important to Slovenia’s development.

By setting up SID Bank's project office in collaboration with the European Investment and Advisory Hub (EIAH), SID Bank is engaged in the development of investment and projects in the initial phase. This means that, in accordance with the relevant guidelines, the project office systemically monitors the market, identifies potential investors and provides them the advisory and technical assistance that they require. A single access point has also been put in place for investors, as the Bank provides them with professional and technical assistance in the development of projects according to their needs. Projects are monitored and their development over the entire cycle supported, from the identification of the project until the phase in which the projects can be financially structured and thus prepared to receive financing.

Equity financing programme

Firm commitments were given for the investment of two-thirds of the funds from the SEGIP programme (approximately EUR 68 million of the EUR 100 million funds available) until 31 December 2019 (two years after establishing the 15-year SEGIP programme). Commitments were given to private equity funds, which then invest these funds over a four-year investment period in companies, or directly to Slovenian companies via co-investment.

An important new feature in 2019 was the establishment of two new Slovenian private equity funds, which each received EUR 12.5 million in commitments for SID Bank payments (each received EUR 25 million together with the EIF), and are managed by two private Slovenian fund managers. Both funds managed to mobilise additional firm commitments given by private investors with the aim of achieving the total fund size in amount of EUR 60 million and EUR 65 million for the first and second fund, respectively. Taking account of their investment policies, these two funds alone will secure at least EUR 75 million in new equity for Slovenian companies (SMEs and Mid-Caps) over the next three to four years. The two funds already made their first investments in 2019.

Leverage is also ensured via other SEGIP investments. A total of EUR 10 million in equity, of which EUR 2.5 million was accounted for by SID Bank (a leverage ratio of around 4), was secured in the scope of co-investment activities in 2019 for a Slovenian company engaged in the efficient use of energy. Another company operating in the area of digital solutions (digitalisation) received support in the scope of co-investment activities of just over EUR 4 million, of which SID Bank contributed 1.3 million (a leverage ratio of around 3).

Other Financing

By using long-term sources of funding, in cooperation (primarily via co-financing) with other banks, and individually, 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, the provision of housing for vulnerable groups of people, encouraging internationalisation, competitiveness, employment, technological development, research and innovations. To that end, it employs various financing instruments, such as purpose-specific loans to commercial banks, syndicated loans, independent direct financing, the purchase of receivables, accession to debt and other forms of risk take-up and project financing.

Operations under Republic of Slovenia authorisation

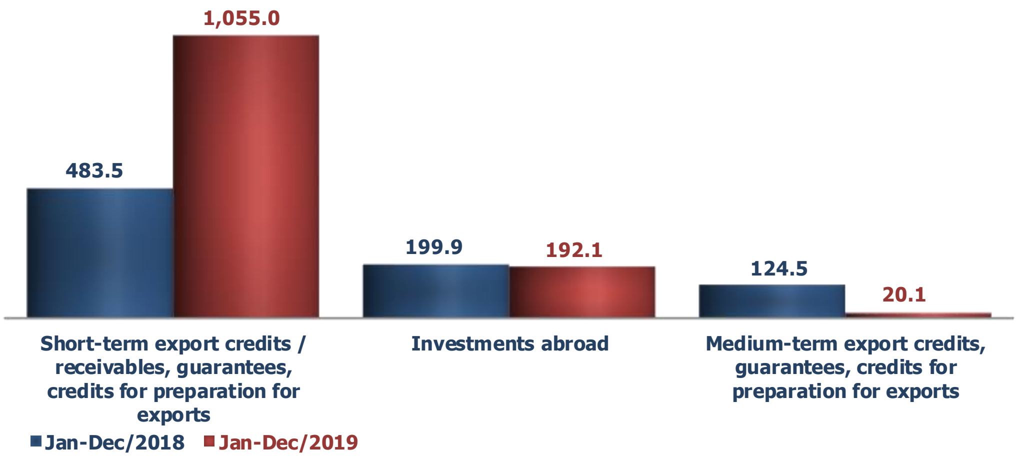
Insurance against non-marketable risks

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 deem 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 added value.

Volume of insurance operations

The volume of operations amounted to EUR 1,267,203 thousand in 2019, up 56.8% on the previous year. Higher insurance volumes were realised, in particular, in short-term operations, primarily in the reinsurance of short-term credits. The insurance of bank guarantees, where numerous small-value transactions were insured, was notable in terms of the number of issued insurance policies.

Volume of insurance operations by type of insurance (in EUR million)



The realised volume in 2019 was equivalent to 8.9% of the limit on new annual liabilities set out in the ZZFMGP. Reinsurance of short-term export credits accounted for the largest proportion of the volume of insurance operations at 82.2% (renewable insurance of short-term non-marketable risks), followed by insurance of outward investments (15.2%), while the remainder was accounted for by medium-term credits, short-term guarantees, medium-term credits for preparations for exports, medium-term guarantees, short-term credits and short-term credits for preparations for exports.

There was no significant change in the breakdown of insurance by country. The largest proportion in 2019 related to insurance operations in Russia (35%), followed by Serbia (13.7%), Ukraine (8.5%), Bosnia and Herzegovina (6.8%), Croatia (6.4%), the USA (4.7%), North Macedonia (2.8%), Montenegro (2.1%) and Turkey (2%).

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. African countries are becoming increasingly relevant in terms of new markets for the insurance and financing of exports. The process of negotiating an agreement on cooperation with the Export and Development Bank of Ghana began in 2019. This agreement will bring the Ghana market closer to Slovenian exporters. At the same time, processes are underway to implement the first export transaction via this bank, which reinforces future export expectations. Something similar is happening in Uganda and Angola. There is also encouraging information coming out of other countries in the region. The length of procedures and bureaucracy in Africa (administration) will present a serious challenge for these transactions.

The trend of declining rigidity in the acceptance of risks continues at both banks and corporates. As a result, corporates and banks only turn to SID Bank in the event of complex, demanding structures for insurance, which requires more knowledge and creativity in structuring transactions.

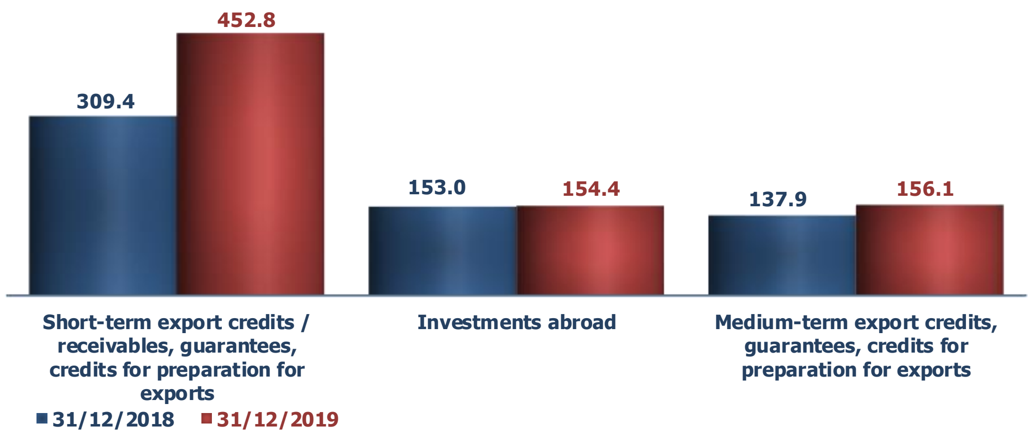
Taking account of corporate demand, one might expect to find the greatest business opportunities in export financing insurance, but only few are successfully realised. These transactions are complex in terms of how they are structured, are accompanied by complex risks and include many stakeholders, and therefore require much time and knowledge. At the same time, the penetration of third-country markets is becoming increasingly necessary for Slovenian exporters in economic terms, but is generally unsuccessful without export financing. Exporters are increasingly aware of this, as are commercial banks, which have begun strengthening their export financing departments. We are thus expecting an increasing amount of these transactions in the future.

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.

Exposure

Exposure from current insurance policies amounted to EUR 729,609 thousand at the end of 2019. Exposure from firm insurance commitments, which under the ZZFMGP is included in the total net exposure, amounted to EUR 33,865 thousand. Total exposure from insurance operations for the account of the state and from issued firm insurance commitments amounted to EUR 763,475 thousand, up 27.2% on the end of 2018. The increase in exposure was primarily attributable to the increase in the volume of reinsurance and insurance operations.

Exposure by type of insurance (in EUR million)



The exposure amount is equivalent to 36.4% of the limit defined in the State Budget 2019 Implementation Act (ZIPRS) and 1.8% of the limit defined in the ZZFMGP.

The largest exposures in the insurance portfolio in 2019 were disclosed to Russia, Belarus, Serbia, Croatia, the USA, Ukraine, Bosnia and Herzegovina, North Macedonia and Montenegro.

Other insurance-technical provisions

in EUR thousand	31 Dec 2019 or Jan-Dec/2019	31 Dec 2018 or Jan-Dec/2018	Index 2019/2018
Premiums and commissions	5,744	8,624	66.6
Potential claims	293	639	45.9
Claims under consideration	1,544	1,531	100.8
Claims paid	(32)	(979)	3.3
Recourse	151	207	72.9
Insurance technical result	5,180	7,290	71.1
Investment income	1,091	1,088	100.3
Surplus of income over expenses	6,271	8,378	74.9

Premiums and fees from insurance against non-marketable risks amounted to EUR 5,744 thousand in 2019, down 33.4% on 2018. The lower insurance premium is not in line with the higher volume of insurance operations. (Re)insurance of short-term export credits accounts for the largest proportion of paid premium, followed by premiums from the insurance of medium-term credits and investment insurance.

The lower insurance premium is the result of the structure of insurance operations. A significantly higher volume of short-term insurance operations and less medium-term operations were realised in 2019 relative to 2018. 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 32 thousand in 2019, down significantly on the previous year (2018: EUR 979 thousand). One minor claim from the reinsurance of short-term credits was paid, while the remainder relates to costs of the recovery of paid claims from previous years.

Claims under consideration (claims filed) amounted to EUR 1,544 thousand as at 31 December 2019, up EUR 13 thousand on the end of 2018.

At EUR 293 thousand, potential claims in 2019 were down by EUR 347 thousand on the 2018 figure, and relate exclusively to the reinsurance of short-term credits.

The insurance technical result in 2019 was EUR 5,180 thousand (2018: EUR 7,290 thousand). The surplus of income over expenses amounted to EUR 6,271 thousand (2018: EUR 8,378 thousand).

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.

Contingency reserves were up EUR 6.3 million in 2019 relative to the previous year as a result of a positive operating result.

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 1,055,010 thousand in 2019, which is 2.2 times more than in the previous year.

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

The volume of short-term insurance operations realised in 2019 primarily related to export transactions in Russia, Ukraine, Serbia, Bosnia and Herzegovina, North Macedonia and Montenegro, which are followed by other countries with lower values. Exposure from these operations, including commitments, stood at EUR 452,896 thousand at the end of 2019, up 46.4% on the end of 2018 (EUR 309,419 thousand).

The increase in the volume of short-term insurance operations in 2019 was only partially tracked by the realised insurance premium, which was up by 10.7% to stand at EUR 2,155 thousand. The reason lies in the continued decline of the prices of short-term insurance, and can also be attributed, in part, to the changed structure of risks on the basis of the revised reinsurance contract between SID Bank and Coface PKZ, which defined the sharing of taken up non-marketable risks between SID Bank and the private market on a 50/50 basis. Despite a major increase in the scope of insured receivables, the number of exporters fell, while insurance operations were concluded with an increasing number of foreign debtors, resulting in the increased diversification of risks taken up in terms of the insurance of receivables.

The Bank is expecting lower growth in Slovenian exports in 2020 relative to previous years. It is also reasonable to expect that some Slovenian policyholders will be taken over by a foreign commercial insurer with no reinsurance arrangement in place with SID Bank. As a result, a similar volume of operations to that of 2019 is planned for 2020.

Insurance of medium-term export credits

The largest proportion of insured medium-term export credits, bank guarantees and export preparation loans in 2019 related to exports of communications and other electrical appliances, tools and machinery, construction, and engineering and technical consultancy services. The majority of medium-term operations were insured for receivables from customers from Montenegro, Germany, the Ukraine, Belarus, Croatia, Algeria and Russia. The stock of insured medium-term export credits is subject to major fluctuations 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 2019 was down on the previous year and stood at EUR 20,061 thousand (2018: EUR 124,506 thousand). Two medium-term transactions were concluded in 2018, which were significantly larger in terms of size than other transactions. There were no transactions in 2019 that could compare to the latter in terms of value. One transaction was even postponed to next year.

As at 31 December 2019, exposure from the insurance of medium-term export credits, bank guarantees and loans for the preparation for exports (concluded insurance policies and commitments) amounted to EUR 156,143 thousand, with Belarus prevailing among countries in terms of exposure with a 69.8% share. Premiums from this insurance amounted to EUR 2,561 thousand in 2019. Claims paid from the insurance of medium-term export credits amounted to EUR 15 thousand in 2019.

The volume of and exposure from the insurance of medium-term transactions are expected to increase by the end of 2020. That growth estimate is based on the improved realisation of transactions in demand and on the increased engagement of the institution authorised for supporting export financing. Slovenian companies must diversify their markets, and are therefore seeking new business opportunities. In addition to existing markets in Eastern and South-Eastern Europe, new challenges have also emerged in countries such as Ghana and Angola on the basis of current demand. Exporters will also be active on existing EU markets (the Netherlands, Germany, Italy and other countries).

Active involvement is also expected from Slovenian banks in negotiating transactions relating to export financing and the support of Slovenian exporters.

Insurance of outward investments

The volume of insured outward investments reached EUR 192,133 thousand in 2019, down 3.9% 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.

Exposure from investment insurance amounted to EUR 154,436 thousand at the end of 2019, up 0.9% 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.

Croatia accounts for the largest proportion of insured investments, followed by the USA, and Serbia. In 2019 premiums from investment insurance were down 18.9% on the previous year and stood at EUR 1,014 thousand.

Companies have expressed interest in the possibility of insuring their investments, in particular in the insurance of non-shareholder loans, but these transactions are seldom concluded. Capital takeovers of markets are expensive and also associated with high risk, requiring companies to act cautiously. On the other hand, the risks in the former Yugoslav republics, which are acceding to EU structures, are declining. In the past, these countries represented the largest target market for investments by Slovenian firms. In an environment of mitigating political risks, firms decide against concluding insurance and frequently underestimate risks inherent in investing on foreign markets, which is a major factor in mitigating exposure from investment insurance.

SID Bank expects several investment operations to be realised in 2020 by Slovenian firms in former Yugoslav republics, primarily in Croatia and Bosnia and Herzegovina. The prospects are also good for Russia and Kazakhstan.

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 provides financial products that it will offer to Slovenian firms and municipalities via financial intermediaries (primarily commercial banks, savings banks and public funds).

In addition to the funds from European cohesion policy, the financial intermediaries must secure additional funding from other sources 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 collectively over all the years, which means that a total of more than EUR 400 million will be available to firms and other final beneficiaries within this financial framework.

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

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:

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

SID Bank pushed ahead in 2019 with its activities under the aegis of the Fund of Funds.

Financial instruments in the form of ECP loans for urban development, ECP loans for the comprehensive energy renovation of public sector buildings and ECP equity and quasi-equity financing were developed. Financial intermediaries have already been selected for these instruments, while SID Bank has started to implement some of these financial instruments directly. In line with the legal framework, the financial intermediaries were chosen on the basis of procurement contracts, while given the novelty in the Slovenian context, SID Bank provided the requisite legal and administrative technical support to the intermediaries during the development phase and during implementation itself.

Loans have been available since 2019 via SID Bank for the energy renovation of public sector buildings in the amount of EUR 100 thousand to EUR 15 million, with a maturity of 5 to 25 years, a maximum moratorium period of half of the loan maturity, and under less stringent collateral terms or without collateral. There will be approximately EUR 25 million available until 2023 from EU cohesion policy funds for the implementation of this financial instrument.

Loans have also been available for urban development in the amount of EUR 500 thousand to EUR 7 million, with a maturity of 3 to 25 years, a moratorium period of maximum half of the loan maturity, and under less stringent collateral terms or without collateral.

There will be approximately EUR 5 million available until 2023 from EU cohesion policy funds for the implementation of this financial instrument. Urban municipalities, in particular, will be the final beneficiaries of this support.

Convertible loans and direct investments in equity as co-financing with private investors, which is carried out via the financial intermediary, the Slovene Enterprise Fund, have been available for equity and quasi-equity financing. Convertible loans are available up to an amount of EUR 75 thousand. Convertible loans have a maturity of five years with an option of extension for a maximum of two years. The moratorium period is three years. Investment in equity ranges from EUR 100 thousand to EUR 600 thousand, or up to EUR 1.2 million in the event of an innovative enterprise. The investment is made for up to 10 years, with micro and small enterprises determined as its final beneficiaries. There will be approximately EUR 10 million available until 2023 from EU cohesion policy funds for the implementation of this financial instrument.

The second of four tranches from EU cohesion policy funds was successfully drawn down in 2019.

The range of financial instruments will be further strengthened in 2020 through the development and introduction of portfolio guarantee products and the expansion of the contracting financial intermediaries.

Management of emission allowances and Kyoto units

Pursuant to Article 127 of the Environmental Protection Act, SID Bank continued its function as the official auctioneer of greenhouse gas emission allowances in 2019 in accordance with Commission Regulation (EU) No 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community, 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 140 auctions as an official auctioneer of emission allowances (EUAs) in 2019, at which a total of 2,648 thousand allowance units were sold. The consideration amounted to EUR 65,141 thousand.

Six auctions for EU aviation allowances (EUAA) were also held in 2019. A total of 6,500 thousand units were sold for a consideration of EUR 164 thousand.

Other transactions under authorisation

In line with its legal authorisations, in 2019 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 2019 for loans approved under the ZJShemRS. At the end of 2019 there were four loan agreements secured by government guarantee still active at the commercial banks (2018: seven loan agreements), the stock of principal amounting to EUR 10.5 million as at 31 December 2019 (2018: EUR 11.7 million).

SID Bank received one new request for guarantee calls in 2019 for loans approved under the ZJShemFO. In March 2019 the Bank was paid out a guarantee in that regard in the amount of EUR 2,312.80.

There were 72 loans in the stock as at 31 December 2019 (2018: 89), while the total loan principal amounted to EUR 2.8 million (2018: EUR 3.2 million).

Two loans of EUR 1.1 million supported by a government guarantee under the ZPFIGD were insured at the end of 2019. Within this amount, the government guarantee amounted to EUR 0.8 million.

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

Activity (in EUR thousand)	Revenues	Expenses
Insurance operations on behalf of and for the account of the government	1,740	(1,655)
Fund of Funds	729	(1,555)
Auctions of emission allowances	22	(22)
Other transactions under authorisation	14	(64)

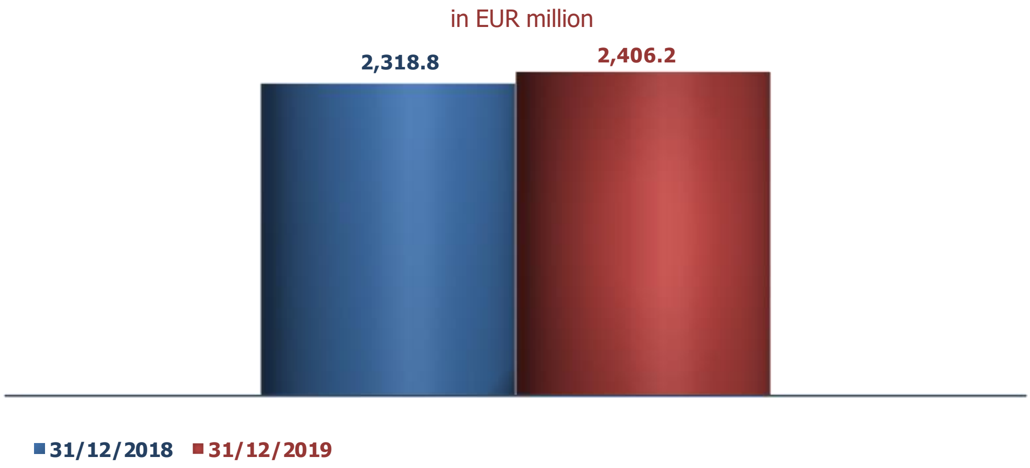
The table discloses SID Bank's total (direct and indirect) income and expenses for its individual activities pursued in 2019.

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.

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.

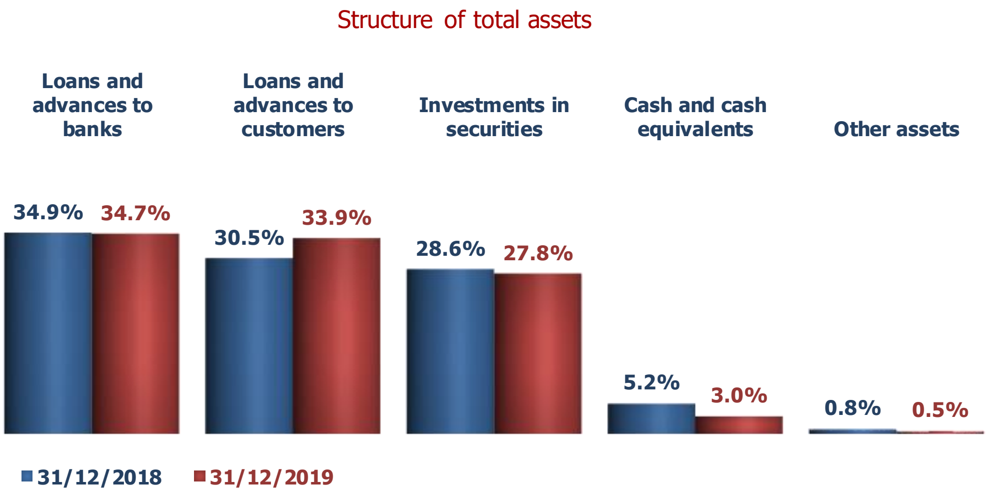
Financial position of SID Bank

Total assets



SID Bank's total assets at the end of 2019 stood at EUR 2,406,164 thousand, up 3.8% on the end of 2018. Total assets were up EUR 87,330 thousand on 2018.

Assets



Loans and advances to banks accounted for the largest proportion (34.7%) of the Bank's assets in 2019 (2018: 34.9%). Loans and advances to banks, which includes loans and deposits, totalled EUR 835,770 thousand at the end of 2019, up EUR 26,420 thousand or 3.3% on the end of 2018.

The higher amount is a result of the higher stock of deposits at banks, with their stock amounting to EUR 104,915 thousand at the end of the year. Deposits accounted for 12.6% of loans and advances to banks.

Loans and advances to banks (all long-term) decreased by EUR 14,031 thousand in 2019 to EUR 730,855 thousand. A total of 92% of loans and advances to banks at the end of the year were accounted for by loans to Slovenian banks, which as financial intermediaries, mediate development funds to final beneficiaries, while 8% were accounted for by loans to foreign banks for financing the export transactions of Slovenian firms.

The Bank recorded a 15.5% growth in loans to customers in 2019, which meant an increase in the proportion of loans to customers, from 30.5% at the end of 2018 to 33.9% in 2019. The stock of loans to customers stood at EUR 816,550 thousand at the end of 2019. The largest increase was recorded by loans to Slovenian non-financial corporations, at 82% of loans to customers. They were followed by loans to the government sector (primarily loans to municipalities and loans for the infrastructure) at 15%, while the remainder was accounted for by loans to other financial organisations, foreign non-financial corporations and loans to sole traders.

Loans are broken down in detail in section entitled Financing.

Investments in securities amounted to EUR 669,324 thousand at the end of 2019. A total of 98% of investments relate to debt securities, the stock of which stood at EUR 658,019 thousand at the end of 2019. Debt securities are broken down in detail in the section entitled Funding and liquidity, and section 3 of the Financial Report (Risk management).

Investments in equities relate to the Bank's holding in the European Investment Fund (EUR 6,547 thousand) and investments that the Bank implements within the framework of the Slovene Equity Growth Investment Programme (EUR 4,758 thousand). For more on the programme, see the section entitled Financing.

The proportion of the Bank’s total assets accounted for by investments in securities stood at 27.8% at the end of 2019 (2018: 28.6%).

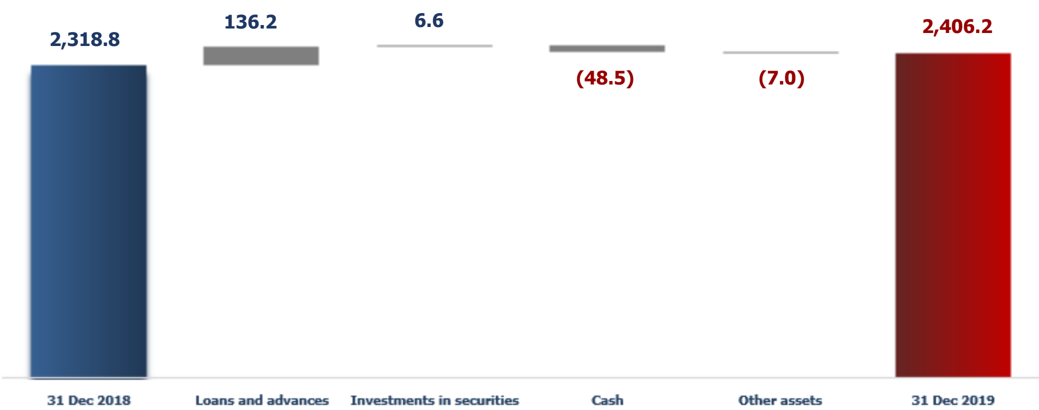
SID Bank held EUR 72,729 thousand in balances at the central bank and at commercial banks at the end of 2019, meaning that cash and cash equivalents were down EUR 48,455 thousand on the previous year, and their proportion of the Bank's total assets declined from 5.2% at the end of 2018 to 3% at the end of 2019.

Other assets in the amount of EUR 11,791 thousand comprised:

- property, plant and equipment and intangible assets in the amount of EUR 5,598 thousand, down EUR 323 thousand on the end of 2018;
- other financial assets in the amount of EUR 5,261 thousand (2018: EUR 1,853 thousand);
- tax assets in the amount of EUR 468 thousand (2018: EUR 2,271 thousand); and
- other assets in the amount of EUR 464 thousand (2018: EUR 367 thousand).

	Actual		Index	Structure	
in EUR thousand	31/12/2019	31/12/2018	2019/2018	31/12/2019	31/12/2018
Loans and advances to banks	835,770	809,350	103.3	34.7%	34.9%
Loans and advances to customers	816,550	706,787	115.5	33.9%	30.5%
Investments in securities	669,324	662,688	101.0	27.8%	28.6%
Cash and cash equivalents	72,729	121,184	60.0	3.0%	5.2%
Other assets	11,791	18,825	62.6	0.5%	0.8%
Total assets	2,406,164	2,318,834	103.8		

Movements in assets in 2019 (in EUR million)

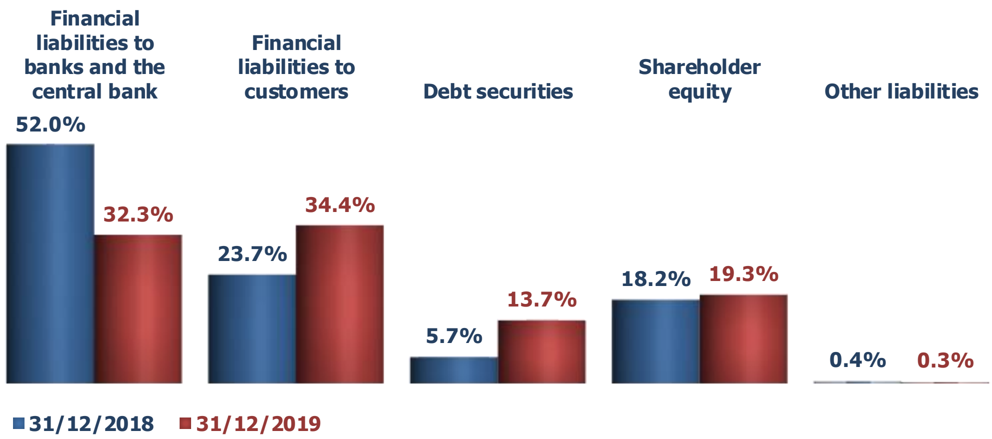


Equity and liabilities

SID Bank's equity and liabilities comprised liabilities in the amount of EUR 1,942,304 thousand and shareholder equity in the amount of EUR 463,860 thousand at the end of 2019.

Liabilities accounted for 80.7% of total equity and liabilities (2018: 81.8%), while equity accounted for 19.3% (2018: 18.2%).

Structure of total liabilities and equity



At 34.4% (2018: 23.7%), liabilities to customers accounted for the largest proportion of total equity and liabilities at the end of 2019. Liabilities to customers collectively amounted to EUR 827,545 thousand, up EUR 279,093 thousand or 50.9% on the previous year. That major increase is the result of the transfer of SID Bank's liabilities from long-term loans in the amount of EUR 361,959 thousand, which a foreign bank transferred to another financial institution. In addition to the aforementioned loans, the loans of development institutions and MEDT funds relating to liabilities from the functioning of loan funds and the Fund of Funds comprise liabilities to customers.

Deposits and loans from banks and liabilities to the central bank stood at EUR 777,912 thousand at the end of 2019, down EUR 428,332 thousand or 35.5% on the end of the previous year, which was primarily a result of the aforementioned transfer of SID Bank's liabilities. The proportion of deposits and loans from banks and liabilities to the central bank declined from 52% in 2018 to 32.3% at the end of 2019. A large majority of liabilities to banks relates to long-term loans of development banks. Liabilities to the central bank totalled EUR 171,201 thousand at the end of 2019.

Issued securities increased by EUR 197,678 thousand or 149.1% in 2019, primarily as a result of the issue of a new bond. The Bank issued the bond with a nominal value of EUR 200,000 thousand in June. As a result, the proportion of issued securities increased from 5.7% in 2018 to 13.7% in 2019. The stock of issued securities stood at EUR 330,279 thousand at the end of 2019. In addition to the aforementioned bond, issued securities include a bond issued in 2018 in the nominal amount of EUR 75,000 thousand and registered bonds in the nominal amount of EUR 48,000 thousand.

For more details on sources of funding, see the section entitled Funding and liquidity.

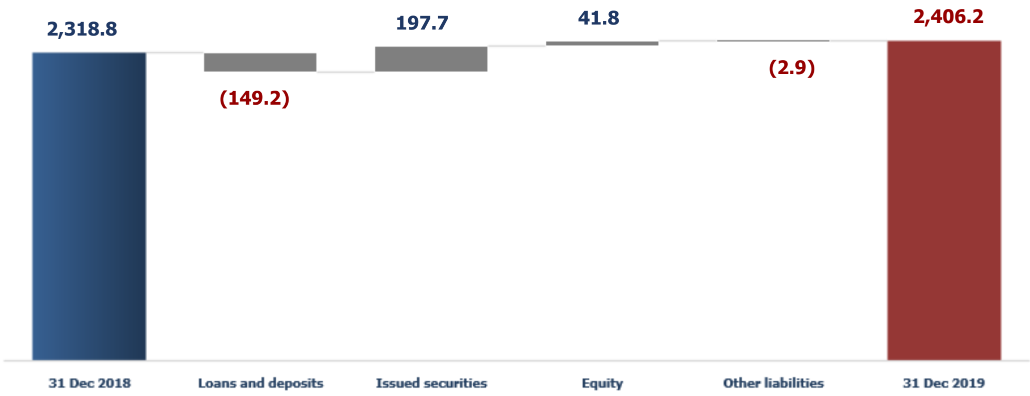
Provisions in the amount of EUR 2,374 thousand relate to provisions for off-balance-sheet liabilities arising from guarantees and approved undrawn credit facilities in the amount of EUR 1,532 thousand and provisions for liabilities to employees of EUR 842 thousand. Provisions in 2019 were up EUR 1,244 thousand on the end of the previous year.

Other liabilities in the total amount of EUR 4,194 thousand comprised:
- other financial liabilities in the amount of EUR 2,727 thousand (2018: EUR 2,024 thousand);
- hedging derivatives in the amount of EUR 841 thousand (2018: EUR 2,898 thousand);
- tax liabilities in the amount of EUR 451 thousand (2018: EUR 3,294 thousand); and
- other liabilities in the amount of EUR 175 thousand (2018: EUR 140 thousand).

SID Bank's equity was up EUR 41,809 thousand or 9.9% in 2019, amounting to EUR 463,860 thousand at the end of the year. Accumulated other comprehensive income was up EUR 7,925 thousand, profit reserves were up EUR 33,178 thousand, and retained earnings, including net profit for the financial year, were up EUR 706 thousand on the previous year.

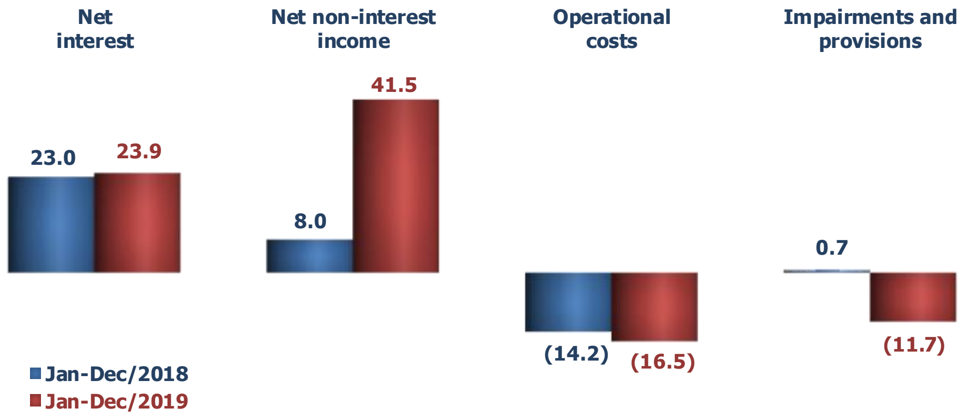
	Actual		Index	Structure	
in EUR thousand	31/12/2019	31/12/2018	2019/2018	31/12/2019	31/12/2018
Financial liabilities to banks and the central bank	777,912	1,206,244	64.5	32.3%	52.0%
Financial liabilities to customers	827,545	548,452	150.9	34.4%	23.7%
Debt securities	330,279	132,601	249.1	13.7%	5.7%
Shareholder equity	463,860	422,051	109.9	19.3%	18.2%
Other liabilities	6,568	9,486	69.2	0.3%	0.4%
Total equity and liabilities	2,406,164	2,318,834	103.8		

Movements in liabilities and equity (in EUR million)



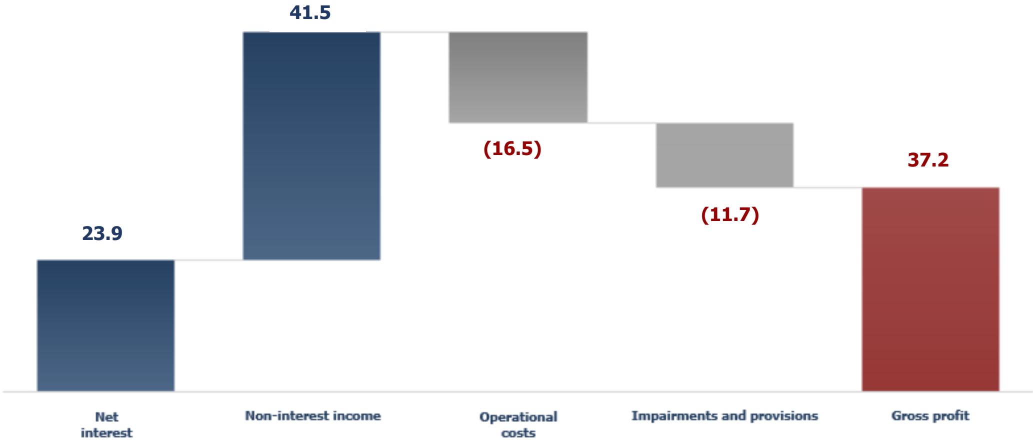
Financial results of SID Bank

in EUR million



SID Bank generated a profit before tax of EUR 37,238 thousand in 2019, which was reflected in a return on equity of 8.3% (2018: 4.2%). Gross profit was up EUR 19,719 thousand on 2018. Net profit for the financial year amounted to EUR 32,040 thousand, up EUR 17,726 thousand on the previous year. Higher profit relative to the previous year is mostly the result of the effects of the sale of the subsidiary SID-PKZ and the sale or repayment of a portion of the non-performing claims.

Composition of profit before tax (in EUR million)



Net interest

The Bank generated net interest in the amount of EUR 23,932 thousand in 2019, up 4.1% on 2018 (2018: EUR 22,986 thousand). The Bank's interest income amounted to EUR 30,913 thousand (2018: EUR 31,122 thousand), while interest expenses amounted to EUR 6,981 thousand (2018: EUR 8,136 thousand). Higher net interest was among others driven by the sale of NPEs and thus the repayment of interest, as well as the early termination of promissory notes with a high interest rate.

The Bank achieved a net interest margin of 1% in 2019 (2018: 1%). Net interest accounted for 36.6% of total net income (2018: 74.3%).

Non-interest income

Net non-interest income amounted to EUR 41,524 thousand in 2019, up EUR 33,555 thousand on 2018 (2018: EUR 7,969 thousand).

The Bank received dividends in the amount of EUR 5,453 thousand in 2019 (2018: EUR 618 thousand) from its investment in the EIF and its investment in the subsidiary SID-PKZ.

Net fees and commission amounted to EUR 200 thousand in 2019 (2018: EUR 291 thousand).

Net profit from financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 12,775 thousand (2018: EUR 3,218 thousand) is comprised of:

- net profit from financial liabilities measured at amortised cost in the amount of EUR 10,043 thousand (2018: EUR 2,027 thousand), which mostly (EUR 10,010 thousand) relates to revaluation revenues from the negative operations of loan funds. Under the contract each positive/negative financial result increases/decreases SID Bank’s liabilities to the MEDT;
- net gains on financial assets measured at fair value through other comprehensive income in the amount of EUR 2,602 thousand and relates to the effects of the purchase/sale of securities; and
- net gains on financial assets measured at amortised cost in the amount of EUR 130 thousand.

Net profit from non-current assets and disposal groups classified as held for sale in the amount of EUR 10,063 thousand relate to the effects of the sale of the subsidiary SID-PKZ.

Net gains on non-trading financial assets mandatorily measured at fair value through profit or loss in the amount of EUR 12,704 thousand (2018: EUR 655 thousand) relate to net gains associated with the repayment or sale of loans mandatorily measured at fair value (EUR 12,315 thousand) and net gains associated with investments in equity financing (EUR 389 thousand).

Most of the expenses from changes in fair value in hedge accounting in the amount of EUR 1,125 thousand and losses from financial assets and liabilities held for trading in the amount of EUR 969 thousand relate to interest rate swaps, in which the Bank discontinued hedge accounting (cash flow hedge) due to a material change in the median value of the interest rate swap in 2019, which affected hedge (in)effectiveness. The interest rate swap contract was cancelled in September 2019.

Other net operating income in the amount of EUR 2,488 thousand relate to income from business activities under Republic of Slovenia authorisation in the amount of EUR 2,504 thousand (2018: EUR 3,558 thousand) and other net operating expenses in the amount of EUR 16 thousand (2018: EUR 196 thousand). All other net losses amounted to EUR 65 thousand in total.

The Bank's financial intermediation margin stood at 2.8% in 2019 (2018: 1.3%), up on the previous period, mainly as a result of increase in non-interest income.

Operating costs

The Bank's operating costs amounted to EUR 16,476 thousand in 2019, up 16.4% on 2018. The increase in costs was primarily attributable to the Bank's development activities and recruitment. In 2019 the Bank also accelerated the development of products of the Fund of Funds, developed activities in the area of project financing and the establishment of a project office, and included external advisors in the final phase of the optimisation of business processes.

Administrative costs amounted to EUR 15,562 thousand, with labour costs accounting for EUR 11,540 thousand of the aforementioned amount (2018: EUR 9,978 thousand), the costs of services accounting for EUR 3,869 thousand (2018: EUR 3,156 thousand) and the costs of material accounting for EUR 153 thousand (2018: EUR 136 thousand). Depreciation and amortisation costs amounted to EUR 914 thousand, up 3.7% on 2018.

Impairments and provisions

The Bank generated net expenses from impairments and provisions in the amount of EUR 11,742 thousand in 2019. Net impairment expenses amounted to EUR 10,491 thousand (2018: net income in the amount of EUR 1,037 thousand), of which expenses for loan impairments amounted to EUR 10,437 thousand and expenses for securities' impairments EUR 54 thousand. Provisioning expenses amounted to EUR 1,251 thousand (2018: EUR 322 thousand).

	Actual		Index
in EUR thousand	Jan-Dec/2019	Jan-Dec/2018	2019/2018
Net interest income	23,932	22,986	104.1
Net non-interest income	41,524	7,969	521.1
Operational costs	(16,476)	(14,151)	116.4
Impairments and provisions	(11,742)	715	-
Profit before tax	37,238	17,519	212.6
Corporate income tax	(5,198)	(3,205)	162.2
Net profit for the financial year	32,040	14,314	223.8

Information support for operations

The Bank carried out the thorough re-engineering of business processes and thus completed the first strategic activity (the optimisation of business processes and the organisational structure of SID Bank) defined in SID Bank's development strategy for the period 2019–2023.

In 2019 the Bank's management board adopted a project document for the introduction of a new expanded bank information system for the period until 2023. In that regard, the Bank began its search for an external advisor to implement the project in 2019.

SID Bank replaced its current email system in 2019 with the introduction of the MS Exchange environment and thus made a major technological leap forward: by abandoning obsolete technology, the foundation was put in place for implementing new advanced technologies for communication and cooperation, and for the exchange of documents.

During the year the Bank implemented all new regulatory requirements relating to reporting to the regulator and the reporting requirements imposed by the ministries.

The Bank adheres to increasingly higher information security requirements due to rising cyber threats in the external environment, and is aware of the importance of protecting clients' data, including personal data. On this basis, the Bank earmarked a great deal of resources and funds to the training and upgrading of security systems during the year, such as ATP

(*Advanced Threat Protection*) and SIEM (*Security Information and Event Management*).

In terms of software support in 2019, the Bank developed a modern software solution, a calculator that facilitates the quick/flexible calculation of prices of new products that the Bank provides for the market, in the scope of internal development. In addition to upgrading the portal of applications for new financing and the development of software support for the direct financing of the Fund of Funds, the Bank migrated the software solution for support for the general ledger to a more contemporary technological platform in 2019.

The Bank successfully joined SISBON reporting to the Bank of Slovenia at the end of 2019.

Operations of other SID Bank Group companies

Prvi Faktor Group

Orderly wind-down activities continued at the Prvi Faktor Group in 2019, where the focus was on liquidating the portfolio, cutting costs and setting limits on operations in accordance with the outlined plans.

The subsequent optimisation of liquidation proceedings was undertaken in parallel for the purpose of concluding operations faster and more efficiently, while possibilities for sale were also examined. There were no purchases of receivables in 2019.

On the basis of the finalisation of unresolved relations and the liquidated portfolio, and taking into account the planned costs for the period 2017 to 2021 and the balances in accounts, all companies repaid a total of EUR 2.9 million in loans to shareholders in 2019.

The group's total assets at the consolidated level amounted to EUR 8,226 thousand as at 31 December 2019, down 30.4% 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 4,616 thousand. It is followed by Prvi faktor, Beograd (in liquidation) with total assets of EUR 3,024 thousand, Prvi faktor, Ljubljana (in liquidation) with total assets of EUR 1,782 thousand and Prvi faktor, Sarajevo (in liquidation) with total assets of EUR 14 thousand.

The Prvi Faktor Group ended 2019 with losses of EUR 365 thousand, primarily as a result of a decline in income on one side and incurred costs on the other. Prvi faktor, Zagreb (in liquidation) with a profit of EUR 309 thousand recorded a positive result, while Prvi faktor, Ljubljana (in liquidation; loss of EUR 403 thousand), Prvi faktor, Beograd (in liquidation; loss of EUR 264 thousand) and Prvi faktor, Sarajevo (in liquidation; loss of EUR 7 thousand) generated losses.

The Prvi Faktor Group's shareholder equity was positive in the amount of EUR 5,248 thousand. Unlike Prvi faktor, Sarajevo (in liquidation), which recorded negative equity at the end of the year in the amount of EUR 18 thousand, the other group companies recorded positive equity.

Centre for International Cooperation and Development

The CMSR performed in line with its financial plan in 2019, and generated a surplus of revenues (more than planned) in the amount of EUR 21 thousand.

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

Under its contract for co-financing its programme for 2019 in connection with international development cooperation, the CMSR realised 99.9% 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 of the broad importance of providing bilateral development aid that has proven to contribute to the internationalisation of Slovenian firms and promote economic development in partner countries.

In the scope of its publishing activity, the CMSR also published a journal, International Business Law, in 2019. The CMSR also issued a promotional business publication, Doing Business in Slovenia, in 2019, while the online version is regularly updated on the Slovenian Business Portal (www.poslovniportal.si).

In 2019 the CMSR continued its work with SPIRIT, a public agency, in producing analyses of legal regimes in various countries of the world, and in preparing information about the legal regime in Slovenia.

Highlights of 2019

The Standard & Poor's Rating Services agency upgraded Slovenia's sovereign rating and SID Bank's rating from A+/A-1 to AA-/A-1+ in June 2019. SID Bank's future rating outlook remains stable.

In June 2019 SID Bank issued a seven-year bond in the nominal amount of EUR 200 million on the international capital market in a closed placement. The bond was issued under favourable price terms, which is a reflection of domestic and international investors' confidence in SID Bank, and the associated government guarantee.

Through the active management of funds in 2019 SID Bank made an early repayment of promissory notes with less favourable interest rates in price terms in the total nominal amount of EUR 45 million. The early repayment of promissory notes had a favourable impact on the average price of financial liabilities and thus on the Bank's interest margin.

At the end of 2019 SID Bank, as the manager of the Fund of Funds, successfully drew down the second of four tranches from EU cohesion policy funds.

In 2019 SID Bank developed three new financial instruments of the Fund of Funds for energy efficiency (performance), urban development and equity and quasi-equity financing.

In December 2019 SID Bank published the terms for acquiring loans under the Investment Incentives Act in the scope of products based on financial engineering from national funds.

In 2019 SID Bank provided commercial banks and savings banks assurance that SID Bank's credit lines are in line with the MREL, and offered the banks a new product in the form of a subordinated loan.

A project office that was granted full authority for its operation in three areas, i.e. the assessment of investments, consultancy and the financing of internationalisation and municipalities, was established in the scope of the reorganisation and adjustment of the organisational structure to the Bank's business model. The first contract was signed on technical assistance to SID Bank to establish an organisational unit for project and export financing. The first contract was agreed with a Slovenian municipality on the implementation of technical assistance, and the comprehensive development of two tourist destinations began (vision and concept of the destination's development and the development of individual projects in that context).

SID Bank signed an agreement with the European Commission in December 2019 for the implementation of the *CEF Blending* call, which envisages a combination of EU grants and debt sources of funding. SID Bank appears as an implementing partner in the *CEF Blending* call. That means that SID Bank examines the registered projects, assesses their compliance and eligibility under the call terms or criteria and the applicant's implementation capacity, provides the suitable debt financing and submits to the EC the results of its analyses and assessments. In return, the EC decides on the approval of grants.

In July 2019 SID Bank signed a commitment to respect human rights in its operations. That commitment is based on the Universal Declaration of Human Rights, which was adopted by the United Nations General Assembly, and on other relevant international documents that protect and promote respect for human rights. By signing this commitment, SID Bank undertakes to incorporate the obligation to respect human rights into its bylaws and its entire operations, and to promote respect for human rights at its business partners. The Bank is actively involved with key stakeholders in its desire for progress and respect for human rights in operations.

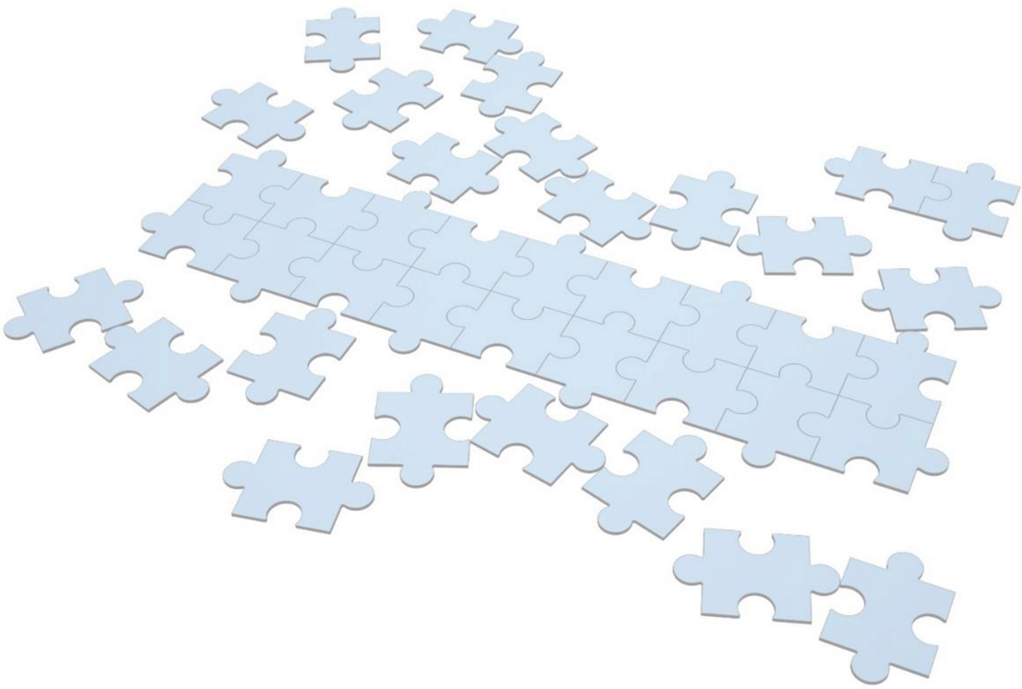
In 2019 SID Bank received the prestigious Best Regional Development Bank – Southeast Europe 2019 award, which is presented by Capital Finance International.

Significant events after the end of the financial year

The government appointed Anton Rop to serve as member of SID Bank's supervisory board for a five-year term of office, effective 27 January 2020. The supervisory board also appointed a member of the supervisory board to the risk committee at a session in March 2020.

The spread of the coronavirus throughout Europe also escalated the consequences for the Slovene economy. SID Bank began to monitor the impact of the coronavirus on the Slovene economy back in February and, in particular, on companies that it finances, as well as on intermediary banks of SID Bank's development sources of funding, especially in terms of declining demand, problems in supply chains and investment activity. SID Bank prepared adjustments and financing programmes via which it can address the needs of companies as soon as possible. These programmes will be prepared in operational terms by April 2020. A portion of these programmes relate to SID Bank's internal resources, financial engineering lines that are carried out in cooperation with the MEDT, and other parts to collateral instruments that SID Bank implements under Republic of Slovenia authorisation. These involve adjustments to financing via commercial banks and savings banks, which are currently being realised in the amount of EUR 600 million, the securing of new liquidity loans for SMEs and large enterprises in the amount of EUR 50 million, EUR 50 million in new loans under the SME financing programme, the securing of EUR 100 million to finance the tourism and catering sector (SMEs and large companies) under adjusted terms, and adjustments to the implementation of collateral instruments.

FINANCIAL REPORT



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

On 3 March 2020 the management board approved the financial statements of SID Bank and the annual report for the year ending 31 December 2019. 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 has sufficient resources to operate as a going concern.

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; and
- to ensure that the financial statements are compiled on a going-concern basis for SID Bank.

The management board is responsible for maintaining accounting documents and records to disclose the financial position of SID Bank 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 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, 3 March 2020

Management board of SID Bank

Goran Katušin Member	Sibil Svilan President

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

Deloitte.

Deloitte revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenia
VAT ID: SI62560085

Tel: +386 (0) 1 3072 800
Fax: +386 (0) 1 3072 900
www.deloitte.si

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 other financial position as at 31 December 2019, 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 2019, 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 Opinion

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 2019. 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 to non-bank customers (expected credit losses)

In its financial statements for the year ended 31 December 2019 the Company presented loans to customers in the amount of EUR 803,6 million net and total expected credit loss in the amount of EUR 42,2 million.

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Bank's Management. In determining both the timing and the amount of impairment allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to 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 – Financial assets measured at amortised cost*', '2.4.4 – *Financial assets measured at amortised costs*', '2.5.13 – Impairments' and '3.1 – Credit risk.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient and appropriate audit evidence for our conclusion. 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 ▪ Assessing quality of historical data used in determination of risk parameters ▪ Disaggregating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc. ▪ 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 and transitions between stages 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 realization period as well as associated legal agreements and supporting documentation to assess the legal right to and existence of collateral 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.

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 to 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 2019. Our total uninterrupted engagement has lasted 5 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 2020 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.

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

Ljubljana, 25 March 2020

3

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

1 Financial statements of SID Bank

1.1 Statement of financial position

(EUR thousand)	Note	31 Dec 2019	31 Dec 2018
Cash, cash balances at central banks and other demand deposits at banks	2.4.1	72,729	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	2.4.2	17,685	15,667
Financial assets measured at fair value through other comprehensive income	2.4.3	664,566	662,688
Financial assets measured at amortised cost	2.4.4	1,644,654	1,502,323
Loans and advances to banks		835,770	809,350
Loans and advances to customers		803,623	691,120
Other financial assets		5,261	1,853
Property, plant and equipment	2.4.6	4,618	4,922
Intangible assets	2.4.6	980	999
Tax assets	2.4.7	468	2,271
Current tax assets		18	0
Deferred tax assets		450	2,271
Other assets	2.4.8	464	367
Non-current assets and disposal groups classified as held for sale	2.4.9	0	8,413
TOTAL ASSETS		**2,406,164**	**2,318,834**
Financial liabilities measured at amortised cost	2.4.10	1,938,463	1,889,321
Deposits from banks and central banks		8,944	43,293
Deposits from customers		0	39,210
Loans from banks and central banks		768,968	1,162,951
Loans from customers		827,545	509,242
Debt securities		330,279	132,601
Other financial liabilities		2,727	2,024
Derivatives – hedge accounting	2.4.11	841	2,898
Provisions	2.4.12	2,374	1,130
Tax liabilities	2.4.7	451	3,294
Current tax liabilities		451	3,294
Other liabilities	2.4.13	175	140
TOTAL LIABILITIES		1,942,304	1,896,783
Share capital		300,000	300,000
Share premium		1,139	1,139
Accumulated other comprehensive income		11,656	3,731
Profit reserves		135,327	102,149
Treasury shares		(1,324)	(1,324)
Retained earnings (including net profit for financial year)		17,062	16,356
TOTAL EQUITY	2.4.14	463,860	422,051
TOTAL EQUITY AND LIABILITIES		**2,406,164**	**2,318,834**

The notes are an integral part of the financial statements.

1.2 Statement of profit or loss

(EUR thousand)	Note	2019	2018
Interest income		30,913	31,122
Interest expenses		(6,981)	(8,136)
Net interest income	2.5.1	**23,932**	**22,986**
Dividend income	2.5.2	5,453	618
Fee and commission income		733	591
Fee and commission expenses		(533)	(300)
Net fee and commission income	2.5.3	**200**	**291**
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	2.5.4	12,775	3,218
Net gains/(losses) on financial assets and liabilities held for trading	2.5.5	(969)	(6)
Net gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss	2.5.6	12,704	655
Changes in fair value in hedge accounting	2.5.7	(1,125)	(129)
Net foreign exchange gains/(losses)	2.5.8	(9)	(8)
Net gains/(losses) on derecognition of non-financial assets		9	3
Other net operating income/(expenses)	2.5.9	2,488	3,362
Administrative expenses	2.5.10	(15,562)	(13,270)
Depreciation and amortisation	2.5.11	(914)	(881)
Net modification gains/(losses)		(65)	(35)
Provisions	2.5.12	(1,251)	(322)
Impairments	2.5.13	(10,491)	1,037
Net profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	2.5.14	10,063	0
Profit before tax from continuing operations		**37,238**	**17,519**
Corporate income tax on continuing operations	2.5.15	(5,198)	(3,205)
Profit after tax from continuing operations		**32,040**	**14,314**
Net profit for the financial year		**32,040**	**14,314**
Attributable to owners of bank		32,040	14,314
Basic earnings per share/diluted earnings per share (in EUR per share)	2.5.16	10.32	4.61

The notes are an integral part of the financial statements.

1.3 Statement of other comprehensive income

(EUR thousand)	Note	2019	2018
Profit for the financial year after tax		**32,040**	**14,314**
Other comprehensive income after tax		**9,768**	**(10,317)**
Items that will not be reclassified to profit or loss		1,577	2,952
Fair value changes of equity instruments measured at fair value through other comprehensive income	2.4.3	1,719	3,645
Income tax relating to items that will not be reclassified to profit or loss	2.4.7	(142)	(693)
Items that may be reclassified subsequently to profit and loss		8,191	(13,269)
Cash flow hedges (effective portion)		2,151	(2,150)
Valuation gains/(losses) taken to equity		(4,728)	(2,275)
Transferred to profit or loss		1,116	125
Transferred to initial carrying amount of hedged items	2.4.11	5,763	0
Debt instruments measured at fair value through other comprehensive income		7,959	(14,230)
Valuation gains/(losses) taken to equity	2.4.3	10,561	(13,154)
Transferred to profit or loss		(2,602)	(1,076)
Income tax relating to items that may be reclassified subsequently to profit and loss	2.4.7	(1,919)	3,111
Total comprehensive income for the financial year after tax		**41,808**	**3,997**
Attributable to owners of bank		41,808	3,997

The notes are an integral part of the financial statements.

1.4 Statement of changes in equity

(EUR thousand)

2019	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE as at 1 Jan 2019	300,000	1,139	3,731	102,149	16,356	(1,324)	422,051
Net profit for the financial year	0	0	0	0	32,040	0	32,040
Other comprehensive income	0	0	9,768	0	0	0	9,768
Total comprehensive income for financial year after tax	0	0	9,768	0	32,040	0	41,808
Allocation of net profit to profit reserves	0	0	0	33,177	(33,177)	0	0
Other transfers among components of equity	0	0	(1,843)	0	1,843	0	0
Adjustment due to rounding	0	0	0	1	0	0	1
CLOSING BALANCE as at 31 Dec 2019	**300,000**	**1,139**	**11,656**	**135,327**	**17,062**	**(1,324)**	**463,860**

The notes are an integral part of the financial statements.

(EUR thousand)

2018	Share equity	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the 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 the financial year	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.

1.5 Statement of cash flows

(EUR thousand)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	37,238	17,519
Depreciation and amortisation	914	881
Impairments/(reversal of impairments) of investments in debt instruments measured at fair value through other comprehensive income	54	(789)
Impairments/(reversal of impairments) of loans and other financial assets measured at amortised cost	10,437	(248)
Net (gains)/losses from exchange differences	9	8
Net modification (gains)/losses	65	35
Net (gains)/losses from sale of property, plant and equipment	(9)	(3)
Other (gains)/losses from investing activities	(5,453)	(618)
Other adjustments to total profit or loss before tax	(19,401)	(90)
Cash flow from operating activities before changes in operating assets and liabilities	**23,854**	**16,695**
(Increases)/decreases in operating assets (excluding cash and cash equivalents)	**(121,868)**	**220,663**
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	10,686	3,007
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	8,240	58,037
Net (increase)/decrease in loans and other financial assets measured at amortised cost	(149,110)	159,704
Net (increase)/decrease in non-current assets held for sale	8,413	0
Net (increase)/decrease in other assets	(97)	(85)
Increases/(decreases) in operating liabilities	**56,356**	**(182,455)**
Net increase/(decrease) in financial liabilities held for trading	(7,972)	0
Net increase/(decrease) in deposits and loans measured at amortised cost	(133,093)	34,832
Net increase/(decrease) in issued debt securities measured at amortised cost	197,678	(217,508)
Net increase/(decrease) in liability-derivatives – hedge accounting	(285)	201
Net increase/(decrease) in other liabilities	28	20
Cash flow from operating activities	**(41,658)**	**54,903**
(Paid)/refunded corporate income tax	**(8,299)**	**1,963**
Net cash flow from operating activities	**(49,957)**	**56,866**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	**5,462**	**625**
Receipts from the sale of property, plant and equipment	9	7
Other receipts from investing activities	5,453	618
Cash payments on investing activities	**(591)**	**(1,003)**
(Cash payments to acquire property, plant and equipment)	(282)	(494)
(Cash payments to acquire intangible assets)	(309)	(509)
Net cash flow from investing activities	**4,871**	**(378)**
Effects of change in exchange rates on cash and cash equivalents	6	250
Net increase/(decrease) in cash and cash equivalents	**(45,086)**	**56,488**
Opening balance of cash and cash equivalents	**127,809**	**71,071**
Closing balance of cash and cash equivalents	**82,729**	**127,809**

The notes are an integral part of the financial statements.

Cash equivalents

(EUR thousand)	31 Dec 2019	31 Dec 2018
Deposits at banks	10,000	6,625
Cash, cash balance in settlement account at central bank	72,673	120,871
Demand deposits at banks	56	313
Total	**82,729**	**127,809**

Cash flows from interest and dividends

(EUR thousand)	2019	2018
Cash flows from interest and dividends		
Interest received	38,570	43,115
Interest paid	(8,621)	(10,358)
Dividends received	5,453	618
Total	**35,402**	**33,375**

The statement of cash flows of SID Bank was compiled using the indirect method.

Profit before tax served as the basis for the preparation of the cash flow of SID Bank.

Under the indirect method, the net cash flow from operating activities is determined by adjusting profit before tax for the effects of changes in operating receivables and liabilities, the effects of non-cash items such as depreciation and amortisation, impairments, and foreign exchange differences, and other adjustments to net profit (e.g. provisions, fair value changes in hedge accounting, changes in the fair value of derivatives held for trading, changes in the fair value of non-trading financial assets mandatorily at fair value through profit or loss, and gains/losses from the provision of loan fund transactions as the result of a so-called first loss clause), as well as the effects of cash flows from investing activities. The increase in other adjustments to net profit in 2019 relative to 2018 was primarily due to higher gains from the provision of loan fund transactions (section 2.5.4) and changes in the fair value of non-trading financial assets mandatorily at fair value through profit or loss (section 2.5.6).

SID Bank includes 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 receipts from investing activities and receipts from the sale of property, plant and equipment, while cash payments on 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 2019, the statement of profit or loss for the 2019 financial year, the statement of other comprehensive income for the 2019 financial year, the statement of changes in equity for the 2019 financial year and the statement of cash flows for the 2019 financial year for SID Bank. Figures for the position as at 31 December 2018 and for the 2018 financial year are disclosed in the aforementioned financial statements for the purposes of comparison.

2.1 Basic information

SID Bank 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 2.3.22.

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 have been compiled in accordance with the International Financial Reporting Standards and the corresponding interpretations as approved by the EU (hereinafter: 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 other accounting policies that are of significance in the interpretation of the 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 2019 the Bank applied the same accounting policies as those used in compiling the financial statements for 2018, with the exception of the accounting standards and other changes effective as of 1 January 2019 and approved by the EU.

2.3.1 Basis for compiling the financial statements

The financial statements of SID Bank 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 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. 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 under the title Impairments of financial assets and provisions);
- estimates of the fair value of financial assets and liabilities (see note in section 2.3.11 under the title 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 2.3.23 Taxes); and
- provisions for commitments to employees (see notes in section 2.3.24 Employee benefits).

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

2.3.3 Consolidation

SID Bank only compiled separate financial statements for 2019 due to the sale of the subsidiary SID-PKZ.

SID Bank signed a sale and purchase agreement for the sale of its entire holding in its subsidiary SID-PKZ in September 2018. Ownership was transferred and consideration received in April 2019. The subsidiary was excluded from consolidation the moment the controlling company ceased to have control over that company.

The SID Group still includes the Centre for International Cooperation and Development (CMSR) and the Prvi Faktor Group (joint venture). 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.

Based on the principle of immateriality, which defines information whose omission or non-disclosure does not affect the decisions of the users of the financial statements as immaterial, SID Bank does not include either of the companies referred to in the previous paragraph in consolidation, as the combined total assets of the two companies amount to less than 1% of SID Bank’s total assets.

2.3.4 Functional and reporting currency

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

All amounts in the 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 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.

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, 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 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 include 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 income/expenses

Other net operating income/expenses recognised in profit or loss include income and expenses from non-banking services.

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

Income 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

The classification and measurement of financial assets in the financial statements are 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); and

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 risk, 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. Because 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); and
- 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 must 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 of interest, foreign exchange differences and impairments are recognised in profit or loss. The effects are the same as in the case of measurement at amortised cost. 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 the case of measurement at fair value through other comprehensive income, 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. This category also includes equity instruments for which the Bank did not opt for measurement at fair value through other comprehensive income.

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 does not currently hold such assets.

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; and
- 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 longer 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:
- for unsecured exposures, when bankruptcy proceedings are initiated against the customer and the order initiating bankruptcy proceedings is final; and
- 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, and
  - five years for exposures secured by movable property or other forms of credit protection (e.g. guarantees, securities and 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:
- if an extra-judicial forbearance agreement or extra-judicial settlement is concluded between SID Bank and the customer;
- 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; and
- 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 measured at fair value through profit or loss comprise: 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. If one of the following conditions is 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; or
- 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.

Impairments of financial assets and provisions

IFRS 9 is based on 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 must 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; and
- 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 for which expected credit losses must be estimated in accordance with IFRS 9 into the following stages:

- financial instruments 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 instruments where there has been a significant increase in credit risk in the period between initial recognition and the

date for which the Bank estimates expected credit losses 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 instrument. Interest income from these financial instruments is calculated on the basis of the gross carrying amount; and
– financial instruments where there has been a default event on the part of the debtor are classified as stage 3. Allowances and provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime of the financial instrument. SID Bank excludes interest income associated with these financial instruments and does not recognise that income until payment.

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

The Bank does not take account of credit protection when classifying exposures to stages 1, 2 or 3.

In the case of a purchased or originated credit-impaired financial asset (POCI item), SID Bank calculates lifetime expected credit losses until derecognition. 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 particularly in the following areas described in detail below:

– assessment of a significant increase in credit risk since initial recognition; and
– 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 more than 90 days past due on any material credit obligation to SID Bank; and
– 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.

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. It 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 the initial recognition;
– a change in weighted lifetime probability of default with respect to the initial recognition;
– the number of days past due at the level of the financial instrument is more than 30;
– the financial instrument becomes a performing forborne exposure; and
– 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); and
- 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); and
- 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 (PD) 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 instrument. 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 (going concern) or collateral estimation (gone concern), 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 (LGD), SID Bank takes account of forward-looking information concerning the parameter of recovery rate for an unsecured exposure and the parameter of haircut (HC) 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 (HC) parameter, SID Bank divided collateral into two groups:

– real estate collateral (commercial and residential real estate); and
– 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			
	2019	2020	2021	2022	2019	2020	2021	2022
Baseline scenario	2.8	3.0	2.7	2.6	1.2	1.4	1.4	1.4
Favourable scenario	3.1	3.3	3.5	3.2	1.3	1.6	1.6	1.6
Adverse scenario	1.7	-0.6	-0.9	0.2	1.1	-0.3	-0.2	0.4

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 on 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 a 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 implementing one or more measures that it would not normally decide to implement were the debtor in a normal economic and financial position. The potential measures that can be implemented 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 claims;
- a reduction in the interest rate and/or other charges;
- a reduction in 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

The new developments in hedge accounting brought about by the introduction of IFRS 9 in 2018 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 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.

2.3.12 Derivatives and hedge accounting

The Bank classifies derivatives as financial instruments held for trading and financial instruments used for hedging. Derivatives are initially recognised at fair value in the statement of financial position. Fair values are determined on the basis of prices quoted on an active market, and using the discounted future cash flow method or pricing models, depending on the specific derivative. Derivatives are recognised in the statement of financial position as assets if their fair value is positive and as a liability if their fair value is negative.

Changes in the fair value of derivatives that are not deemed hedging instruments are disclosed in profit or loss in the item net gains/losses on financial assets and liabilities held for trading.

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

Hedge accounting means the booking of a hedging relationship between the hedging instrument (usually a derivative) and the hedged item (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 hedging relationship should be formally noted and appropriately documented.

When a hedging relationship 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. The Bank must also document the assessment of the effectiveness of hedging instruments that are exposed to changes in the fair value of the hedged item or the hedged cash flows of the transaction that are attributable to the hedge in question. These are the conditions that must be met for hedging relationships to be eligible. The Bank assesses hedge effectiveness at the conclusion of a transaction and then during the hedging relationship, where hedge effectiveness must fall within a range of 80% to 125%.

Fair value hedge

According to IAS 39, a fair value hedge is a hedge against exposure to changes in the fair value of a recognised asset or liability or a previously unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that can be attributed to a particular risk or could affect profit or loss.

The Bank uses interest rate swaps as hedging instruments.

With an effective hedge, changes in the fair value of hedging instruments (derivatives) are recognised immediately in profit or loss under the item of changes in fair value in hedge accounting.

If a hedged item is measured at historical cost, the carrying amount of that item is adjusted for the gain or loss associated with the hedged item that can be attributed to the hedge risk, while that gain or loss is also recognised in profit or loss under the item changes in fair value in hedge accounting.

If a hedged financial asset is measured at fair value through other comprehensive income, the gain or loss attributable to the hedged risk is recognised in profit or loss under the item changes in fair value in hedge accounting and not in other comprehensive income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, when the hedge no longer meets the hedge accounting criteria or the Bank revokes the hedge designation.

If a hedging relationship fails to meet several conditions for hedge accounting, the ineffective hedge in the form of a derivative is disclosed in profit or loss in the item net gains/losses on financial assets and liabilities held for trading. An adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is used is transferred to profit or loss over the remaining period until maturity. An adjustment to the carrying amount of a hedged equity instrument is included in profit or loss at the time of sale.

Cash flow hedge

According to IAS 39 a cash flow hedge is a hedge against exposure to variability in cash flows that can be attributed to a particular risk. A hedge relates to exposure to variability in cash flows associated with a recognised asset or liability, or highly probable planned or forecast transactions (or individual parts of those three), which could affect profit or loss.

Hedging instruments are any derivatives that can hedge against exposure to variability in the relevant cash flows. Hedging instruments are recognised at fair value in the statement of financial position. The Bank uses interest rate swaps as hedging instruments.

Changes in the fair value of a hedging instrument are divided into the effective part of a hedge and the ineffective part of a hedge. The effective part of a hedge is recognised directly in equity (in other comprehensive income). The ineffective part of a hedge is recognised immediately in profit or loss under the item of changes in fair value in hedge accounting.

Amounts recognised directly in equity are reclassified from other comprehensive income to profit or loss in the period in which the hedged item affects profit or loss.

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, terminated or exercised, when the hedge no longer meets the hedge accounting criteria, when a forecast transaction is no longer expected to occur or the Bank revokes the hedge designation.

The cumulative gain or loss associated with a hedging instrument that is recognised directly in equity (in other comprehensive income) from the period when the hedge was effective is reclassified to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. If it is no longer expected that a forecast transaction will occur, the associated accumulated gain or loss that was recognised directly in equity (in other comprehensive income) is transferred immediately to profit or loss.

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 if 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 or fair value less cost to sell, if the latter is 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 recorded at original cost minus 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 2019 and 2018:

(%)	
Buildings and parts of buildings	5
Computer equipment	50
Cars	12.5
Furniture	11
Other equipment	25
Supplies	25

Property, plant and equipment are impaired when their carrying amount exceeds their 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 higher.

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 licences. In 2019 and 2018, software and licences were subject to amortisation at a rate of 20%. Amortisation is charged on a straight-line basis.

Intangible assets with a determinable useful life are impaired when their carrying amount exceeds their recoverable amount. The impairment loss is recognised as an expense in profit or loss. The existence of indications of impairment of intangible assets 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 value is higher.

After initial recognition, intangible assets with a 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.

2.3.15 Accounting for leases

The Bank identifies contracts that satisfy the definition of a lease in accordance with IFRS 16. A lease is defined as a contract or part of a contract that defines the right to control the use of an identified asset for a period of time in exchange for consideration.

On the day a lease commences, the Bank (as lessee) recognises a right-of-use asset and lease liability. The Bank measures a right-of-use asset at historical cost on the day a lease commences. The Bank keeps analytical records of assets under lease recognised as right-of-use assets on the appropriate real estate, equipment and investment property accounts.

The value of right-of-use assets comprises the amount of the initially measured lease liability adjusted for all lease payments made at or prior to the commencement of a lease, any lease incentives, initial direct costs incurred by the lessee and estimated costs that the lessee will incur at the end of the lease. A right-of-use asset is treated similarly to other non-financial assets and is thus depreciated accordingly. Right-of-use assets under lease are depreciated linearly from the day a lease commences until the end of an asset's useful life or until the end of the lease term, if the latter is shorter.

A lease liability is calculated as the present value of future lease payments, discounted at the rate implicit in the lease if that rate can be determined; otherwise the incremental borrowing rate is assumed. The Bank transfers lease liabilities to other interest expense, together with lease payments to the lessor.

The Bank assumes a five-year lease term for the calculation of net present value for contracts concluded for an indefinite period.

The Bank applied the following practical expedients provided for by the standard:
– the Bank does not separate non-lease components from lease components; instead all lease components and the associated non-lease components are treated as a single lease component; and
– the Bank does not apply IFRS 16 to leases of intangible assets.

The Bank applies the following exemptions permitted by the standard at the time of recognition:
– short-term leases (leases of up to 12 months); and
– low-value leases (the original cost of a new asset under lease does not exceed the euro equivalent of USD 5,000, regardless of the age of the asset).

The Bank recognises lease payments associated with such leases as leasing costs.

2.3.16 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.

If 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 an investment. 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.

2.3.17 Other assets

Other assets include prepayments, accrued income, tax assets and advances.

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, that loss 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.

2.3.18 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, and guarantees), and for termination benefits at retirement and jubilee benefits.

Provisions for liabilities and costs are recognised when there is a present commitment (legal or indirect) as a result of a past event, and when 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.

2.3.19 Other liabilities

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

2.3.20 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.

Recorded in accumulated other comprehensive income are accumulated gains/losses from changes in the fair value of equities and debt instruments measured at fair value through other comprehensive income, and gains/losses in connection with cash flow hedging, increased/decreased for any deferred taxes.

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

2.3.21 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 under the title Impairments of financial assets and provisions. Any increase in liabilities dependent on risk is reflected in the item of provisions.

2.3.22 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.

2.3.23 Taxes

Corporate income tax is accounted for in accordance with local legislation.

Deferred taxes are accounted for 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.

2.3.24 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 agreement. The aforementioned commitments and all corresponding gains/losses are included in profit or loss.

The requisite provisions on this basis are calculated in the amount of the present value of future expenses, having regard for certain 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.

2.3.25 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.

2.3.26 Reporting by operating segment

Under IFRS 8, SID Bank has one operating segment: banking.

The banking segment constitutes a single operating segment, as the operations at the Bank do not vary significantly in terms of risk or return. The majority of SID Bank's operations are on the domestic market, for which reason it does not disclose additional itemisation by geographical area.

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

Accounting standards, and amendments to and interpretations of existing standards that are effective as of 1 January 2019 and were issued by the International Accounting Standards Board (IASB) and adopted by the EU

- 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 dictated by IAS 17) is no longer applicable for the lessee. IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17.

Prior to the introduction of IFRS 16, the Bank verified whether lease agreements satisfy the definition of lease under the new standard. It was determined that existing leases either do not satisfy the conditions for recognition in accordance with IFRS 16 or that they fall under the exceptions permitted by the standard, which the Bank opted to exercise (short-term and low-value leases). The Bank did not recognise right-of-use assets or lease liabilities as at 1 January 2019 due to the transition of IFRS 16.

- Amendment to IFRS 9 Financial Instruments: 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.

- Amendment to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures, as adopted by the EU on 8 February 2019 and 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 if the equity method is not applied.
- Amendment to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement, as adopted by the EU on 13 March 2019 and 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.
- 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.
- Annual improvements 2015–2017, as adopted by the EU on 14 March 2019. The improvements are effective for annual periods beginning on or after 1 January 2019. They comprise substantive amendments and clarifications, and relate to IFRS 3, IFRS 11, IFRS 12 and IAS 23.

The adoption of these new standards, amendments to existing standards and interpretations did not lead to any material changes in the Bank's financial statements.

Accounting standards, and amendments to and interpretations of existing standards that were issued by the International Accounting Standards Board (IASB) and adopted by the EU, but are not yet in effect for the financial year beginning on 1 January 2019

- Amendment to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies: Definition of Material, as adopted by the EU on 29 November 2019 and 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.
- Revisions to the Conceptual Framework for Financial Reporting, as adopted by the EU on 29 November 2019 and effective for annual periods beginning on or after 1 January 2020.
- Amendment to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform, as adopted by the EU on 15 January 2020. The amendment is effective for annual periods beginning on or after 1 January 2020.

The Bank has not opted for the early application of amendments to standards that have not yet entered into effect, and assesses that those amendments will not have a material impact on its financial statements during initial application.

Accounting standards, and amendments to and interpretations of existing standards that were issued by the International Accounting Standards Board (IASB), but not yet adopted by the EU

- 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.
- Amendment to IFRS 3 Business Combinations: 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.

- 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.
- Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. 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.

The Bank 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 Bank decided not to apply any new standards or amendments to the existing ones before the date of mandatory application.

The Bank 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.

2.4 Notes to the statement of financial position

2.4.1 Cash, cash balances at central banks and demand deposits at banks

	31 Dec 2019	31 Dec 2018
Cash balances at central banks	72,673	120,871
Demand deposits at banks	56	313
Total	**72,729**	**121,184**

2.4.2 Non-trading financial assets mandatorily at fair value through profit or loss

Breakdown by type of non-trading financial asset mandatorily at fair value through profit or loss

	31 Dec 2019	31 Dec 2018
Equity instruments	4,758	0
Shares	2,500	0
Investment coupons	2,258	0
Loans and other financial assets	12,927	15,667
Loans and advances to customers	12,927	15,667
Total	**17,685**	**15,667**

Changes in non-trading financial asset mandatorily at fair value through profit or loss

	2019	2018
Equity instruments		
Balance as at 1 Jan	0	0
Increase	4,791	0
Acquisition	4,369	0
Changes in fair value (increases)	422	0
Decrease	(33)	0
Changes in fair value (reversal of increases)	(33)	0
Balance as at 31 Dec	**4,758**	**0**
Loans and other financial assets		
Balance as at 1 Jan	15,667	18,019
Increase	15,142	4,314
Acquisition	0	168
Calculated interest, fees and commissions	1,843	1,696
Changes in fair value (increases)	13,299	2,450
Decrease	(17,882)	(6,666)
Sale	(3,799)	(750)
Repayments	(13,099)	(4,121)
Changes in fair value (reversal of increases)	(984)	(1,795)
Balance as at 31 Dec	**12,927**	**15,667**

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

	31 Dec 2019	31 Dec 2018
Debt securities	658,019	650,871
Bonds	651,226	628,554
Government	470,255	417,409
Slovenia	327,571	255,609
Other countries	142,684	161,800
Banks	126,243	111,017
Non-financial corporations	42,767	72,460
Financial institutions	11,961	27,668
Treasury bills and commercial paper	6,793	22,317
Equity instruments	6,547	11,817
Shares and participating interests	6,547	11,817
Total	**664,566**	**662,688**
Quoted	643,540	635,882
Unquoted	21,026	26,806
Total	**664,566**	**662,688**
Impairments for credit losses	(309)	(255)

The table illustrates the carrying amount of financial assets measured at fair value through other comprehensive income by type of instrument as at 31 December 2019 and 31 December 2018. In its securities portfolio management, SID Bank 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.

At the end of 2019 marketable quoted securities accounted for 96.8% of all financial assets measured at fair value through other comprehensive income at SID Bank (end of 2018: 95.9%). Debt securities accounted for 99% of the portfolio of securities measured at fair value through other comprehensive income at SID Bank (end of 2018: 98.2%), while shares and participating interests accounted for 1% (end of 2018: less than 2%). At the end of 2019 government debt securities (bonds, treasury bills and commercial paper) accounted for 71.8% of all financial assets measured at fair value through other comprehensive income at SID Bank (end of 2018: 66.4%). 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 table.

Impairments for credit losses on debt securities measured at fair value through other comprehensive income amounted to EUR 309 thousand as at 31 December 2019 (as at 31 December 2018: EUR 255 thousand).

The total carrying amount of pledged financial assets measured at fair value through other comprehensive income amounted to EUR 273,310 thousand at the end of 2019 (as at 31 December 2018: EUR 312,055 thousand). 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

	2019	2018
Balance as at 1 Jan	662,688	730,521
Recognition of new financial assets	220,360	164,093
Accrued interest	4,527	5,058
Interest paid	(14,835)	(20,103)
Net changes in fair value	7,577	(9,796)
Effect of change in fair value of hedged financial instruments	493	211
Derecognition of financial assets	(216,244)	(207,296)
Balance as at 31 Dec	**664,566**	**662,688**

SID Bank generated a gain of EUR 1,843 thousand in 2019 from the sale of equities measured at fair value through other comprehensive income. That gain was transferred to retained earnings, as evident from the statement of changes in equity.

2.4.4 Financial assets measured at amortised cost

Breakdown by type of financial asset measured at amortised cost

	31 Dec 2019	31 Dec 2018
Loans and advances to banks	835,770	809,350
Loans and advances to customers	803,623	691,120
Other financial assets	5,261	1,853
Total	**1,644,654**	**1,502,323**

Loans and advances to banks

	31 Dec 2019	31 Dec 2018
Loans and advances	732,222	745,576
Deposits	104,953	64,465
Gross exposure	837,175	810,041
Loss allowances	(1,405)	(691)
Net exposure	**835,770**	**809,350**

Changes in loans and advances to banks (gross exposure)

	Gross exposure	
2019	Stage 1	Total
Balance as at 1 Jan	810,041	810,041
Increase due to new lending	310,379	310,379
Decrease due to derecognition	(283,905)	(283,905)
Net change due to change in credit risk	575	575
Foreign exchange differences	85	85
Balance as at 31 Dec	**837,175**	**837,175**

	Gross exposure		
2018	Stage 1	Stage 2	Total
Balance as at 1 Jan	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 change in 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	**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 loans and advances to banks (loss allowances)

	Loss allowances	
2019	Stage 1	Total
Balance as at 1 Jan	(691)	(691)
Increase due to new lending	(300)	(300)
Decrease due to derecognition	214	214
Net change due to change in credit risk	(628)	(628)
Balance as at 31 Dec	**(1,405)**	**(1,405)**

	Loss allowances		
2018	Stage 1	Stage 2	Total
Balance as at 1 Jan	(468)	(169)	(637)
Increase due to new lending	(149)	0	(149)
Decrease due to derecognition	107	56	163
Net change due to change in credit risk	(181)	113	(68)
of which transfer from stage 2 to stage 1	(54)	54	0
Balance as at 31 Dec	**(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

	31 Dec 2019	31 Dec 2018
Loans and advances	802,633	710,012
Government	80,700	69,554
Non-financial corporations	721,440	639,254
Financial institutions	483	1,189
Non-profit institutions serving households	10	15
Receivables from factoring	43,237	17,527
Gross exposure	845,870	727,539
Loss allowances	(42,247)	(36,419)
Net exposure	**803,623**	**691,120**

The total carrying amount of pledged loans amounted to EUR 63,208 thousand as at 31 December 2019 (31 December 2018: EUR 64,445 thousand). 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				
2019	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	639,821	45,995	20,383	21,340	727,539
Increase due to new lending	314,211	0	0	200	314,411
Decrease due to derecognition	(167,636)	(17,481)	(869)	(4,697)	(190,683)
Net change due to change in credit risk	(72,363)	65,084	5,527	393	(1,359)
of which transfer from stage 1 to stage 2	(73,522)	73,522	0	0	0
of which transfer from stage 1 to stage 3	(703)	0	703	0	0
of which transfer from stage 2 to stage 3	0	(4,907)	4,907	0	0
of which transfer from stage 2 to stage 1	3,691	(3,691)	0	0	0
of which transfer from stage 3 to stage 2	0	139	(139)	0	0
Write-offs	0	0	(387)	(3,919)	(4,306)
Foreign exchange differences	239	29	0	0	268
Balance as at 31 Dec	**714,272**	**93,627**	**24,654**	**13,317**	**845,870**

	Gross exposure				
2018	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	516,751	56,523	21,791	41,407	636,472
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 change in credit risk	(6,816)	3,246	1,392	17,123	14,945
of which transfers from stage 1 to stage 2	(22,771)	22,771	0	0	0
of which transfers 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	**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 loans and advances to customers (loss allowances)

	Loss allowances				
2019	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	(8,438)	(6,847)	(16,172)	(4,962)	(36,419)
Increase due to new lending	(1,438)	0	0	0	(1,438)
Decrease due to derecognition	1,587	1,696	656	1,701	5,640
Net change due to change in credit risk	1,553	(10,076)	(5,350)	(458)	(14,331)
of which transfer from stage 1 to stage 2	1,194	(1,194)	0	0	0
of which transfer from stage 1 to stage 3	65	0	(65)	0	0
of which transfer from stage 2 to stage 3	0	890	(890)	0	0
of which transfer from stage 2 to stage 1	(587)	587	0	0	0
of which transfer from stage 3 to stage 2	0	(594)	594	0	0
Write-offs	0	0	387	3,919	4,306
Foreign exchange differences	(5)	0	0	0	(5)
Balance as at 31 Dec	**(6,741)**	**(15,227)**	**(20,479)**	**200**	**(42,247)**

2018	Loss allowances Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	(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 change in credit risk	820	(4,862)	(735)	2,488	(2,289)
of which transfers from stage 1 to stage 2	656	(656)	0	0	0
of which transfers from stage 2 to stage 3	0	148	(148)	0	0
of which transfers 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	**(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 405 thousand after credit enhancements for POCI loans (2018: EUR 16,159 thousand) 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 in 2018 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

	31 Dec 2019	31 Dec 2018
Fee and commission receivables	45	80
Trade receivables	672	725
Receivables on other bases	4,544	1,048
Gross exposure	5,261	1,853
Net exposure	**5,261**	**1,853**

Receivables on other bases include receivables for refunds, receivables from the purchase of securities and other.

Allowances for credit losses on other financial assets measured at amortised cost amounted to EUR 0.1 thousand as at 31 December 2019 (31 December 2018: EUR 0.06 thousand).

2.4.5 Investments in equity of joint ventures

2019	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**

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**

Data on joint ventures

	Voting rights, %	Current assets	Current liabilities	Equity of undertaking	Net profit	Total revenues
31 Dec 2019						
Prvi Faktor Group	50	8,226	2,978	5,248	(365)	1,709
31 Dec 2018						
Prvi Faktor Group	50	11,880	6,206	5,674	(203)	1,581

2.4.6 Property, plant and equipment and intangible assets

Changes in property, plant and equipment and intangible assets

2019	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	10,095	1,103	852	12,050	3,251
Increase	0	208	357	565	311
Decrease	0	(138)	(261)	(399)	(17)
Balance as at 31 Dec	10,095	1,173	948	12,216	3,545
Accumulated depreciation and amortisation					
Balance as at 1 Jan	(5,672)	(845)	(611)	(7,128)	(2,252)
Depreciation and amortisation	(341)	(198)	(47)	(586)	(328)
Decrease	0	34	82	116	15
Balance as at 31 Dec	(6,013)	(1,009)	(576)	(7,598)	(2,565)
Carrying amount as at 31 Dec	**4,082**	**164**	**372**	**4,618**	**980**

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
Increase	289	522	238	1,049	513
Decrease	(145)	(451)	(209)	(805)	(49)
Balance as at 31 Dec	10,095	1,103	852	12,050	3,251
Accumulated depreciation and amortisation					
Balance as at 1 Jan	(5,331)	(842)	(641)	(6,814)	(1,982)
Depreciation and amortisation	(341)	(173)	(53)	(567)	(314)
Decrease	0	170	83	253	44
Balance as at 31 Dec	(5,672)	(845)	(611)	(7,128)	(2,252)
Carrying amount	**423**	**258**	**241**	**4,922**	**999**

SID Bank had no pledged fixed assets or assets acquired on the basis of leases as at 31 December 2019.

2.4.7 Tax assets and liabilities

	31 Dec 2019	31 Dec 2018
Current tax assets	18	0
Deferred tax assets	450	2,271
Total tax assets	**468**	**2,271**
Current tax liabilities	451	3,294
Total tax liabilities	**451**	**3,294**

Current tax assets in the amount of EUR 18 thousand comprise the Bank's claims against the FARS from overpaid corporate income tax for 2019.

Breakdown by type of deferred tax

	31 Dec 2019	31 Dec 2018
Deferred tax assets		
Impairment of equity investments	2,967	2,967
Provisions for pensions and jubilee benefits	91	79
Valuation of financial assets measured at fair value through other comprehensive income	5,688	167
Depreciation and amortisation	67	54
Cash flow hedge	0	407
Total deferred tax assets	**8,813**	**3,674**
Deferred tax liabilities		
Valuation of financial assets measured at fair value through other comprehensive income	8,363	1,403
Total deferred tax liabilities	**8,363**	**1,403**
Net deferred taxes	**450**	**2,271**

	2019	2018
Included in statement of profit or loss	**36**	**(124)**
Financial assets measured at fair value through other comprehensive income	10	(150)
Provisions for pensions and jubilee benefits	13	12
Depreciation and amortisation	13	14
Included in statement of comprehensive income	**(2,061)**	**2,418**
Cash flow hedge	(407)	407
Revaluation of financial assets measured at fair value through other comprehensive income	(1,654)	2,011
Effect of transition to IFRS 9	0	327

SID Bank had no unrecognised deferred taxes as at 31 December 2019.

2.4.8 Other assets

	31 Dec 2019	31 Dec 2018
Tax assets	23	45
Receivables for advances	9	1
Prepayments	279	296
Accrued income	153	25
Gross exposure	464	367
Net exposure	**464**	**367**

2.4.9 Non-current assets and disposal groups classified as held for sale

Breakdown by asset and liability category

	31 Dec 2019	31 Dec 2018
Equity investment	0	8,413
Total	**0**	**8,413**

Changes in non-current assets and disposal groups classified as held for sale

	31 Dec 2019	31 Dec 2018
Balance as at 1 Jan	8,413	0
Transfer to non-current assets and disposal groups classified as held for sale	0	8,413
Sale of non-current assets and disposal groups classified as held for sale	(8,413)	0
Balance as at 31 Dec	**0**	**8,413**

The Bank reclassified the investment in the subsidiary SID-PKZ to the item of non-current assets and disposal groups classified as held for sale in 2018 due to its anticipated sale in the first half of 2019. The sale of the company was completed in April 2019, immediately following the payment of dividends (see explanation in section 2.5.2). The gain on the aforementioned subsidiary is presented in the table below.

Gain on sale of subsidiary

	2019
Consideration from sale of subsidiary	18,649
Carrying amount of equity investment	8,413
Selling costs	173
Gain on sale of subsidiary	**10,063**

2.4.10 Financial liabilities measured at amortised cost

	31 Dec 2019	31 Dec 2018
Deposits and loans from banks and central banks	777,912	1,206,244
Loans	768,968	1,162,951
Deposits	8,944	43,293
Deposits and loans from customers	827,545	548,452
Loans	827,545	509,242
Deposits	0	39,210
Debt securities	330,279	132,601
Other financial liabilities	2,727	2,024
Total	**1,938,463**	**1,889,321**

The increase in financial liabilities from debt securities in 2019 is the result of the issue of the SEDABI 0.125 06/24/26 bond with a nominal value of EUR 200,000 thousand.

2.4.11 Derivatives -hedge accounting

	31 Dec 2019	31 Dec 2018
Fair value hedge	841	332
Fair value	749	246
Net liabilities for interest	92	86
Cash flow hedge	0	2,566
Fair value	0	2,276
Net liabilities for interest	0	290
Total	**841**	**2,898**

SID Bank also manages its exposure to interest rate risk by means of interest rate derivatives. If those derivatives meet the conditions, they are subject to hedge accounting.

SID Bank concluded an interest rate swap in the first quarter of 2018 in the nominal amount of EUR 70,000 thousand as a cash flow hedge. Based on prospective and retrospective testing, it was determined that the hedging relationship became ineffective in 2019 due to a material change in the median value of the interest rate swap, requiring its discontinuation. The effects of the valuation of the interest rate swap (EUR 5,763 thousand), which were disclosed in accumulated other comprehensive income associated with cash flow hedging during the hedging relationship, were transferred to the hedged item (financial liabilities measured at amortised cost – loans to customers) following the discontinuation of the hedging relationship, and will be released gradually to profit or loss, in accordance with the amortisation schedule of the hedge item, when cash flows are realised.

As at 31 December 2019 the Bank held two interest rate swaps as a fair value hedge of asset items, in the total nominal amount of EUR 15,000 thousand.

2.4.12 Provisions

Breakdown by type of provision

	31 Dec 2019	31 Dec 2018
Provisions for commitments given	1,532	420
Guarantees	364	214
Undrawn loans	1,168	206
Provisions for employee benefits	842	710
Total	**2,374**	**1,130**

Provisions for employee benefits comprise provisions for jubilee benefits and provisions for termination benefits at retirement.

Changes in provisions for commitments given

	Guarantees		Undrawn loans		
2019	Stage 1	Total	Stage 1	Stage 2	Total
Balance as at 1 Jan	214	214	206	0	206
Increase due to new commitments given	0	0	560	75	635
Decrease due to reversal of commitments given	(16)	(16)	(237)	(17)	(254)
Net change due to change in credit risk	166	166	19	562	581
Balance as at 31 Dec	**364**	**364**	**548**	**620**	**1,168**

	Guarantees		Undrawn loans		
2018	Stage 1	Total	Stage 1	Stage 2	Total
Balance as at 1 Jan	6	6	219	11	230
Increase due to new commitments given	751	751	2,771	0	2,771
Decrease due to reversal of commitments given	(543)	(543)	(2,784)	(11)	(2,795)
Balance as at 31 Dec	**214**	**214**	**206**	**0**	**206**

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 commitments given are disclosed in section 2.6.1.

Changes in provisions for employee benefits

	2019	2018
Balance as at 1 Jan	710	576
Created	138	138
Used	(6)	(4)
Balance as at 31 Dec	**842**	**710**

SID Bank had provisions for termination benefits at retirement and jubilee benefits as at 31 December 2019 that were created on the basis of its own calculation. The Bank had 201 employees as at 31 December 2019 (31 December 2018: 185). The calculation is based on the assumption that all employees included in the calculation will remain employed at the Bank until the payment of all pertaining jubilee benefits and until retirement. The calculated amounts are discounted using a discount rate of 1.0105 (31 December 2018: 1.0122).

2.4.13 Other liabilities

	31 Dec 2019	31 Dec 2018
Current deferred income	119	91
Tax liabilities	56	49
Total	**175**	**140**

2.4.14 Shareholder equity

	31 Dec 2019	31 Dec 2018
Share capital	300,000	300,000
Profit reserves	135,327	102,149
Regulatory reserves	14,020	12,418
Reserves for treasury shares	1,324	1,324
Reserves under the articles of association	65,332	50,113
Other profit reserves	54,651	38,294
Share premium	1,139	1,139
Accumulated other comprehensive income	11,656	3,731
Treasury shares	(1,324)	(1,324)
Net profit for financial year (including retained earnings)	17,062	16,356
Total	**463,860**	**422,051**

There were no changes to the treasury shares reserve in 2019. SID Bank held 18,445 own shares, ticker symbol SIDR, in the total amount of EUR 1,324 thousand as at 31 December 2019.

Under a general meeting resolution, the undistributed profit for 2018 in the amount of EUR 16,356 thousand was allocated to other profit reserves.

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

Breakdown of accumulated other comprehensive income

	31 Dec 2019	31 Dec 2018
Financial assets measured at fair value through other comprehensive income – equity instruments	445	711
Revaluation	550	878
Deferred taxes	(105)	(167)
Cash flow hedge	0	(1,744)
Revaluation	0	(2,151)
Deferred taxes	0	407
Financial assets measured at fair value through other comprehensive income – debt securities	11,211	4,764
Revaluation	13,840	5,881
Deferred taxes	(2,629)	(1,117)
Total	**11,656**	**3,731**

2.4.15 Distributable profit

	31 Dec 2019	31 Dec 2018
Net profit for the financial year	32,040	14,314
Increase in profit reserves		
Regulatory reserves	(1,602)	(716)
Reserves under the articles of association	(15,219)	(6,799)
Transfer of fair value reserves on derecognition of equity financial instruments measured at fair value through other comprehensive income	1,843	0
Retained earnings due to transition to IFRS 9	0	9,557
Distributable profit	**17,062**	**16,356**

In accordance with the articles of association, the management board used SID Bank's net profit for 2019 in the amount of EUR 32,040 thousand (2018: EUR 14,314 thousand) to create regulatory reserves in the amount of EUR 1,602 thousand (2018: EUR 716 thousand) and reserves under the articles of association in the amount of EUR 15,219 thousand (2018: EUR 6,799 thousand). The distributable profit from 2018 in the amount of EUR 16,356 thousand was allocated to other profit reserves.

Under the ZSIRB, SID Bank's distributable profit may not be used for distribution to shareholders. The Bank's management board and the supervisory board will propose to the general meeting that it pass a resolution whereby the distributable profit for the 2019 financial year in the amount of EUR 17,062 thousand should be allocated to other profit reserves.

2.5 Notes to the statement of profit or loss

2.5.1 Net interest income

	2019	2018
Interest income		
Interest income recognised at effective interest rate	30,913	31,122
Interest on non-trading financial assets mandatorily at fair value through profit or loss	1,842	1,543
Interest on financial assets measured at fair value through other comprehensive income	4,559	5,125
Interest on financial assets measured at amortised cost	23,790	23,654
Loans and advances to banks	6,225	5,850
Loans and advances to customers	17,565	17,804
Interest on financial liabilities carrying negative interest rate	722	800
Interest on deposits and loan borrowings	722	800
Total interest income	30,913	31,122
Interest expenses		
Interest on financial liabilities measured at amortised cost	(5,705)	(6,741)
Issued securities	(1,381)	(2,248)
Loans and deposits	(4,324)	(4,493)
From banks	(962)	(1,007)
From customers	(3,362)	(3,486)
Hedging derivatives	(594)	(775)
Financial liabilities held for trading, other	(90)	0
Interest on financial assets carrying negative interest rate	(592)	(620)
Total interest expenses	(6,981)	(8,136)
Net interest income	**23,932**	**22,986**

SID Bank generated total interest income of EUR 30,913 thousand in 2019, a decrease of 0.67% relative to 2018.

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 8,049 thousand as at 31 December 2019 (2018: EUR 12,736 thousand).

The effect of calculated and excluded interest income relating to D- and E-rated customers amounted to EUR 8,024 thousand as at 31 December 2019 (2018: EUR 12,706 thousand).

2.5.2 Dividend income

	2019	2018
Financial assets measured at fair value through other comprehensive income	35	36
Investments held at end of reporting period	35	36
Investments in subsidiaries, associates and joint ventures	5,418	582
Total	**5,453**	**618**

Prior to the sale of its subsidiary, the Bank received dividends in the amount of EUR 5,418 thousand in 2019, a significant increase relative to 2018 when dividends received totalled EUR 582 thousand.

2.5.3 Net fee and commission income

	2019	2018
Fee and commission income		
Fee and commission income from loan operations	495	423
Fee and commission income from guarantees given	238	168
Total fee and commission income	733	591
Fee and commission expenses		
Fees and commission for loan operations	(12)	(87)
Fees and commission for stock exchange transactions	(337)	(9)
Fees and commission for other services	(184)	(204)
Total fee and commission expenses	(533)	(300)
Net fee and commission income	**200**	**291**

2.5.4 Net gains/losses on financial assets and liabilities not measured at fair value through profit or loss

	2019	2018
Financial assets measured at fair value through other comprehensive income	2,602	1,076
Gains	2,657	1,197
Losses	(55)	(121)
Financial assets measured at amortised cost	130	115
Gains	130	115
Financial liabilities measured at amortised cost	10,043	2,027
Gains	10,043	5,050
Losses	0	(3,023)
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	**12,775**	**3,218**

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 2019 was up relative to 2018, while created impairments were higher resulting in a loss in the amount of EUR 10,010 thousand (2018: EUR 2,027 thousand), which because of the agreed first loss clause was reflected in recognised gains on financial liabilities measured at amortised cost.

The Bank recognised gains of EUR 33 thousand in 2019 in the same item as the result of financial liabilities measured at amortised cost deriving from the direct provision of financial instruments of the Fund of Funds.

2.5.5 Net gains/losses on financial assets and liabilities held for trading

	2019	2018
Derivatives	(969)	0
Interest rate	(969)	0
Net gains/(losses) on financial assets and liabilities held for trading	**(969)**	**0**

The disclosed losses comprise the effect of an interest rate swap from the discontinuation of the associated hedge (see explanation in section 2.4.11) until the discontinuation of the interest rate swap.

2.5.6 Net gains/losses on non-trading financial assets mandatorily at fair value through profit or loss

	2019	2018
Equity instruments	389	0
Gains	422	0
Losses	(33)	0
Loans and other financial assets	12,315	655
Gains	13,299	2,450
Losses	(984)	(1,795)
Net gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss	**12,704**	**655**

2.5.7 Changes in fair value in hedge accounting

	2019	2018
Net gains/(losses) on derivatives held as fair value hedges	(503)	(215)
Net gains/(losses) on fair-value-hedged items relating to hedged risk	493	211
Losses on ineffective cash flow hedges	(1,115)	(125)
Total gains/(losses) from hedge accounting	**(1,125)**	**(129)**

Gains in the amount of EUR 493 thousand were recorded in 2019 as the result of changes in the fair value of specific hedged financial instruments, while losses in the amount of EUR 503 thousand were recorded as the result of changes in the fair value of derivatives held for hedging. The ineffective portion of the fair value hedge of cash flows was EUR 1,115 thousand. A net loss in the amount of EUR 1,125 thousand was recorded as the result of changes in fair value in hedge accounting.

2.5.8 Net foreign exchange gains/losses

	2019	2018
Foreign exchange gains	1,813	2,717
Foreign exchange losses	(1,822)	(2,725)
Net foreign exchange gains/(losses)	**(9)**	**(8)**

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.

2.5.9 Other net operating income/expenses

	2019	2018
Income		
Income from activities under Republic of Slovenia authorisation	2,504	3,558
Other operating income	278	106
Total income	2,782	3,664
Expenses		
Other operating expenses	(294)	(302)
Total expenses	(294)	(302)
Other net operating income/(expenses)	**2,488**	**3,362**

The Bank realised income of EUR 2,504 thousand in 2019 (2018: EUR 3,558 thousand) from the provision of services under authorisation. It recorded income from the management of contingency reserve assets in the amount of EUR 1,740 thousand (2018: EUR 1,740 thousand), from the management of the Fund of Funds in the amount of EUR 729 thousand (2018: EUR 1,781 thousand), from guarantee schemes in the amount of EUR 14 thousand (2018: EUR 16 thousand) and from other services under authorisation in the amount of EUR 21 thousand (2018: EUR 21 thousand).

2.5.10 Administrative expenses

	2019	2018
Staff costs	(11,540)	(9,978)
Gross salaries	(8,520)	(7,502)
Pension insurance costs	(760)	(669)
Social security costs	(630)	(555)
Other staff costs	(1,630)	(1,252)
General and administrative costs	(4,022)	(3,292)
Costs of material	(153)	(136)
Costs of services	(3,869)	(3,156)
Total	**(15,562)**	**(13,270)**

Total amount spent on auditors

	2019	2018
Audit of the annual report	47	43
Other auditing services	15	8
Other non-audit services	49	102
Total	**111**	**153**

2.5.11 Depreciation and amortisation

	2019	2018
Depreciation of property, plant and equipment	(586)	(567)
Amortisation of intangible assets	(328)	(314)
Total	**(914)**	**(881)**

2.5.12 Provisions

	2019	2018
Provisions for commitments given	(1,112)	(184)
Guarantees	(150)	(208)
Undrawn loans	(962)	24
Other provisions	(139)	(138)
Total	**(1,251)**	**(322)**

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.

2.5.13 Impairments

	2019	2018
Impairments of financial assets measured at fair value through other comprehensive income	(54)	789
Impairments of financial assets measured at amortised cost	(10,437)	248
Loans and advances to banks	(714)	(53)
Loans and advances to customers	(9,723)	301
Total	**(10,491)**	**1,037**

2.5.14 Net profit/loss from non-current assets and disposal groups classified as held for sale

	2019	2018
Net gains/(losses) on derecognition of subsidiaries	10,063	0
Net gains/(losses) on non-current assets and disposal groups classified as held for sale	**10,063**	**0**

SID Bank sold its subsidiary SID-PKZ in 2019. The bank generated a gain of EUR 10,063 thousand in that sale.

Additional explanations are given in sections 2.4.9 and 2.5.2.

2.5.15 Corporate income tax

	2019	2018
Current income tax	(5,234)	(3,081)
Deferred taxes	36	(124)
Total	**(5,198)**	**(3,205)**

The corporate income tax rate in Slovenia was 19% in 2019 (2018: 19%). Current income tax differs from tax calculated using the prescribed tax rate, and is disclosed in the table below. An analysis of deferred taxes disclosed in profit or loss is given in section 2.4.7.

	2019	2018
Profit before tax	37,238	17,519
Tax calculated at prescribed rate of 19%	(7,075)	(3,329)
Non-taxable income	2,012	262
Non-deductible expenses	(187)	(139)
Reduction in tax base for expenses that were not recognised for tax purposes in the past	2	0
Increase in tax base	(99)	(6)
Tax allowances	113	131
Net created/(used) deferred taxes	36	(124)
Total	**(5,198)**	**(3,205)**

Most of the income deducted from the tax base related to dividend income and gains on the disposal of equity holdings. SID Bank excluded EUR 5,418 thousand in dividend income and gains from the disposal of equity holdings in the amount of EUR 5,032 thousand from its tax base in 2019.

Non-deductible expenses largely derived from expenses for bonuses and other employment-related payments.

SID Bank's effective tax base (calculated as the ratio of expenses for corporate income tax to profit before tax) for the 2019 financial year was 14.1% (2018: 17.6%).

2.5.16 Basic and diluted earnings per share

	2019	2018
Number of ordinary registered no-par value shares	3,121,741	3,121,741
Treasury shares	18,445	18,445
Number of ordinary shares (excluding treasury shares)	3,103,296	3,103,296
Net profit for the financial year (in EUR thousands)	32,040	14,314
Basic earnings per share (in EUR per share)	**10.32**	**4.61**

Diluted earnings per share equals basic earnings per share.

2.6 Other notes to the financial statements

2.6.1 Contingent liabilities and commitments given

Contractual value of off-balance-sheet financial instruments arising from commitments given

	31 Dec 2019	31 Dec 2018
Commitments given		
Guarantees	63,824	66,790
Undrawn loans	183,865	196,970
Uncalled unpaid capital	12,000	12,000
Total	**259,689**	**275,760**
Provisions for commitments given		
Guarantees	(364)	(214)
Undrawn loans	(1,168)	(206)
Total	**(1,532)**	**(420)**

The value of guarantees given decreased in 2019 as a result of the repayment of loans for which guarantees were issued. The amount of loans approved for customers but as yet undrawn stood at EUR 167,313 thousand as at 31 December 2019 (2018: EUR 129,259 thousand), while the amount of loans approved for banks stood at EUR 16,552 thousand (2018: EUR 67,711 thousand). The item uncalled unpaid capital was unchanged in 2019 and stood at EUR 12,000 thousand (2018: EUR 12,000 thousand).

Changes in contractual value of off-balance-sheet financial instruments arising from commitments given

	Guarantees		Undrawn loans		
2019	Stage 1	Total	Stage 1	Stage 2	Total
Balance as at 1 Jan	66,790	66,790	195,972	998	196,970
Increase due to new commitments given	0	0	164,816	14,449	179,265
Decrease due to derecognition	(2,966)	(2,966)	(189,124)	(3,246)	(192,370)
Balance as at 31 Dec	**63,824**	**63,824**	**171,664**	**12,201**	**183,865**

	Guarantees		Undrawn loans			
2018	Stage 1	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 Jan	13,863	13,863	47,747	662	0	48,409
Increase due to new commitments given	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 change in credit risk	0	0	(998)	998	0	0
of which transfers 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	**66,790**	**66,790**	**195,972**	**998**	**0**	**196,970**

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

	31 Dec 2019	31 Dec 2018
Hedging derivatives		
Interest rate swaps	15,000	85,000
Total	**15,000**	**85,000**

The contractual value of hedging derivatives amounted to EUR 15,000 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 2.4.11 and 2.5.7.

2.6.2 Related party disclosures

Within the framework of continuing operations, certain 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 related parties are disclosed below.

Significant relations of SID Bank with subsidiaries and joint ventures

	31 Dec 2019		31 Dec 2018		
	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Receivables					
Loans and advances	483	483	0	1,189	1,189
Other financial assets	0	0	4	0	4
Gross exposure	483	483	4	1,189	1,193
Allowances	119	119	0	192	192
Net exposure	**602**	**602**	**4**	**1,381**	**1,385**

	2019		2018		
	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Interest income	28	28	0	49	49
Income from other services	0	0	43	0	43
Dividend income	0	0	582	0	582
Impairments	341	341	0	731	731
Total	**369**	**369**	**625**	**780**	**1,405**

Exposure to the Republic of Slovenia and to government-owned undertakings

SID Bank has business relationships with the government and with government-related undertakings or undertakings with a significant government influence.

Exposure to:	2019	2018
Bank of Slovenia		
Balance as at 31 Dec		
ASSETS		
Cash, cash balances at central banks and demand deposits at banks	72,689	120,871
LIABILITIES		
Loans from banks and central banks	171,201	171,903
Other financial liabilities	195	135
For period		
Interest expenses	(1,193)	(1,060)
Republic of Slovenia		
Balance as at 31 Dec		
ASSETS		
Financial assets measured at fair value through other comprehensive income	327,571	271,185
Loans and advances to customers	118,630	80,008
Other financial assets	399	402
Tax assets	468	2,271
Other assets	49	69
LIABILITIES		
Loans from customers	174,323	173,805
Other financial liabilities	421	362
Provisions	1	0
Tax liabilities	451	3,294
Other liabilities	58	49
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	27,208	55,170
For period		
Interest income	3,999	3,132
Fee and commission income	1	0
Fee and commission expenses	0	(3)
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	10,742	386
Changes in fair value in hedge accounting	493	211
Other net operating income/(expenses)	1,790	1,807
Administrative expenses	(56)	(97)
Impairments and provisions	7	2

Exposure to:	2019	2018
Government-owned undertakings		
Balance as at 31 Dec		
ASSETS		
Cash, cash balances at central banks and demand deposits at banks	26	283
Financial assets measured at fair value through other comprehensive income	18,383	50,574
Loans and advances to banks	270,649	320,217
Loans and advances to customers	239,784	211,738
Other financial assets	343	430
Non-current assets and disposal groups as held for sale	0	8,413
Other assets	27	65
LIABILITIES		
Deposits from banks	0	4,998
Deposits from customers	0	39,210
Loans from customers	0	757
Other financial liabilities	205	98
Provisions	22	34
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	20,000	0
For period		
Interest income	7,243	7,131
Interest expenses	(12)	1,236
Dividend income	19	582
Fee and commission income	0	64
Fee and commission expenses	(125)	(144)
Other net operating income/(expenses)	800	1,823
Administrative expenses	(221)	(206)
Net modification gains/(losses)	(48)	0
Impairments and provisions	2,233	397

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 (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 so 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 so 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 over which they conduct controls, and have the appropriate powers and receive remuneration with respect to the achievement of objectives linked to their functions, irrespective of the performance of the business areas over 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 held ten sessions in 2019, and discussed the remuneration policy and practices at three of the sessions. The remuneration policy was amended twice in 2019, on 30 May 2019 and 19 December 2019. The basis for change were changes identified in the annual review of the remuneration policy, recommendations from the audit report of the internal audit department and a supervisory board resolution.

No external consultant was involved in the development of the remuneration policy.

(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 for employees whose professional activities have a material impact on the Bank's risk profile and if total variable remuneration of an employee in a single year exceeds the gross amount of EUR 50,000.00. In accordance with the remuneration policy, the aforementioned deferral period 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 50,000.00 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 explains, with respect to the performance criteria on which the right to shares is based, that it 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 50,000.00 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 an employee whose professional activities have a material impact on the Bank's risk profile is entitled to variable remuneration based on the relevant criteria and their total variable remuneration exceeds the gross amount of EUR 50,000.00 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).

SID Bank provides information regarding the performance criteria that serve as the basis for the right to variable remuneration in the next section, together with the main parameters and justifications for the aforementioned variable remuneration and other non-cash benefits.

(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 a year 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.

In accordance with the criteria of the tariff annex to the company-level collective agreement, an employee is entitled to the payment of a performance bonus in the amount of one average gross monthly salary. The payment of that performance bonus depends on the achievement of indicators used to control the strategic results defined in the Bank's development plan (maximum of 60% of salary) and the achievement of key performance indicators and the tasks implemented by a specific organisational unit (maximum of 40% of salary). The total variable remuneration of employees may not exceed 33% of the fixed remuneration.

Bonuses for project work are defined in accordance with the rulebook on project work.

Based on a reasoned proposal, the management board may adopt a decision, where an employee is only entitled to termination benefits up to a certain amount above the amount set out in labour legislation.

2. Employees with individual employment contracts are paid variable remuneration once a year in the form of performance bonuses based on the achievement of objectives, 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 decision 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, taking into account 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 for by SID Bank.

(Article 450(1)(g)(h)(i) and (j) of the CRR)

Quantitative information on remuneration in 2019

	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)	5	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of identified FTE employees	N/A	N/A	8.1	0	0	5.4	8.8	6.0	7.7
Number of identified employees in senior management positions	N/A	N/A	0	0	0	0	4.8	0	0
Total fixed remuneration, EUR	167,952	411,879	587,576	0	0	273,499	834,626	376,481	516,606
of which: fixed remuneration in cash	167,952	411,879	587,576	0	0	273,499	834,626	376,481	516,606
Total variable remuneration, EUR	0	93,739	64,805	0	0	45,292	186,309	32,969	55,886
of which: variable remuneration in cash	0	93,739	64,805	0	0	45,292	186,309	32,969	55,886
Total amount of variable remuneration awarded in 2019 and deferred, EUR	0	53,173	0	0	0	0	0	0	0
of which: deferred variable remuneration in 2019 in cash	0	53,173	0	0	0	0	0	0	0
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in 2019, EUR (Article 450(1)(h)(iii) of the CRR)	0	96,306	0	0	0	0	0	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 2019

(EUR) Name	Function	Gross payment for performance of function	Gross session fees	Gross total	Net total	Gross reimbursement of expenses	Net reimbursement of expenses	Other benefits (liability insurance)
Monika Pintar Mesarič	chair of Supervisory Board chair of nomination and remuneration committee	28,125	6,611	34,736	25,222	0	0	154
Marjan Divjak	member of supervisory board deputy-chair of audit committee deputy-chair of risk committee	22,500	7,535	30,035	21,803	143	104	154
Leo Knez	member of supervisory board chairman of risk committee member of audit committee	24,375	8,030	32,405	23,526	143	104	154
Marko Tišma	deputy-chair of supervisory board deputy-chair of nomination and remuneration committee member of risk committee	24,000	8,646	32,646	23,744	2,622	1,865	154
Zlatko Vili Hohnjec	member of supervisory board chair of audit committee member of nomination and remuneration committee	24,375	8,162	32,537	23,665	1,914	1,350	154
		123,375	38,984	162,359	117,960	4,822	3,423	770

Remuneration of members of the management board in 2019

SID Bank's management board was paid EUR 505,618 in 2019, comprising EUR 411,879 in fixed remuneration, EUR 53,174 in current variable remuneration and EUR 40,565 in deferred variable remuneration from previous years.

Sibil Svilan, the president of the management board, received EUR 273,860 in total remuneration (EUR 118,712 net) in 2019, of which EUR 223,855 was fixed and EUR 50,005 was variable remuneration. The fixed remuneration consisted of gross salary in the amount of EUR 212,290 (net salary amounted to EUR 93,807), annual leave allowance in the amount of EUR 1,714, voluntary supplementary pension insurance payments in the amount of EUR 2,819, meal allowances of EUR 949 and additional fringe benefits (company car use, voluntary health insurance, life insurance and liability insurance) in the total amount of EUR 6,083. The variable remuneration consisted of variable remuneration awarded and paid in 2019 in the amount of EUR 28,699 and deferred variable remuneration from previous years in the amount of EUR 21,306 paid in 2019.

Goran Katušin, a member of the management board, received EUR 220,164 in total remuneration (EUR 102,759 net) in 2019, of which EUR 188,025 was fixed and EUR 32,139 was variable remuneration. The fixed remuneration consisted of gross salary in the amount of EUR 181,010 (net salary amounted to EUR 84,645), annual leave allowance in the amount of EUR 1,714, voluntary supplementary pension insurance payments in the amount of EUR 2,819, travel and meal allowances of EUR 1,785, and additional fringe benefits (voluntary health insurance, accident insurance and liability insurance) in the total amount of EUR 696. The variable remuneration consisted of variable remuneration awarded and paid in 2019 in the amount of EUR 24,474 and deferred variable remuneration from previous years in the amount of EUR 7,665 paid in 2019.

Jožef Bradeško, a member of the management board until 31 December 2016, received deferred variable remuneration from previous years in the amount of EUR 19,259 in 2019.

2.6.4 Events after the reporting period

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

3 Risk Management

Risk management at SID Bank

SID Bank'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.

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; and
- 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 means 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 the 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 risk management action plan, which sets out the measures available for the management of identified and measured or assessed risks; and
- 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 are being 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; and
- 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 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. 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 the 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, exposure to 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 body is also briefed on risk management in the context of the discussion and adoption of SID Bank'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 once a week.

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 liquidity, 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;
- reports on capital, capital requirements, capital ratios and the leverage ratio;
- reports on the Bank's exposure to liquidity risk, 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 the realisation of the planned objectives;
- the impact of the introduction of new financing programmes and/or individual products on the structure of the balance sheet, capital adequacy and the Bank's profit;
- 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 financial statements of SID Bank;
- 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; and
- the results of stress testing.

The criteria taken into consideration by the asset-liability and liquidity management committee in asset and liability management include capital adequacy, the profitability of operations and the 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 discusses the watch list and reports on the findings of periodic and in-depth monitoring, the fulfilment or non-fulfilment of financial and other contractual commitments, the issuing of reminders, recovery, the monitoring of collateral, and the impairment and provisioning rates for investment operations.

The distressed investment management committee is responsible for the management of non-performing exposures under the care of the distressed investment management department, measures for the forbearance of exposures, and for the cancellation and termination of an investment transaction due to financial difficulties or other breaches of contractual commitments by a debtor. It is also responsible for dealing with the transitional watch list, 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. SID Bank actively manages credit risk by, *inter alia*, eliminating any deficiencies identified, improving management procedures and methods, and upgrading the risk management methodology.

The umbrella document dealing with the management of credit risk in SID Bank operations is the Credit Risk Management Policy. That 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 management 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 hedging 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 value of an investment 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 investment and ongoing assessments made to verify whether the rating grade is still appropriate.

The Bank has developed separate methodologies for assigning ratings to clients and for assessing credit quality: a methodology for assessing corporates, sole traders and cooperatives, which includes a methodology for assessing investment projects and newly established corporates, and a methodology for assessing banks and savings banks. 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; and
- 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 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 value supplied by GURS if the independent certified appraiser produces an opinion to the effect that the generalised value is appropriate. If the independent certified appraiser assesses that the generalised 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, if the latter is available. Over 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 a year 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. In the case of non-performing exposures with a gross value in excess of EUR 300 thousand, SID Bank obtains a reassessment from an independent external appraiser every year for commercial and residential real estate. 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 debtor'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 debtors, without taking into account past-due claims and claims against legal or natural persons that comprise a group of clients connected with the debtor. SID Bank gives collateral in the form of assignment of all current and future receivables (global fiduciary assignment) a value of EUR 0. Sureties, accessions to debt and guarantees are valued in accordance with the value of exposure or the contractual amount of the surety, accession to the debt 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 or equal to BBB-, based on the internal credit quality 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, Bank 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, the debtor concerned is placed on the watch list.

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 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:

- the 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;
- the segmentation of the portfolio for the calculation of expected credit losses (PD and LGD segments);
- the modelling of probability of default (PD) and loss given default (LGD);
- the calculation of expected credit losses; and
- back-testing.

The estimation of expected credit losses is defined in more detail in section 2.3.11 under the title 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 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 debtor’s rating grade and other criteria that entail a debtor 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. The EWS facilitates the early detection of increased credit risk for any exposure and potential defaulter. The EWS 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 debtor does not move to a position of default.

SID Bank monitors exposures with an increased credit risk (non-performing exposures) 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 debtor no longer meets any of the criteria for being placed on the watch list, they are returned to ordinary treatment, 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

Problematic exposures that have been classified to non-performing investments based on a decision of the responsible committee are assigned to a special organisational unit that manages non-performing investments. That organisational unit performs a multi-phased segmentation with the aim of identifying debtors with the ability to generate cash flow from their core activity and to service their financial debt at the same time. The forbearance of the exposure in question or the recovery process is initiated based on the results of that segmentation.

SID Bank has in place a special strategy for managing and reducing non-performing exposures that includes time-based definitions of quantitative targets (increased repayments, reduced losses, reduced stock of non-performing exposures, etc.), supported by an appropriate comprehensive operational plan to meet these targets. The strategy for managing and reducing non-performing exposures is updated annually.

In the forbearance of non-performing loans, SID Bank complies with the EBA guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06) and the Slovenian corporate debt restructuring principles, prepared by the Bank of Slovenia together with the Bank Association of Slovenia. As regards micro, small and medium-sized enterprises, SID 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. SID Bank monitors non-performing loans on special lists; these are the transitional list, the list of forborne exposures and the list of insolvent exposures, which are generally discussed on a weekly basis by the distressed investment management committee.

Recovery procedure

Recovery takes place in accordance with internal procedures. 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.

Recovery typically begins with a verbal and written reminder to the debtor. If the procedure of issuing reminders is unsuccessful or the exposure could not be forborne, procedures are usually initiated to redeem collateral instruments.

If extra-judicial recovery is not successful, judicial recovery is initiated and headed by the distressed investment management department in accordance with circumstances of a specific case.

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 debtors, groups of connected clients and shadow banking entities;
- by establishing collateral;
- by identifying the risk posed by a specific debtor and creating impairments and provisions for on-balance-sheet assets or off-balance-sheet liabilities; and
- 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 debtor'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, taking into account 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 debtors 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; and
- 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 2019	Maximum credit risk	Collateral in the form of property	Other credit enhancements	Overall reduction in credit risk
Gross on-balance-sheet exposures	**2,432,290**	**533,135**	**137,084**	**670,219**
Cash, cash balances at central banks and demand deposits at banks	72,729	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	12,927	39,606	0	39,606
Loans and advances to customers	12,927	39,606	0	39,606
Financial assets measured at fair value through other comprehensive income	658,328	0	10,347	10,347
Debt securities	658,328	0	10,347	10,347
Financial assets measured at amortised cost	1,688,306	493,529	126,737	620,266
Loans and advances to banks	837,175	0	28,998	28,998
Loans and advances to customers	845,870	493,529	97,739	591,268
Other financial assets	5,261	0	0	0
Gross off-balance-sheet exposures	**259,689**	**4,900**	**37,830**	**42,730**
Guarantees	63,824	0	31,922	31,922
Assets: undrawn loans	183,865	4,900	5,908	10,808
EIF	12,000	0	0	0
Total gross credit risk exposure	**2,691,979**	**538,035**	**174,914**	**712,949**

31 Dec 2018	Maximum credit risk	Collateral in the form of property	Other credit enhancements	Overall reduction in credit risk
Gross on-balance-sheet exposures	**2,327,410**	**508,089**	**95,669**	**603,758**
Cash, cash balances at central banks and demand deposits at banks	121,184	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	15,667	25,882	0	25,882
Loans and advances to customers	15,667	25,882	0	25,882
Financial assets measured at fair value through other comprehensive income	651,126	0	10,347	10,347
Debt securities	651,126	0	10,347	10,347
Financial assets measured at amortised cost	1,539,433	482,207	85,322	567,529
Loans and advances to banks	810,041	0	14,643	14,643
Loans and advances to customers	727,539	482,207	70,659	552,866
Other financial assets	1,853	0	20	20
Gross off-balance-sheet exposures	**275,760**	**11,523**	**33,555**	**45,078**
Guarantees	66,790	0	33,385	33,385
Assets: undrawn loans	196,970	11,523	170	11,693
EIF	12,000	0	0	0
Total gross credit risk exposure	**2,603,170**	**519,612**	**129,224**	**648,836**

The table shows that the largest exposure to credit risk on the part of SID Bank as at 31 December 2019 arose from balances at the central bank and demand deposits at banks, 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 2019, SID Bank's exposure to credit risk had risen by EUR 88,809 thousand relative to 31 December 2018. Exposure from loans and other financial assets measured at amortised cost rose by EUR 148,873 thousand, while exposure from financial assets measured at fair value through other comprehensive income was up by EUR 7,202 thousand. On the other hand, exposure from balances at the central bank and demand deposits at banks fell by EUR 48,455 thousand, while exposure from off-balance-sheet liabilities fell by EUR 16,071 thousand and exposure from loans mandatorily at fair value through profit or loss was down by EUR 2,740 thousand.

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 shown in the table include collateral in the form of irrevocable Slovenian government guarantees and financial 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. With regard to collateral in the form of other 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 2019, SID Bank applied the collateral assessment methodology when calculating the expected credit losses for 36 of the total of 59 exposures assigned to stage 3.

The estimation of expected credit losses is defined in more detail in section 2.3.11 under the title Impairments of financial assets and provisions.

As at 31 December 2019, the value of the collateral amounted to EUR 608,014 thousand for exposures assigned to stage 1, EUR 46,513 thousand for exposures assigned to stage 2 and EUR 18,816 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 39,606 thousand as at 31 December 2019.

Types of credit protection

31 Dec 2019	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 other material assets	Other forms of collateral	Total
Financial assets	**44,455**	**67,428**	**313,973**	**6,749**	**77,383**	**135,029**	**25,202**	**670,219**
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	39,447	159	0	0	0	39,606
Loans and advances to customers	0	0	39,447	159	0	0	0	39,606
Financial assets measured at fair value through other comprehensive income	213	10,134	0	0	0	0	0	10,347
Debt securities	213	10,134	0	0	0	0	0	10,347
Financial assets measured at amortised cost	44,242	57,294	274,526	6,590	77,383	135,029	25,202	620,266
Loans and advances to banks	28,998	0	0	0	0	0	0	28,998
Loans and advances to customers	15,244	57,294	274,526	6,590	77,383	135,029	25,202	591,268
Off-balance-sheet liabilities	**0**	**31,922**	**4,900**	**0**	**0**	**5,908**	**0**	**42,730**
Guarantees	0	31,922	0	0	0	0	0	31,922
Assets: undrawn loans	0	0	4,900	0	0	5,908	0	10,808
Total	**44,455**	**99,350**	**318,873**	**6,749**	**77,383**	**140,937**	**25,202**	**712,949**

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
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 712,949 thousand as at 31 December 2019, an increase of EUR 64,113 thousand in comparison with 31 December 2018. 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 December 2019, SID Bank undertook a revaluation, using a statistical method, of real estate collateral that was appraised up to and including 30 June 2019.

As regards type of collateral, collateral in the form of commercial real estate accounts for the highest proportion in terms of volume, followed by collateral in the form of other material assets, financial guarantees (excluding irrevocable Slovenian government guarantees), shares and participating interests, irrevocable Slovenian government guarantees, other forms of collateral and collateral in the form of residential real estate.

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 proportion 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 proportion 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 quality assessment methodology.

As regards collateral in the form of material assets, collateral in the form of the pledging of inventories accounts for the highest proportion 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 that are secured accounts for the highest proportion in terms of volume, followed by collateral in the form of a lien on other rights (patents, trademarks, models) and collateral in the form of the assignment of claims that are not secured.

Securing of loans and claims

	Fully secured and over-secured loans		Unsecured and under-secured loans	
31 Dec 2019	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	0	0	835,770	28,998
Loans and advances to customers	265,220	525,763	538,403	65,504
Other financial assets	0	0	5,261	0
Total	**265,220**	**525,763**	**1,379,434**	**94,502**

	Fully secured and over-secured loans		Unsecured and under-secured loans	
31 Dec 2018	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
Loans and advances to customers	221,554	476,591	469,566	76,275
Other financial assets	20	20	1,833	0
Total	**226,513**	**481,571**	**1,275,810**	**85,958**

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 2019, 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

	31 Dec 2019		31 Dec 2018	
Gross carrying amount of loans and off-balance-sheet liabilities	**1,947,996**	**100.0%**	**1,815,193**	**100.0%**
A	1,036,513	53.2%	558,699	30.8%
B	774,664	39.8%	1,129,671	62.2%
C	101,861	5.2%	88,672	4.9%
D	17,960	0.9%	16,983	0.9%
E	16,998	0.9%	21,168	1.2%
Allowances for losses and provisions	**(45,184)**	**100.0%**	**(37,530)**	**100.0%**
A	(1,190)	2.6%	(290)	0.8%
B	(8,929)	19.7%	(6,327)	16.9%
C	(14,537)	32.2%	(9,563)	25.5%
D	(3,869)	8.6%	(3,063)	8.2%
E	(16,659)	36.9%	(18,287)	48.7%
Net carrying amount of loans and off-balance-sheet liabilities	**1,902,812**		**1,777,663**	

As at 31 December 2019, SID Bank disclosed gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities of EUR 1,947,996 thousand. This was an increase of EUR 132,803 thousand relative to 31 December 2018. Affecting the change in the gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities was an increase in loans and advances to customers, loans and advances to banks and other financial assets, while the gross exposure from off-balance-sheet items was down due to a decrease in the amount of undrawn loans and guarantees given.

As at 31 December 2019, 93.0% of financial assets measured at amortised cost and off-balance-sheet liabilities had been assigned rating grades of A and B. That proportion was unchanged relative to the situation as at 31 December 2018.

The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of A also increased and stood at 53.2% as at 31 December 2019 (31 December 2018: 30.8%). The main reasons for the increase in the proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of A was the reclassification of loans and advances to banks and loans and advances to customers from rating grade B, and the approval of new transactions vis-à-vis customers with a rating grade of A. The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of B was down primarily due to the reclassification of loans and advances to banks and loans and advances to customers to rating grade A and the reclassification of loans and advances to customers to rating grade C. The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of C was up due to the reclassification of loans and advances to customers from rating grade B.

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; and
- 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.

As at 31 December 2019, 1.8% of financial assets measured at amortised cost and off-balance-sheet liabilities had been assigned rating grades of D and E. This was a decrease of 8.4% on the situation as at 31 December 2018. Gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of D amounted to EUR 17,960 thousand as at 31 December 2019, an increase of EUR 977 thousand relative to 31 December 2018. Contributing to the increase in gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities assigned to rating grade D were new default events and the resulting reclassification of performing exposures to non-performing exposures, while the decrease in gross exposure was the result of received repayments, the latter partly as a result of the successful outcome of forbearance procedures, the reclassification of exposures to rating grade E, and fewer shifts for POCI items that reduce the gross carrying amount of financial assets. Gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of E amounted to EUR 16,998 thousand as at 31 December 2019, a decrease of EUR 4,170 thousand relative to 31 December 2018, primarily as the result of the sale and write-off of financial assets, payments received from the liquidation of collateral and inflows from a bankruptcy estate.

SID Bank held allowances for credit losses and provisions in the amount of EUR 45,184 thousand as at 31 December 2019. Allowances for credit losses on loans granted and other financial assets measured at amortised cost amounted to EUR 43,652 thousand, while provisions for off-balance-sheet liabilities amounted to EUR 1,532 thousand. Allowances for credit losses on loans granted and other financial assets measured at amortised cost were up by EUR 6,542 thousand relative to 31 December 2018, while provisions for off-balance-sheet liabilities were up by EUR 1,112 thousand.

Contributing most to the increase in allowances for credit losses on loans granted and other financial assets measured at amortised cost and provisions for off-balance-sheet liabilities in 2019 was a significant increase in the credit risk of individual financial assets in the period from initial recognition, and their consequent assignment to stage 2, where allowances and provisions for credit losses are measured on the basis of the lifetime expected credit losses on the financial instrument, the recognition of new financial assets, new default events and the resulting reclassification of performing exposures to non-performing exposures, and weaker macroeconomic outlooks resulting in changes to the weight associated with individual scenarios (increased probability of the realisation of the adverse scenario), which in turn impacts individual parameters of the calculation of expected credit losses, i.e. probability of default (PD) and loss given default (LGD)).

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, were down by EUR 822 thousand in 2019. The main reason for the decrease in allowances for credit losses was the derecognition of POCI items that were sold in 2019 and for which the associated allowances for credit losses amounted to EUR 4,098 thousand at the end of 2018. New loss events and the resulting reclassification from performing exposures to non-performing exposures and the increase in allowances for credit losses on existing non-performing exposures led to an increase in total allowances for credit losses.

As at 31 December 2019, SID Bank held 12 exposures under POCI items, including two performing exposures. SID Bank derecognised two non-performing POCI items in 2019 and recognised a POCI item that had been repaid by the end of 2019. As at 31 December 2019, the allowance from POCI items was positive and amounted to EUR 200 thousand (the allowance was negative in the amount of EUR 4,962 thousand as at 31 December 2018).

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.

The estimation of expected credit losses is defined in more detail in section 2.3.11 under the title Impairments of financial assets and provisions.

Analysis of credit quality – non-trading financial assets mandatorily at fair value through profit or loss

31 Dec 2019	
D	12,927
Net carrying amount	**12,927**

Analysis of credit quality – financial assets measured at fair value through other comprehensive income

31 Dec 2019	Stage 1	Total	
Gross carrying amount: debt securities	**658,328**	**658,328**	**100.0%**
A	639,616	639,616	97.2%
B	18,712	18,712	2.8%
Impairments for credit losses	**(309)**	**(309)**	**100.0%**
A	(158)	(159)	51.3%
B	(151)	(151)	48.7%
Net carrying amount: fair value	**658,019**	**658,019**	

As at 31 December 2019, SID Bank disclosed gross exposure from financial assets (debt securities) measured at fair value through other comprehensive income amounting to EUR 658,328 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 2019, 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 309 thousand as at 31 December 2019.

Analysis of credit quality – financial assets measured at amortised cost – loans and advances to banks

31 Dec 2019	Stage 1	Total	
Gross carrying amount	**837,175**	**837,175**	**100.0%**
A	547,589	547,589	65.4%
B	289,586	289,586	34.6%
Allowances for losses	**(1,405)**	**(1,405)**	**100.0%**
A	(770)	(770)	54.8%
B	(635)	(635)	45.2%
Net carrying amount	**835,770**	**835,770**	

As at 31 December 2019, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to banks) amounting to EUR 837,175 thousand.

As at 31 December 2019, all loans and advances to banks had been assigned to stage 1 (no significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of 12-month expected credit losses. Allowances for credit losses on financial assets measured at amortised cost (loans and advances to banks) amounted to EUR 1,405 thousand as at 31 December 2019.

Analysis of credit quality – financial assets measured at amortised cost – loans and advances to customers

31 Dec 2019	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**714,272**	**93,627**	**24,654**	**13,317**	**845,870**	**100.0%**
A	382,546	3,565	0	3,012	389,123	46.0%
B	292,458	27,469	0	0	319,927	37.8%
C	39,268	62,593	0	0	101,861	12.0%
D	0	0	7,656	10,305	17,961	2.1%
E	0	0	16,998	0	16,998	2.0%
Allowances for losses	**(6,741)**	**(15,227)**	**(20,479)**	**200**	**(42,247)**	**100.0%**
A	(556)	(64)	0	249	(371)	0.9%
B	(3,546)	(3,265)	0	0	(6,811)	16.1%
C	(2,639)	(11,898)	0	0	(14,537)	34.4%
D	0	0	(3,820)	(49)	(3,869)	9.2%
E	0	0	(16,659)	0	(16,659)	39.4%
Net carrying amount	**707,531**	**78,400**	**4,175**	**13,517**	**803,623**	

As at 31 December 2019, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to customers) amounting to EUR 845,870 thousand.

A total of EUR 714,272 thousand in loans and advances to customers was assigned to stage 1 (no significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of 12-month expected credit losses. Allowances for credit losses on loans and advances to customers assigned to stage 1 amounted to EUR 6,741 thousand as at 31 December 2019.

As SID Bank also approves loan transactions for rating grade C within individual financing programmes involving elements of state aid, EUR 39,268 thousand in loans and advances to customers was assigned to stage 1.

A total of EUR 96,639 thousand in loans and advances to customers was assigned to stage 2 (significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument, with performing POCI items accounting for EUR 3,012 thousand. Allowances for credit losses on loans and advances to customers assigned to stage 2 amounted to EUR 14,978 thousand as at 31 December 2019, where EUR 249 thousand was the positive allowance for credit losses on performing POCI items.

A total of EUR 34,959 thousand in loans and advances to customers was assigned to stage 3 (non-performing financial assets), where allowances 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 10,305 thousand. Allowances for credit losses on loans and advances to customers assigned to stage 3 amounted to EUR 20,528 thousand as at 31 December 2019, where EUR 49 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 2019	Stage 1	Total	
Gross carrying amount	**5,261**	**5,261**	**100.0%**
A	5,242	5,242	99.6%
B	19	19	0.4%
Allowances for losses	**0**	**0**	**100.0%**
B	0	0	0.0%
Net carrying amount	**5,261**	**5,261**	

SID Bank disclosed exposure from financial assets measured at amortised cost (other financial assets) amounting to EUR 5,261 thousand as at 31 December 2019.

As at 31 December 2019, all other financial assets had been assigned to stage 1 (no significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of 12-month expected credit losses. Allowances for credit losses on financial assets measured at amortised cost (other financial assets) amounted to EUR 0.1 thousand as at 31 December 2019.

Analysis of credit quality – financial assets measured at amortised cost – total

31 Dec 2019	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**1,556,708**	**93,627**	**24,654**	**13,317**	**1,688,306**	**100.0%**
A	935,377	3,565	0	3,012	941,954	55.8%
B	582,063	27,469	0	0	609,532	36.1%
C	39,268	62,593	0	0	101,861	6.0%
D	0	0	7,656	10,305	17,961	1.1%
E	0	0	16,998	0	16,998	1.0%
Allowances for losses	**(8,146)**	**(15,227)**	**(20,479)**	**200**	**(43,652)**	**100.0%**
A	(1,326)	(64)	0	249	(1,141)	2.6%
B	(4,181)	(3,265)	0	0	(7,446)	17.1%
C	(2,639)	(11,898)	0	0	(14,537)	33.3%
D	0	0	(3,820)	(49)	(3,869)	8.9%
E	0	0	(16,659)	0	(16,659)	38.2%
Net carrying amount	**1,548,562**	**78,400**	**4,175**	**13,517**	**1,644,654**	

Analysis of credit quality – off-balance-sheet items

31 Dec 2019	Stage 1	Stage 2	Total	
Gross carrying amount	**247,488**	**12,201**	**259,689**	**100.0%**
A	94,558	0	94,558	36.4%
B	152,930	12,201	165,131	63.6%
Provisions	**(912)**	**(620)**	**(1,532)**	**100.0%**
A	(49)	0	(49)	3.2%
B	(863)	(620)	(1,483)	96.8%
Net carrying amount	**246,576**	**11,581**	**258,157**	

SID Bank disclosed exposure from off-balance-sheet liabilities amounting to EUR 259,689 thousand as at 31 December 2019.

A total of EUR 247,488 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. Provisions for credit losses on off-balance-sheet liabilities assigned to stage 1 amounted to EUR 912 thousand as at 31 December 2019.

A total of EUR 12,201 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 and amounted to EUR 620 thousand.

Maturity of financial assets

	Gross carrying amount					Loss allowances				
31 Dec 2019	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks										
Non-past-due	837,175	0	0	0	837,175	(1,405)	0	0	0	(1,405)
Total	**837,175**	**0**	**0**	**0**	**837,175**	**(1,405)**	**0**	**0**	**0**	**(1,405)**
Loans and advances to customers										
Non-past-due	713,279	89,997	4,490	12,552	820,318	(6,719)	(14,765)	(1,605)	713	(22,376)
Up to 29 days past due	992	3,623	21	10	4,646	(22)	(462)	(6)	(6)	(496)
30 to 89 days past due	0	8	1,161	0	1,169	0	0	(865)	0	(865)
90 to 180 days past due	0	0	479	0	479	0	0	(266)	0	(266)
More than 180 days past due	0	0	18,503	755	19,258	0	0	(17,737)	(507)	(18,244)
Total	**714,271**	**93,628**	**24,654**	**13,317**	**845,870**	**(6,741)**	**(15,227)**	**(20,479)**	**200**	**(42,247)**
Other financial assets										
Non-past-due	5,261	0	0	0	5,261	0	0	0	0	0
Total	**5,261**	**0**	**0**	**0**	**5,261**	**0**	**0**	**0**	**0**	**0**

	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**

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.

The gross carrying amount of past-due claims from loans and other financial assets measured at amortised cost decreased and amounted to EUR 25,552 thousand at the end of 2019 (31 December 2018: EUR 28,583 thousand), which represents 1.5% 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 allowances 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 allowances for credit losses are measured on the basis of 12-month expected credit losses, and stage 2, where allowances for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument, account for 18.1% of all past-due loans (31 December 2018: 19.0%).

Non-past-due loans and other financial assets account for 98.5% 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. In addition, a significant 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 number of days past due is less than 29 days and their gross carrying amount is EUR 4,646 thousand, are secured with commercial real estate amounting to EUR 5,347 thousand, other material assets amounting to EUR 574 thousand, residential real estate amounting to EUR 351 thousand, and irrevocable Slovenian government guarantees amounting to EUR 16 thousand.

Past-due claims resulting from loans, where the loans are more than 30 and less than 89 days past due and their gross carrying amount is EUR 1,169 thousand, are secured with commercial real estate whose value is EUR 0 after offsetting the amounts of all liabilities whose settlement is secured by that real estate and that are entered in the land register under that real estate with a higher ranking.

Past-due claims resulting from loans, where the loans are more than 90 and less than 180 days past due and their gross carrying amount is EUR 479 thousand, are secured with commercial real estate amounting to EUR 252 thousand.

Past-due claims resulting from loans, where the loans are more than 180 days past due and their gross carrying amount is EUR 19,258 thousand, are secured with commercial real estate amounting to EUR 854 thousand, residential real estate amounting to EUR 349 thousand, irrevocable Slovenian government guarantees amounting to EUR 238 thousand, other material assets amounting to EUR 188 thousand and other forms of collateral amounting to EUR 83 thousand.

Debt securities measured at fair value through other comprehensive income in accordance with the issuer's rating grade

	31 Dec 2019	31 Dec 2018
AA+ to AA-	102,858	65,917
A+ to A-	477,382	450,644
BBB+ to BBB-	59,217	118,718
Lower than BBB-	18,562	15,592
Total	**658,019**	**650,871**

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 SID Bank's debt securities 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 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 2019, SID Bank's portfolio of debt securities, measured at fair value through other comprehensive income, rose to EUR 658,019 thousand, an increase of 1.1% relative to the end of 2018 (when it was EUR 650,871 thousand). The highest proportion of the entire portfolio (69.5% as at 31 December 2019; 65.0% at the end of 2018) comprises debt securities issued by EU Member States (central government) and classed as investment-grade (BBB- or higher). Slovenian government debt securities account for 47.2% (end of 2018: 39.5%) of the portfolio of debt securities measured at fair value through other comprehensive income. The overall structure of SID Bank's debt securities portfolio improved in 2019 in terms of credit rating relative to 2018, primarily as a result of an increase in exposure to EU Member States and banks with a credit rating of A- or higher, and on account of a decrease in exposure to EU Member States and non-banking issuers with a credit rating between BBB+ and BBB-.

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.

31 Dec 2019	Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets	**1,956,241**	**382,692**	**40,464**	**8,932**	**2,388,329**
Cash, cash balances at central banks and demand deposits at banks	72,729	0	0	0	72,729
Financial assets mandatorily at fair value through profit or loss	5,799	7,128	0	0	12,927
Loans and advances to customers	5,799	7,128	0	0	12,927
Financial assets measured at fair value through other comprehensive income	360,459	294,311	3,249	0	658,019
Debt securities	360,459	294,311	3,249	0	658,019
Financial assets measured at amortised cost	1,517,254	81,253	37,215	8,932	1,644,654
Loans and advances to banks	736,490	69,336	29,944	0	835,770
Loans and advances to customers	780,001	7,419	7,271	8,932	803,623
Other financial assets	763	4,498	0	0	5,261
Off-balance-sheet liabilities	**214,310**	**17,033**	**15,440**	**11,374**	**258,157**
Guarantees	63,460	0	0	0	63,460
Gross exposure	63,824	0	0	0	63,824
Provisions	(364)	0	0	0	(364)
Other off-balance-sheet liabilities	150,850	17,034	15,440	11,373	194,697
Gross exposure	151,378	17,041	15,497	11,949	195,865
Provisions	(528)	(7)	(57)	(576)	(1,168)
Total exposure	**2,170,551**	**399,725**	**55,904**	**20,306**	**2,646,486**

31 Dec 2018					
Financial assets	1,890,547	338,380	23,411	37,707	2,290,045
Off-balance-sheet liabilities	199,640	45,954	29,746	0	275,340
Total exposure	**2,090,187**	**384,334**	**53,157**	**37,707**	**2,565,385**

At the end of 2019, SID Bank's exposure to the Slovenian government accounted for 82.0% (end of 2018: 81.5%) of total exposure from financial assets and off-balance-sheet liabilities, and increased by EUR 80,364 thousand relative to the end of 2018 due to an increase in financial assets, chiefly in debt securities and loans and advances to customers, and due to an increase in off-balance-sheet liabilities.

At the end of 2019, 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 2018: 15.0%) of the total exposure from financial assets and off-balance-sheet liabilities, and was up relative to the end of 2018 mainly as a result of an increase in loans and deposits with foreign banks. At the end of 2019, credit risk exposure to the countries from the rest of Europe (Europe without EU Member States) accounted for the same percentage of total exposure as the previous year (2.1%), while exposure to other countries accounted for 0.8% (end of 2018: 1.5%) 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.

Changes in the structure of SID Bank's exposures to specific countries as at 31 December 2019 were primarily due to an increase in loans and advances to domestic customers, loans and deposits with foreign banks and changes in exposure by country in the debt securities portfolio.

	31 Dec 2019			31 Dec 2018		
	Financial assets	Off-balance-sheet liabilities	Total exposure	Financial assets	Off-balance-sheet liabilities	Total exposure
Slovenia	1,958,741	214,310	2,173,051	1,890,548	199,641	2,090,189
France	81,627	0	81,627	24,869	0	24,869
Spain	59,558	0	59,558	31,709	0	31,709
Netherlands	47,902	0	47,902	36,804	0	36,804
Poland	31,488	0	31,488	42,950	0	42,950
Germany	30,902	5,033	35,935	31,969	33,954	65,923
Belarus	29,944	11,509	41,453	15,016	28,748	43,764
Czech Republic	25,671	0	25,671	25,110	0	25,110
Slovakia	23,499	0	23,499	3,970	0	3,970
Sweden	13,623	0	13,623	16,912	0	16,912
Croatia	12,047	0	12,047	13,197	0	13,197
Belgium	10,866	0	10,866	10,808	0	10,808
Italy	10,438	0	10,438	18,455	0	18,455
Hungary	9,454	0	9,454	16,435	0	16,435
USA	8,924	0	8,924	36,213	0	36,213
Other	33,645	27,305	60,950	75,080	12,997	88,078
Total exposure	**2,388,329**	**258,157**	**2,646,486**	**2,290,046**	**275,340**	**2,565,386**

Breakdown of credit risk exposure by sector

31 Dec 2019	Financial and insurance activities	Manufacturing	Public administration and defence	Wholesale and retail trade (maintenance and repair of motor vehicles)	Transportation and storage	Professional, scientific and technical activities	Electricity, gas, steam and air conditioning supply	Other	Total
Financial assets	**1,077,382**	**286,015**	**570,264**	**104,305**	**92,104**	**60,388**	**112,475**	**85,396**	**2,388,329**
Cash, cash balances at central banks and demand deposits at banks	72,729	0	0	0	0	0	0	0	72,729
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	11,612	0	0	0	1,315	12,927
Loans and advances to customers	0	0	0	11,612	0	0	0	1,315	12,927
Financial assets measured at fair value through other comprehensive income	154,936	4,861	459,746	2,063	261	15,941	7,700	12,511	658,019
Debt securities	154,936	4,861	459,746	2,063	261	15,941	7,700	12,511	658,019
Financial assets measured at amortised cost	849,717	281,154	110,518	90,630	91,843	44,447	104,775	71,570	1,644,654
Loans and advances to banks	835,770	0	0	0	0	0	0	0	835,770
Loans and advances to customers	9,130	281,154	110,119	90,630	91,824	44,422	104,775	71,569	803,623
Other financial assets	4,817	0	399	0	19	25	0	1	5,261
Off-balance-sheet liabilities	**28,542**	**58,229**	**27,207**	**18,310**	**63,886**	**0**	**26,838**	**35,145**	**258,157**
Guarantees	0	0	0	0	63,460	0	0	0	63,460
Gross exposure	0	0	0	0	63,824	0	0	0	63,824
Provisions	0	0	0	0	(364)	0	0	0	(364)
Other off-balance-sheet liabilities	28,542	58,229	27,207	18,310	426	0	26,838	35,145	194,697
Gross exposure	28,552	58,573	27,208	18,356	428	0	26,859	35,889	195,865
Provisions	(10)	(344)	(1)	(46)	(2)	0	(21)	(744)	(1,168)
Total	**1,105,924**	**344,244**	**597,471**	**122,615**	**155,990**	**60,388**	**139,313**	**120,541**	**2,646,486**

31 Dec 2018									
Financial assets	1,095,257	262,713	497,889	86,050	90,052	49,295	121,538	87,251	2,290,045
Off-balance-sheet liabilities	79,700	20,629	56,168	43,602	66,615	3,142	0	5,484	275,340
Total	**1,174,957**	**283,342**	**554,057**	**129,652**	**156,667**	**52,437**	**121,538**	**92,735**	**2,565,385**

The tables illustrate the breakdown of net exposure to credit risk by sector.

At the end of 2019, 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. At the end of 2019, the exposure to financial and insurance activities accounted for 41.8% (end of 2018: 45.8%) of the total exposure from financial assets and off-balance-sheet liabilities, with the decrease in that proportion relative to the end of 2018 primarily due to a decrease in balances at the central bank. This was followed by exposure to the public administration and defence sector, with its proportion amounting to 22.6% at the end of 2019 (end of 2018: 21.6%). That increase was the result of new loans to customers and an increase in exposure from debt securities.

Exposure to manufacturing, wholesale and retail trade (maintenance and the repair of motor vehicles), transportation and storage, and professional, scientific and technical activities increased at the end of 2019 relative to 2018 as a result of new loans to customers.

Modified financial assets

	2019	2018
Financial assets modified in the period		
Gross carrying amount before the modification	10,163	1,427
Allowance before the modification	(2,434)	(903)
Amortised cost before the modification	7,729	524
Net (loss) from the modification	(65)	(33)
Amortised cost after the modification	7,664	491

The table shows the effects of the modification to the contractual cash flows of financial assets in 2019, 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 result in the derecognition of the financial instrument.

In the event of modification to the contractual cash flows of a financial asset that do not result in 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.

Modifications to contractual cash flows in 2019 did not result in the derecognition of the financial asset in nine 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 five financial assets, including one financial asset classified to stage 2 and the remaining four classified to stage 3.

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 a 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 mitigating counterparty credit risk 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 cash 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 adverse changes in the fair value of the derivative result in insufficient coverage of exposure by collateral for a counterparty, the Bank asks that counterparty to provide additional collateral. SID Bank agreed on cash deposits as collateral with counterparties with whom it concluded derivatives transactions in 2019.

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.

The CVA for SID Bank was EUR 0 as at 31 December 2019.

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. Given the level and structure of secondary liquidity, a significant proportion of which consists of government securities and other high-quality and highly liquid securities, this risk is assessed as low at SID Bank.

By managing liquidity risk, SID Bank ensures the regular settlement of all monetary liabilities, the maintenance of sufficient liquid funds, the high-quality management of operational and structural liquidity, and the fulfilment of legal and regulatory requirements.

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 the prudent and secure operations of the Bank. Liquidity management includes the 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 an annual basis. The liquidity risk management action plan 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 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 total assets accounted for by liquid assets. 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 in the area of 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.

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 in the introduction to section 3 Risk management. The asset-liability and liquidity management committee is responsible for deciding on proposals regarding liquidity risk management, and the approval, guidance and supervision of the implementation of the 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 the 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 the liquidity position, liquidity ratios and regulatory ratios in the area of liquidity, liquidity risk management at SID Bank also includes, in particular, the regular planning and monitoring of liquidity flows, including an assessment of the impacts of new transactions on the liquidity ratio and the regular verification of the Bank's liquidity position and the scope of liquidity reserves for the coming period in both the baseline scenario and taking into account internally defined liquidity scenarios. Strict daily monitoring of operational liquidity is provided for, while liquidity is ensured through the management of assets, particularly liquidity reserves, and/or through access to additional sources. With the aim 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 its 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 execution 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 total funding in domestic and foreign currency with regard to residual maturity. The recommended limit for the first-bucket liquidity ratio (0 to 30 days) is at least 1, while the second-bucket liquidity ratio (0 to 180 days) is merely informative in nature. SID Bank maintains the first- and second-bucket liquidity ratios above the recommended threshold on a daily basis. The Bank also has internal liquidity ratios that are higher than those recommended by the law, which provides additional security.

SID Bank's liquidity risk management policy also defines the procedures for taking action in the event that the internally set minimum liquidity ratio values are achieved.

	Minimum value	Average value	31 Dec 2019
LR (0-30)	2.3	4.2	3.9
LR (0-180)	2.3	3.3	4.0

The minimum level of daily values for the first-bucket liquidity ratio for all currencies amounted to 2.3 in 2019 (2018: 1.7). SID Bank maintained the first- and second-bucket liquidity ratios above the recommended threshold on a daily basis in 2019.

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.

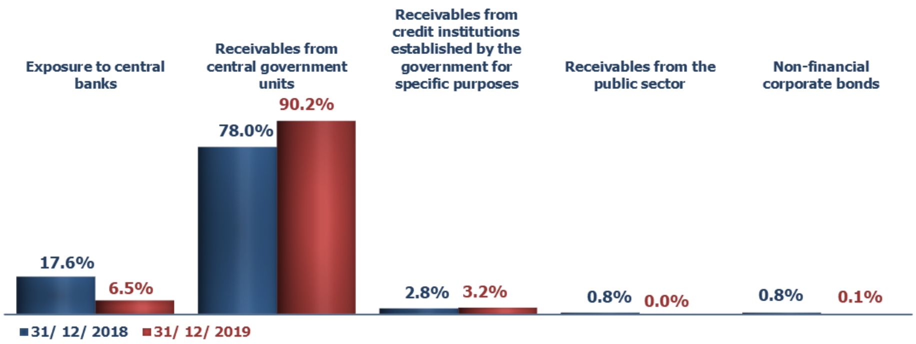
At the end of 2019, SID Bank's net stable funding ratio amounted to 140% (end of 2018: 140%) and is reported by the Bank for information purposes only.

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 to 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. At the end of 2019, the liquidity coverage ratio amounted to 1,832% (end of 2018: 458%).

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 LCR – liquidity buffer (after deductions)



As at 31 December 2019, the liquid assets eligible for inclusion in the LCR calculation amounted to EUR 252,143 thousand, after haircuts had been taken into account (2018: EUR 279,333 thousand), with the liquid assets of central governments accounting for 90.2% (2018: 78%) of all eligible liquid assets after haircuts had been taken into account. The proportion of Level 1 high-quality liquid assets (HQLA) amounted to 99.9% at the end of 2019 (2018: 99.2%).

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. The contingent liquidity risk management framework comprises the following elements:

- 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; and
- the implementation of internal liquidity stress scenarios.

SID Bank regularly verifies the adequacy of liquidity reserves in internally defined stress scenarios, which represent various adverse conditions (market scenarios), in an institution-specific scenario and in a combined scenario, which is defined as a combination of the institution-specific scenario and the most adverse market scenario.

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; and
- the results of the implementation of internal liquidity scenarios, and the results of liquidity simulations, with an assessment of liquidity flows and the impact on the stock of liquidity reserves for the coming period in the baseline scenario and in internally defined liquidity scenarios.

By regularly monitoring the liquidity position, ratios and indicators, and by verifying liquidity risk management in internally defined scenarios, the Bank is able to identify adverse liquidity conditions in a timely manner 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 liquidity buffer, including in relation to the internally defined 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

31 Dec 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**187,592**	**66,312**	**254,983**	**1,133,959**	**841,241**	**2,484,087**
Cash, cash balances at central banks and demand deposits at banks	72,729	0	0	0	0	72,729
Non-trading financial assets mandatorily at fair value through profit or loss	91	209	2,206	11,497	1,040	15,043
Loans and advances to customers	91	209	2,206	11,497	1,040	15,043
Financial assets measured at fair value through other comprehensive income	39,081	11,342	43,952	369,539	195,879	659,793
Debt securities	39,081	11,342	43,952	369,539	195,879	659,793
Financial assets measured at amortised cost	75,691	54,761	208,825	752,923	644,322	1,736,522
Loans and advances to banks	66,963	29,322	136,633	376,498	248,960	858,376
Loans and advances to customers	6,740	25,439	72,192	376,406	392,108	872,885
Other financial assets	1,988	0	0	19	3,254	5,261
Financial liabilities	**18,240**	**15,568**	**42,238**	**681,841**	**1,214,711**	**1,972,598**
Financial liabilities measured at amortised cost	18,240	15,454	42,192	681,303	1,214,524	1,971,713
Deposits from banks and central banks	0	8,990	0	0	0	8,990
Loans from banks and central banks	16	6,419	37,433	492,328	233,648	769,844
Loans from customers	15,667	0	1,795	54,509	780,255	852,226
Debt securities	0	0	2,960	134,466	200,500	337,926
Other financial liabilities	2,557	45	4	0	121	2,727
Derivatives - hedge accounting	0	114	46	538	187	885
Liquidity gap	**169,352**	**50,744**	**212,745**	**452,118**	**(373,470)**	**511,489**
Off-balance-sheet liabilities	**26,007**	**1,340**	**51,435**	**180,907**	**0**	**259,689**
31 Dec 2018						
Liquidity gap	**128,913**	**18,802**	**205,734**	**306,344**	**(183,991)**	**475,802**

The table illustrates cash flows from on- and off-balance-sheet items by expected maturity on the statement of financial position date, taking into account future interest. Expected cash flows in connection with both individually and collectively impaired loans comprise expected cash flows and not contractual cash flows. Cash flows from the payment of interest on the fixed and variable parts of derivatives used for hedging are settled in net amounts. Expected cash flows from off-balance-sheet items are estimated according to an internal methodology.

SID Bank disclosed a positive liquidity gap in the time bucket of up to five years as at 31 December 2019, primarily on account of the longer maturities of financial liabilities, which is connected with the structure of the Bank's financial liabilities.

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 two years. At the end of 2019, the reserve requirement was EUR 100 thousand.

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 the economic value of equity. Exposure to interest rate risk derives primarily from interest-sensitive assets with different maturities and a different repricing dynamic compared with interest-sensitive liabilities (income aspect). Another element of interest rate risk is the sensitivity of the fair value of assets, liabilities and off-balance-sheet items to changes in interest rates (economic aspect).

On the asset side, SID Bank is 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.

Identifying, measuring, managing and monitoring interest rate risk are carried out in accordance with the current interest rate risk management policy, which is based on the Basel standards for managing interest rate risk in the banking book and the EBA Guidelines on the management of interest rate risk arising from non-trading book activities. The Bank's interest rate risk management policy defines the methods and assumptions for identifying and measuring interest rate risk, and scenarios for measuring interest-rate sensitivity. The interest rate risk management policy also defines the responsibilities of individual organisational units in the area of interest rate risk management, and procedures in the event that internally set thresholds are exceeded. 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 interest-sensitive assets and interest-sensitive liabilities in accordance with their maturity and the level and method of setting interest rates, and through the use of derivatives to hedge against interest rate risk.

To manage interest rate risk, the Bank 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 the 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 effectiveness of hedging relationships compiled upon the conclusion of transactions, and regularly conducts monthly assessments of the effectiveness of hedging relationships.

As at 31 December 2019, SID Bank held two interest rate swaps as fair value hedges of assets with a total contractual value of EUR 15,000 thousand. All hedging relationships were effective under hedge accounting at the end of 2019.

The Bank is exposed to interest rate risk that derives in particular from timing mismatches in interest rate repricing, where exposure to interest rate risk in the banking book derives in particular from the portfolio of long-term debt securities and loans granted with a fixed interest rate on the asset side, and issued securities and loans received with a fixed interest rate on the liability side.

SID Bank measures exposure to interest rate risk that derives from the mismatch of interest-sensitive items in the banking book based on interest rate gaps and an analysis of interest sensitivity. Interest rate gaps illustrate the difference between the cash flows of interest-sensitive assets and interest-sensitive liabilities by time bucket, applying the principle of classifying interest-sensitive on-balance-sheet items into time buckets 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 demand deposits from the public and therefore does not use an internal model of movements of deposits with no maturity.

In 2019 SID Bank updated its methodology for measuring changes in the economic value of equity in the prescribed interest rate scenarios by including an assessment of option risk that derives from embedded automatic interest rate options based on the standardised approach in accordance with Basel standards for the management of interest rate risk in the banking book, and taking into account the provisions of the EBA guidelines on the management of interest rate risk arising from non-trading book activities. The Bank thus measures changes in the economic value of equity on a monthly basis, taking into account six prescribed interest rate scenarios, and the impact of changes in market interest rates on net interest income in the context of a parallel shift in interest rates by +/- 200 basis points.

On a monthly basis, the asset-liability and liquidity management committee discusses exposure to interest rate risk, including an analysis of interest rate gaps and an analysis of interest sensitivity. The management body discusses exposure to interest rate risk quarterly in the scope of the risk report.

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.

31 Dec 2019	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-remun-erated items	Total
Financial assets	**408,200**	**363,733**	**852,298**	**395,656**	**363,181**	**2,383,068**	**16,566**	**2,399,634**
Cash, cash balances at central banks and demand deposits at banks	72,729	0	0	0	0	72,729	0	72,729
Non-trading financial assets mandatorily at fair value through profit or loss	6,834	6,093	0	0	0	12,927	4,758	17,685
Financial assets measured at fair value through other comprehensive income	63,220	19,262	36,369	332,544	206,624	658,019	6,547	664,566
Financial assets measured at amortised cost	265,417	338,378	815,929	63,112	156,557	1,639,393	5,261	1,644,654
Loans and advances to banks	86,469	160,521	541,642	28,514	18,624	835,770	0	835,770
Loans and advances to customers	178,948	177,857	274,287	34,598	137,933	803,623	0	803,623
Other financial assets	0	0	0	0	0	0	5,261	5,261
Financial liabilities	**214,445**	**269,627**	**904,884**	**302,449**	**245,172**	**1,936,577**	**2,727**	**1,939,304**
Financial liabilities measured at amortised cost	214,445	269,627	904,884	302,270	244,510	1,935,736	2,727	1,938,463
Deposits from banks	0	8,944	0	0	0	8,944	0	8,944
Loans from banks and central banks	23,376	76,630	472,784	171,201	24,977	768,968	0	768,968
Loans from customers	191,069	184,053	432,100	0	20,323	827,545	0	827,545
Debt securities	0	0	0	131,069	199,210	330,279	0	330,279
Other financial liabilities	0	0	0	0	0	0	2,727	2,727
Derivatives - hedge accounting	0	0	0	179	662	841	0	841
Interest rate sensitivity gap	**193,755**	**94,106**	**(52,586)**	**93,207**	**118,009**	**446,491**	**13,839**	**460,330**

31 Dec 2018								
Financial assets	433,526	380,740	865,388	379,592	235,901	2,295,147	6,715	2,301,862
Financial liabilities	265,239	327,060	903,355	302,876	91,899	1,890,429	1,790	1,892,219
Interest rate sensitivity gap	**168,287**	**53,680**	**(37,967)**	**76,716**	**144,002**	**404,718**	**4,925**	**409,643**

Sensitivity analysis

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 2019 would have increased by EUR 2,369 thousand (compared with EUR 2,003 thousand in 2018). That change would have been reflected in the statement of profit or loss. Had market interest rates fallen by 100 basis points, the change would have been of the same magnitude as 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.

The Bank measured changes in the economic value of equity in the prescribed interest rate scenarios as at 31 December 2019 in accordance with its updated methodology. That measurement showed that the Bank would incur the most severe decrease in the economic value of equity in the scenario of a parallel shift in interest rates by +200 basis points, by EUR 16,661 thousand, which represents 3.9% of capital for the needs of capital adequacy.

The Bank will continue to upgrade its methodology for identifying and measuring interest rate risk in 2020 with the ultimate objective of complete harmonisation with the EBA guidelines on the management of interest rate risk arising from non-trading book activities.

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. The management body discusses exposure to currency risk quarterly in the scope of the risk report.

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 2019 was within the internally set limits.

Neither the transactions executed by SID Bank in foreign currencies nor currency risk are materially significant. Owing to the low level of exposure to currency risk, SID Bank does not carry out analyses of currency sensitivity.

The table below illustrates SID Bank's exposure to currency risk for on-balance-sheet and off-balance-sheet financial instruments by carrying amount and currency.

Exposure to currency risk for on-balance-sheet and off-balance-sheet financial instruments

31 Dec 2019	EUR	USD	Other currencies	Total
Financial assets	**2,389,353**	**10,280**	**1**	**2,399,634**
Cash, cash balances at central banks and demand deposits at banks	72,710	18	1	72,729
Non-trading financial assets mandatorily at fair value through profit or loss	17,685	0	0	17,685
Financial assets measured at fair value through other comprehensive income	664,566	0	0	664,566
Financial assets measured at amortised cost	1,634,392	10,262	0	1,644,654
Loans and advances to banks	834,432	1,338	0	835,770
Loans and advances to customers	794,699	8,924	0	803,623
Other financial assets	5,261	0	0	5,261
Financial liabilities	**1,928,989**	**10,287**	**28**	**1,939,304**
Financial liabilities measured at amortised cost	1,928,148	10,287	28	1,938,463
Deposits from banks	0	8,944	0	8,944
Loans from banks and central banks	767,628	1,340		768,968
Loans from customers	827,545	0	0	827,545
Debt securities	330,279	0	0	330,279
Other financial liabilities	2,696	3	28	2,727
Derivatives - hedge accounting	841	0	0	841
Net on-balance-sheet position	**460,364**	**(7)**	**(27)**	**460,330**
Irrevocable commitments given	**258,157**	**0**	**0**	**258,157**
31 Dec 2018				
Financial assets	2,286,363	15,498	1	2,301,862
Financial liabilities	1,876,469	15,725	25	1,892,219
Net on-balance-sheet position	**409,894**	**(227)**	**(24)**	**409,643**
Irrevocable commitments given	275,340	0	0	275,340

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 risks, 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. Operational risk management is upgraded on an annual basis, in particular from the internal point of view (internal procedures, processes, the provision of suitable information support, monitoring and other regulatory requirements). The Bank is aware of the risk of fraud and cyber threats, and has thus also strengthened the management of these subcategories of operational risk.

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 accordance with Article 324 of the CRR, SID Bank has defined the following categories of loss events:

- internal fraud;
- external fraud;
- practices in connection with employment and occupational safety;
- clients, products and business practices;
- losses on movable property and real estate;
- business disruptions and system failures; and
- execution, delivery and process management.

In terms of the order of loss events in line with the Basel standards, the most common loss events in 2019 were execution, delivery and process management (67% of all loss events), followed by business disruption and systems failures (26%), clients, products and business practices (5%), and practices in connection with employment and occupational safety (3%). No loss events involving significant losses were recorded in 2019.

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 and asset remediation group). The members of these groups also collaborate in the procedure for amending the business continuity plan.

SID Bank has in place an information security function that monitors and controls information security procedures for the purpose of preventing unauthorised access to information in storage, being processed or being transferred, and for preventing changes to information. One of the duties of the information security officer is to manage security incidents or potential security incidents. Together with the IT department, the information security officer draws up a report for the management board on the state of information security at the Bank, and heads a security information team that handles specific security issues and policies. At least once a year, the information security officer also produces an analysis of all security incidents based on records of loss events, 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 harm operations and threaten information security, employees who detect or suspect that a cyber incident has occurred must immediately notify the information security officer and/or 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.

In managing operational risk, SID Bank takes account of the outsourcing policy and the outsourcing guidelines, 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 the management of 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.

In accordance with outsourcing guidelines, SID Bank completely overhauled the process of managing outsourcing risks, adopted new bylaws and increased the standardisation of the process in 2019. SID Bank's activities in this area included the upgrading of the register of external contractors and standard questionnaires that assist employees in the analysis of outsourced functions and the assessment of external contractors. With regard to the management of outsourcing risks, SID Bank also updated its assessment of risks in the areas of compliance and information security.

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. In line with the gradual introduction of new products and the complexity of products and processes, SID Bank dedicates the appropriate amount of attention to operational risk. It is primarily through the provision of financing programmes for small and medium-sized enterprises (the promotional-development platform) that SID Bank has obtained several new customers in recent years, which has, in turn, required the recruitment of new staff and the further development of the relevant software support. The associated operational risk is managed through previously established 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 an internal rulebook that sets out the rules for launching new products and the powers and responsibilities of the organisational units in the process of launching new products, including an emphasis on the performance 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, which means, *inter alia*, that measures are adopted by the Bank's competent bodies to manage identified risks.

SID Bank monitors fraud risk within the context of operational risk via a loss events database. When assessing its exposure to fraud risk, the Bank assumes that fraud is the intentional 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 did not identify any cases of internal or external fraud in 2019.

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. Activities in 2019 included the further automation of reports, an inventory of overhauled business processes and other measures.

3.6 Capital management

Capital management

SID Bank must always have adequate capital at its disposal as a reserve against the various risks to which it is exposed in its 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 management policy, ensuring an adequate amount and quality of capital, and meeting the regulator's capital requirements.

Companies in the Prvi Faktor Group are in the process of being liquidated, resulting in a reduction in the Prvi Faktor Group's total assets. SID Bank is thus only obliged to meet prudential requirements on an individual basis.

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 calculates the capital requirement for credit risk using the standardised approach, in accordance with the provisions of 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 end of 2019, SID Bank was not required to formulate capital requirements for currency risk, as the limit was not exceeded.

The Bank does not take into account the net profit for the financial year, which amounted to EUR 32,040 thousand for 2019, and retained earnings, which amounted to EUR 1,843 thousand as at 31 December 2019, in the calculation of capital for capital adequacy purposes until SID Bank's general meeting adopts the resolution on the distribution of profit.

Reconciliation of items of Common Equity Tier 1 capital with the statement of financial position, the risk exposure and the capital adequacy ratios

	31 Dec 2019	31 Dec 2018
Total regulatory capital	**463,860**	**422,051**
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 (including net profit for the financial year)	135,327	102,149
Accumulated other comprehensive income	11,656	3,731
Retained earnings (including net profit for financial year)	17,062	16,356
Total adjustments to Common Equity Tier 1 capital	**(39,495)**	**(15,994)**
Net profit for the financial year and retained earnings	(33,883)	(14,314)
Intangible assets	(980)	(999)
Adjustments for assets and liabilities at fair value	(683)	(681)
Deduction for specific credit risk adjustments	(3,949)	0
Common Equity Tier 1 capital (CET1)	**424,365**	**406,057**
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital (T1)	424,365	406,057
Tier 2 capital (T2)	0	0
Capital for capital adequacy purposes	**424,365**	**406,057**
Total exposure to credit risk	1,189,961	1,119,749
of which:		
Central governments and central banks	2,724	15,150
Regional governments or local authorities	12,886	10,980
Public sector entities	6,740	6,457
Multilateral development banks	2,400	2,400
Institutions	213,801	215,751
Corporates	859,685	796,877
Defaulted exposures	27,639	33,685
Regulatory high-risk exposures	7,137	0
Equity instruments	51,899	32,848
Other	5,050	5,601
Exposure to market risk (currency risk)	0	0
Exposure to operational risk	55,532	55,106
Exposure to credit valuation adjustment risk	1,354	13,127
Total risk exposure (RWA)	**1,246,847**	**1,187,983**
Surplus of Common Equity Tier 1 capital (CET1)	368,257	352,598
Surplus of Tier 1 capital (T1)	349,554	334,778
Total surplus capital	324,617	311,019
Common Equity Tier 1 capital ratio (CET1)	34.04%	34.18%
Tier 1 capital ratio (T1)	34.04%	34.18%
Total capital ratio	**34.04%**	**34.18%**

Breakdown of capital requirements by type of risk and structure

	31 Dec 2019	Structure %	31 Dec 2018	Structure %
Capital requirements				
For credit risk	95,197	95.4	89,580	94.3
For operational risk	4,443	4.5	4,409	4.6
For credit valuation adjustment risk	108	0.1	1,050	1.1
Total	**99,748**	**100**	**95,039**	**100**

Capital requirements for credit risk

	31 Dec 2019	31 Dec 2018
Exposure class		
Central governments and central banks	218	1,212
Regional governments or local authorities	1,031	878
Public sector entities	539	517
Multilateral development banks	192	192
Institutions	17,104	17,260
Corporates	68,775	63,750
Defaulted exposures	2,211	2,695
Regulatory high-risk exposures	571	0
Equity instruments	4,152	2,628
Other	404	448
Total	**95,197**	**89,580**

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 the 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 serves as the 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 2019 indicate that the risks with the highest risk scores at SID Bank are interest rate risk, operational risk, strategic risk, credit risk, reputation risk and profitability risk. The results of the risk profile assessment for 2019 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. Within the context of capital requirements in the third element, SID Bank allocated additional capital in 2019 for a buffer for other systemically important institutions in the amount that applies 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 verifies whether the level of capital is adequate. The results 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.

During its regular supervisory review and evaluation process (SREP) in 2019, the Bank of Slovenia assessed the risks to which SID Bank is exposed and found that the Bank has an appropriately defined risk management framework and an adequate level of capital. As at 31 December 2019, SID Bank exceeded the Bank of Slovenia's requirements regarding the level of capital ratios, including capital guidance (Pillar 2 Guidance or P2G), which derives from the findings of supervisory stress tests and must be comprised solely of Common Equity Tier 1 capital. Based on the EBA SREP Guidelines (EBA/GL/2018/03), which were revised in 2018, the use of Common Equity Tier 1 capital intended for covering P2G will no longer be possible, effective 1 January 2020.

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; and
- the systemic risk buffer.

As at the end of 2019, 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 2019 amounted to 2.5% of the total risk exposure. The countercyclical capital buffer is implemented to protect the banking system against potential losses whenever 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 SID 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 the section Disclosures under Part Eight of the CRR. As at 31 December 2019, 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 France, whose countercyclical capital buffer rate is set at 0.25%, Norway, whose countercyclical capital buffer rate is set at 2.5%, Ireland, whose countercyclical capital buffer rate is set at 1.0%, the Czech Republic, whose countercyclical capital buffer rate is set at 1.5%, and the United Kingdom, whose countercyclical capital buffer rate is set at 1.0%. Pursuant to a Bank of Slovenia resolution, SID Bank must ensure a buffer for other systemically important institutions (O-SII) with 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 16.5% as at 31 December 2019 (end of 2018: 16.3%), 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 determines 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 measures 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 has access as at the measurement date. For SID Bank, 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 includes 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 that 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 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 does not have any loans at level 2 measured at fair value.
- Level 3: SID Bank includes 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 original cost. 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 into account the 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 discloses at fair value in the statement of financial position are non-trading financial assets mandatorily at fair value through profit or loss, financial assets 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 financial assets 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.

	31 Dec 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	17,685	17,685
Financial assets measured at fair value through other comprehensive income	20,861	599,902	43,803	664,566
Debt securities	20,861	599,902	37,256	658,019
Equity instruments	0	0	6,547	6,547
Total financial assets	**20,861**	**599,902**	**61,488**	**682,251**
Financial liabilities measured at fair value				
Derivatives - hedge accounting	0	841	0	841
Total financial liabilities	**0**	**841**	**0**	**841**

	31 Dec 2018			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	15,667	15,667
Financial assets measured at fair value through other comprehensive income	33,938	570,250	58,500	662,688
Debt securities	33,938	570,250	46,683	650,871
Equity instruments	0	0	11,817	11,817
Total financial assets	**33,938**	**570,250**	**74,167**	**678,355**
Financial liabilities measured at fair value				
Derivatives - hedge accounting	0	2,898	0	2,898
Total financial liabilities	**0**	**2,898**	**0**	**2,898**

Financial assets not measured at fair value

The table shows the fair values of financial instruments not measured at fair value. Financial assets are disclosed at fair value as at the reporting date with respect to the level at which they are classified in the fair value hierarchy.

	31 Dec 2019			
	Level 2	Level 3	Fair value	Carrying amount
Cash balances at the central bank and demand deposits at banks	72,729	0	72,729	72,729
Financial assets measured at amortised cost	865,369	885,818	1,751,187	1,644,654
Loans and advances to banks	860,108	0	860,108	835,770
Loans and advances to customers	0	885,818	885,818	803,623
Other financial assets	5,261	0	5,261	5,261
Total financial assets	**938,098**	**885,818**	**1,823,916**	**1,717,383**
Financial liabilities measured at amortised cost	780,981	1,163,381	1,944,362	1,938,463
Deposits from banks	8,944	0	8,944	8,944
Loans from banks and central banks	769,310	0	769,310	768,968
Loans from customers	0	833,102	833,102	827,545
Debt securities	0	330,279	330,279	330,279
Other financial liabilities	2,727	0	2,727	2,727
Total financial liabilities	**780,981**	**1,163,381**	**1,944,362**	**1,938,463**

	31 Dec 2018			
	Level 2	Level 3	Fair value	Carrying amount
Cash balances at the central bank and demand deposits at banks	121,184	0	121,184	121,184
Financial assets measured at amortised cost	817,190	753,959	1,571,149	1,502,323
Loans and advances to banks	815,337	0	815,337	809,350
Loans and advances to customers	0	753,959	753,959	691,120
Other financial assets	1,853	0	1,853	1,853
Total financial assets	**938,374**	**753,959**	**1,692,333**	**1,623,507**
Financial liabilities measured at amortised cost	1,208,663	681,152	1,889,815	1,889,321
Deposits from banks	43,293	0	43,293	43,293
Deposits from customers	0	39,210	39,210	39,210
Loans from banks and central banks	1,163,346	0	1,163,346	1,162,951
Loans from customers	0	509,341	509,341	509,242
Debt securities	0	132,601	132,601	132,601
Other financial liabilities	2,024	0	2,024	2,024
Total financial liabilities	**1,208,663**	**681,152**	**1,889,815**	**1,889,321**

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 14.4% of liabilities for loans measured at amortised cost at SID Bank, which assesses that there are no material differences between the fair value of the loans and their carrying amount.

SID Bank recognises and measures issued debt securities and loans at amortised cost. For instruments included in a hedging relationship for the purpose of calculating the effects of the hedge accounting, the fair value is calculated using valuation techniques and the expected present value. The expected present 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

2019	Transfers from level 1 to level 2
Financial assets measured at fair value	
Financial assets measured at fair value through other comprehensive income	7,999
Debt securities	7,999

Transfers from level 1 to level 2 are the consequence of a change to the method of valuing bonds. Bonds are valued at the time of purchase based on a foreign market price and then based on the Bloomberg Generic Price (BGN).

2018	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
Equity instruments	0	0	4,942

Transfers from level 1 to level 3 and transfers from level 3 to level 1 at SID Bank are the consequence of changes to the price of investments in bonds that were valued on the basis of the Ljubljana Stock Exchange price in 2018. Transfers from level 2 to level 3 are the consequence of a change to the method of valuing investments in equities.

4 Management body's concise statement on SID Bank's approach to the realisation of the 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. Once a year, during the internal capital adequacy assessment process (ICAAP), 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 body 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 risk management action plan, which sets out the measures available for the management of identified and measured or assessed risks; and
   - other restrictions that derive from SID Bank's bylaws, from regulations and standards, and from the requirements of the Bank of Slovenia and other competent or 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 defines 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 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. The selected risk appetite indicators recorded at the end of 2019 are cited below, together with the target values for the risk appetite:

- overall capital ratio: 34.0% (target value: ≥ 20%),
- leverage ratio: 16.5% (target value: > 5%),
- liquidity coverage ratio (LCR): 1,832% (target value: > 130%),
- net stable funding ratio (NSFR): 140% (target value: > 110%),
- coverage of NPEs by impairments, allowances and provisions for credit losses associated with NPEs: 60.3% (target value: > 55%), and
- operational risk assessment score (risk profile): 2.9 (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; and
- 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 is complemented by 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 transaction 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 are set for interest rate risk in the banking book. 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 the regular planning and monitoring of cash flows, and an assessment of the effects of new transactions on the liquidity ratio. 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, cyber 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 the 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 accept 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, 3 March 2020

Management board of SID Bank

Goran Katušin
Member

Sibil Svilan
President

Supervisory board

Monika Pintar Mesarič
Chair

5 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 previous sections of the annual report are presented in this section below. The disclosures have been compiled taking into account 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, SID Bank is not 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. The disclosures below are therefore prepared on an individual basis in accordance with Article 6 of the CRR.

In accordance with the EBA guidelines, the figures for the comparable period in individual templates relate to the period set out by the guidelines with regard to disclosure frequency (quarterly, half-yearly or annually). Individual templates show the rows and columns of relevance to SID Bank.

5.1 LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of the CRR

(Article 435(1)(f) of the CRR)

Qualitative/quantitative information in connection with the LCR in accordance with Article 435(1) of Regulation (EU) No 575/2013

Quantitative information regarding the LCR

Extent of consolidation	On an individual basis	On an individual basis
Currency and units	(EUR thousand)	(EUR thousand)
Quarter ending on	**31 Mar 2019**	**30 Jun 2019**
Number of data points used in the calculation of averages	12	12

		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total high-quality liquid assets (HQLA)		242,938		243,738
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	77,851	72,097	73,304	68,569
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0
7	Non-operational deposits (all counterparties)	53,292	47,538	48,745	44,010
8	Unsecured debt	24,559	24,559	24,559	24,559
9	Secured wholesale funding		0		0
10	Additional requirements	163,149	33,327	174,953	39,628

		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
11	Outflows related to derivative exposures and other collateral requirements	39	39	39	39
12	Outflows related to loss of funding on debt products	0	0	0	0
13	Credit and liquidity facilities	163,110	33,287	174,914	39,589
14	Other contractual funding obligations	193	193	193	193
15	Other contingent funding obligations	9,975	5,012	26,364	6,651
16	Total cash outflows		110,629		115,041
Cash inflows					
17	Secured lending (e.g. reverse repos)	0	0	0	0
18	Inflows from fully performing exposures	38,138	36,012	36,921	34,891
19	Other cash inflows	8,578	8,578	7,857	7,857
20	Total cash inflows	46,716	44,590	44,778	42,748
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	46,716	44,590	44,778	42,748
			Total adjusted value		Total adjusted value
21	**Liquidity buffer**		**242,938**		**243,738**
22	**Total net cash outflows**		**67,113**		**72,293**
23	**Liquidity coverage ratio (%)**		**823%**		**455%**

Extent of consolidation			On an individual basis		On an individual basis
Currency and units			(EUR thousand)		(EUR thousand)
Quarter ending on			**30 Sep 2019**		**31 Dec 2019**
Number of data points used in the calculation of averages			12		12
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total high-quality liquid assets (HQLA)		246,028		245,537
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	41,447	37,381	20,004	18,320
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0
7	Non-operational deposits (all counterparties)	41,252	37,187	19,778	18,094
8	Unsecured debt	195	195	226	226
9	Secured wholesale funding		0		0
10	Additional requirements	161,841	37,983	152,706	32,163
11	Outflows related to derivative exposures and other collateral requirements	75	75	75	75
12	Outflows related to loss of funding on debt products	0	0	0	0
13	Credit and liquidity facilities	161,766	37,908	152,631	32,088
14	Other contractual funding obligations	236	236	305	305
15	Other contingent funding obligations	40,911	5,775		4,912
16	Total cash outflows		81,375		55,699
Cash inflows					
17	Secured lending (e.g. reverse repos)	0	0	0	0
18	Inflows from fully performing exposures	29,429	26,849	33,253	29,489

Extent of consolidation			On an individual basis		On an individual basis
Currency and units			(EUR thousand)		(EUR thousand)
Quarter ending on			**30 Sep 2019**		**31 Dec 2019**
Number of data points used in the calculation of averages			12		12
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
19	Other cash inflows	6,993	6,993	1,376	1,376
20	Total cash inflows	36,422	33,842	34,628	30,865
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	36,422	33,842	34,628	30,865
			Total adjusted value		Total adjusted value
21	**Liquidity buffer**		**246,028**		**245,537**
22	**Total net cash outflows**		**53,079**		**33,115**
23	**Liquidity coverage ratio (%)**		**764%**		**1019%**

Qualitative information regarding the LCR

Concentration of funding and liquidity	The specific role of the Bank and the fact that SID Bank does not accept 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 2019 section, Funding and liquidity subsection – Financial Report, section 2.4 – Financial Report, section 3.2 Liquidity risk
Derivative exposures and potential collateral calls	Exposure to derivatives is presented in section 2.4.13 in the Financial Report.
Currency mismatch in LCR	The liquidity buffer only 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	-

5.2 Number of directorships held by members of the management body

(Article 435(2)(a) of the CRR)

Membership in bodies of other persons as at 31 Dec 2019

	Name of other person	Function
Management board		
Sibil Svilan		
	Bank Association of Slovenia	member of supervisory board
	European Association of Public Banks (EAPB)	member of board of directors
Goran Katušin	Bank Association of Slovenia	deputy member of supervisory board
Supervisory board		
Monika Pintar Mesarič	Interdepartmental Commission for the ZUKSB	member
	Umbrella Pension Fund for Public-Sector Employees	member
	Infrastructure Directorate of the Republic of Slovenia	acting managing director
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
	Gradis Celje d.d. (in bankruptcy)	official receiver
	Finsvet d.o.o. (in bankruptcy)	official receiver
	CPL d.o.o. (in bankruptcy)	official receiver
	ELTI d.o.o. (in bankruptcy)	official receiver
	Verada d.o.o. (in bankruptcy)	official receiver
	Papir Servis 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, d.o.o.	member
	ST. ING Poslovne storitve d.o.o.	member
Marko Tišma	Terme Olimia d.d.	member of supervisory board
	BAMC	non-executive director

5.3 Main features of the capital instruments issued by the Bank

(Article 437(1)(b) and (c) of the CRR)

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 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital
6	Eligible on an individual/(sub-)consolidated/individual & (sub-)consolidated	On an individual basis
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital	EUR 300 million
9	Nominal amount of instrument	No nominal amount - no-par value shares
9a	Issue price	No nominal issue amount - no-par value shares
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	20 June 1997
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject 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 applicable

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.

5.4 Disclosure of own funds

Annex IV of Commission Implementing Regulation (EU) No 1423/2013

(Article 437(1)(d) and (e) of the CRR)

Common Equity Tier 1 capital: instruments and reserves		31 Dec 2019 (A) Amount at disclosure date	30 Jun 2019 (A) Amount at disclosure date
1	Capital instruments and the related share premium accounts, of which:	299,814	299,815
	Paid-up capital instruments	300,000	300,000
	Share premium account	1,139	1,139
	Treasury shares	(1,324)	(1,324)
2	Retained earnings (excluding net profit for the year)	1,843	9,557
3	Accumulated other comprehensive income (and any other reserves)	128,320	113,038
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**429,977**	**422,410**
7	Additional value adjustments (negative amount)	(683)	(669)
8	Intangible assets (net of related tax liability) (negative amount)	(980)	(966)
24	Deduction for specific credit risk adjustments	(3,949)	(2,425)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(5,612)**	**(4,060)**
29	**Common Equity Tier 1 (CET1) capital**	**424,365**	**418,350**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**424,365**	**418,350**
59	**Total capital (TC = T1 + T2)**	**424,365**	**418,350**
60	**Total risk-weighted assets**	**1,246,847**	**1,174,973**
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	34.04%	35.61%
62	Tier 1 (as a percentage of total risk exposure amount)	34.04%	35.61%
63	Total capital (as a percentage of total risk exposure amount)	34.04%	35.61%
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	2.765%	2.758%
65	of which: capital conservation buffer requirement	2.500%	2.500%
66	of which: countercyclical buffer requirement	0.015%	0.008%
67	of which: systemic risk buffer requirement	0.250%	0.250%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.250%	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	6,547	6,602

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. SID Bank has no instruments of Additional Tier 1 capital or Tier 2 capital. The Bank does not take into account the net profit for the financial year, which amounted to EUR 32,040 thousand for 2019 and is disclosed on line 3, and retained earnings, which amounted to EUR 1,843 thousand as at 31 December 2019, in the calculation of capital for capital adequacy purposes until SID Bank's general meeting adopts the resolution on the distribution of profit.

5.5 Geographical distribution of the Bank's credit exposures relevant for the calculation of its countercyclical capital buffer and the amount of its institution-specific countercyclical capital buffer

(Article 440(1)(a) of the CRR)

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.

	General credit exposures	Own funds requirements			
31 Dec 2019	(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	876,712	70,250	70,250	0.92	0.00%
HR	12,047	964	964	0.01	0.00%
NL	11,814	1,045	1,045	0.01	0.00%
US	8,953	716	716	0.01	0.00%
CK	6,675	534	534	0.01	0.00%
UA	6,424	771	771	0.01	0.00%
GH	5,694	456	456	0.01	0.00%
FR	5,694	456	456	0.01	0.25%
NO	3,249	260	260	0.00	2.50%
IE	3,167	253	253	0.00	1.00%
RS	2,796	224	224	0.00	0.00%
LU	1,243	99	99	0.00	0.00%
CZ	993	79	79	0.00	1.50%
GB	62	5	5	0.00	1.00%
BE	8	1	1	0.00	0.00%
MK	2	0	0	0.00	0.00%
DE	2	0	0	0.00	0.00%
AE	1	0	0	0.00	0.00%
IT	1	0	0	0.00	0.00%
AT	1	0	0	0.00	0.00%
BA	0	0	0	0.00	0.00%
Total	**945,538**	**76,113**	**76,113**	**1.00**	

30 Jun 2019	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	789,575	63,336	63,336	0.93	0.00%
HR	11,600	928	928	0.01	0.00%
NL	10,866	930	930	0.01	0.00%
FR	2,538	203	203	0.00	0.00%
BA	38	3	3	0.00	0.00%
AT	2,545	204	204	0.00	0.00%
RS	906	72	72	0.00	0.00%
ME	146	17	17	0.00	0.00%
US	9,321	746	746	0.01	0.00%
IE	7,347	588	588	0.01	0.00%
NO	3,267	261	261	0.00	2.00%
GB	10	1	1	0.00	1.00%
BE	10	1	1	0.00	0.00%
CK	6,602	528	528	0.01	0.00%
UA	3,399	408	408	0.01	0.00%
Total	**848,168**	**68,226**	**68,226**	**1.00**	

(Article 440(1)(b) of the CRR) – Institution-specific countercyclical 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 0.015% at the end of 2019.

		31 Dec 2019	30 Jun 2019
010	Total risk exposure amount	1,246,847	1,174,973
020	Institution-specific countercyclical capital buffer rate	0.015%	0.008%
030	Institution-specific countercyclical capital buffer requirement	187	90

5.6 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)

	a	c	d	f	g
		Carrying values of items			
31 Dec 2019	Carrying values as reported in published financial statements	Subject to the credit risk framework	Subject to the CRR framework	Subject to the market risk framework	Not subject to capital require-ments or subject to deduction from capital
Cash, cash balances at central banks and demand deposits at banks	72,729	72,729	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	17,685	17,685	0	0	18
Financial assets measured at fair value through other comprehensive income	664,566	664,566	0	0	665
Financial assets measured at amortised cost	1,644,655	1,644,655	0	0	0
Property, plant and equipment	4,618	4,618	0	0	0
Intangible assets	980	0	0		980
Other assets	932	932	0	0	0
Total assets	**2,406,164**	**2,405,185**	**0**	**0**	**1,662**
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities measured at amortised cost	1,938,463	0	0	0	0
Derivatives - hedge accounting	841	0	841	0	3
Provisions	2,374	0	0	0	0
Other liabilities	626	0	0	0	0
Total liabilities	**1,942,304**	**0**	**841**	**0**	**3**

31 Dec 2018	a Carrying values as reported in published financial statements	c Carrying values of items Subject to the credit risk framework	d Subject to the CRR framework	f Subject to the market risk framework	g Not subject to capital require-ments or subject to deduction from capital
Cash, cash balances at central banks and demand deposits at banks	121,184	121,184	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	15,667	15,667	0	0	16
Financial assets measured at fair value through other comprehensive income	662,688	662,688	0	0	663
Financial assets measured at amortised cost	1,502,323	1,502,323	0	0	0
Property, plant and equipment	4,922	4,922	0	0	0
Intangible assets	999	0	0	0	999
Other assets	2,638	2,638	0	0	0
Non-current assets and disposal groups held for sale and discontinued operations	8,413	8,413	0	0	0
Total assets	**2,318,834**	**2,317,835**	**0**	**0**	**1,677**
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities measured at amortised cost	1,889,321	0	0	0	0
Derivatives - hedge accounting	2,898	0	2,898	0	3
Provisions	1,130	0	0	0	0
Other liabilities	3,434	0	0	0	0
Total liabilities	**1,896,783**	**0**	**2,898**	**0**	**3**

5.7 Template 2 – EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	31 Dec 2019	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)**	**2,406,164**	**2,405,185**	**0**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	1,942,304	0	841
3	Total net amount under the regulatory scope of consolidation	2,406,164	2,405,185	841
4	Off-balance-sheet amounts	259,689	163,209	0
10	**Exposure amounts considered for regulatory purposes**	**2,665,854**	**2,568,393**	**0**

31 Dec 2018		a	b	c
			Items subject to	
		Total	Credit risk framework	CCR framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**2,318,834**	**2,317,835**	**0**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	1,896,783	0	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	275,760	176,958	0
10	**Exposure amounts considered for regulatory purposes**	**2,596,493**	**2,494,793**	**2,898**

SID Bank is obliged to fulfil regulatory requirements on an individual basis. The data in the above table therefore relate to the individual financial statements of SID Bank.

5.8 Template 3 – EU LI3: Outline of the differences in the scopes of consolidation (entity by entity)

(Article 436(b) of the CRR)

		Method of regulatory consolidation				
31 Dec 2019 Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of the entity
Prvi faktor, Ljubljana (in liquidation)	Equity method			X		Financial and insurance activities

		Method of regulatory consolidation				
31 Dec 2018 Name of the entity	Method of accounting 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 (in liquidation)	Equity method			X		Financial and insurance activities

During the first half of 2019, the Bank sold its 100% participating interest in SID – PKZ.

5.9 Template 4 – EU OV1: Overview of RWAs

(Article 438(c) to (f) of the CRR)

			RWAs		Minimum capital requirements	
			31 Dec 2019	30 Sep 2019	31 Dec 2019	30 Sep 2019
	1	Credit risk (excluding CCR)	1,189,962	1,163,197	95,197	93,056
Article 438(c)(d)	2	*Of which the standardised approach*	1,189,961	1,163,197	95,197	93,056
Article 438(c)(d), Article 107	6	CCR	1,354	1,408	108	113
Article 438(c)(d)	12	*Of which CVA*	1,354	1,408	108	113
Article 438(f)	23	Operational risk	55,532	55,532	4,443	4,443
	24	*Of which basic indicator approach*	55,532	55,532	4,443	4,443
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	1,124	0	90	0
	29	Total	1,247,971	1,220,137	99,838	97,611

5.10 Template 7 – EU CRB-B: Total and average net amount of exposures

(Article 442(c) of the CRR)

		a Net value of exposures 31 Dec 2019	b Average net exposures in 2019	a Net value of exposures 31 Dec 2018	b Average net exposures in 2018
16	Central governments or central banks	594,458	617,927	613,070	577,835
17	Regional governments or local authorities	67,736	58,240	55,174	47,124
18	Public sector entities	33,702	32,168	32,286	33,172
19	Multilateral development banks	15,254	13,592	13,000	13,010
21	Institutions	934,480	961,938	995,042	1,110,900
22	Corporates	929,547	855,827	832,954	730,208
23	*of which: SMEs*	*320,834*	*281,357*	*248,873*	*223,014*
28	Defaulted exposures	27,357	28,681	32,468	35,837
29	Items associated with particularly high risk	4,758	3,170	0	0
33	Equity instruments	51,899	32,049	20,230	24,866
34	Other exposures	5,050	5,387	5,601	5,575
35	**Total standardised approach**	**2,664,241**	**2,608,980**	**2,599,825**	**2,578,525**
36	**Total**	**2,664,241**	**2,608,980**	**2,599,825**	**2,578,525**

5.11 Template 8 – EU CRB-C: Geographical breakdown of exposures

(Article 442(d) of the CRR)

		a	b	c	d	n
		Net values				
31 Dec 2019		Slovenia	Other EU Member States	Other European countries	Other countries	Total
7	Central governments or central banks	447,755	146,702	0	0	594,458
8	Regional governments or local authorities	65,514	2,205	17	0	67,736
9	Public sector entities	33,702	0	0	0	33,702
10	Multilateral development banks	0	15,254	0	0	15,254
12	Institutions	691,515	201,512	41,453	0	934,480
13	Corporates	867,524	27,472	14,245	20,305	929,547
16	Defaulted exposures	22,189	4,978	190	0	27,357
17	Items associated with particularly high risk	2,258	2,500	0	0	4,758
21	Equity instruments	45,352	6,547	0	0	51,899
22	Other exposures	4,811	209	1	30	5,050
23	**Total standardised approach**	**2,180,619**	**407,381**	**55,906**	**20,335**	**2,664,241**
24	**Total**	**2,180,619**	**407,381**	**55,906**	**20,335**	**2,664,241**

		a	b	c	d	n
		Net values				
31 Dec 2018		Slovenia	Other EU Member States	Other European countries	Other countries	Total
7	Central governments or central banks	445,806	165,770	0	1,494	613,070
8	Regional governments or local authorities	51,860	2,232	1,083	0	55,174
9	Public sector entities	32,286	0	0	0	32,286
10	Multilateral development banks	0	13,000	0	0	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	Defaulted exposures	26,796	5,422	250	0	32,468
21	Equity instruments	13,355	6,875	0	0	20,230
22	Other exposures	5,506	61	0	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**

5.12 Template 9 – EU CRB-D: Concentration of exposures by industry or counterparty types

(Article 442(e) of the CRR)

31 Dec 2019		Net values						
		Financial and insurance activities	Public administration and defence, compulsory social security	Manufacturing	Transportation and storage	Electricity, gas, steam and air conditioning supply	Other	Total
7	Central governments or central banks	72,673	521,785	0	0	0	0	594,458
8	Regional governments or local authorities	0	67,736	0	0	0	0	67,736
9	Public sector entities	25,260	8,441	0	0	0	0	33,702
10	Multilateral development banks	15,254	0	0	0	0	0	15,254
12	Institutions	934,480	0	0	0	0	0	934,480
13	Corporates	13,204	0	339,955	149,258	139,312	287,818	929,547
16	Defaulted exposures	602	0	4,288	6,734	0	15,733	27,357
17	Items associated with particularly high risk	4,758	0	0	0	0	0	4,758
21	Equity instruments	51,899	0	0	0	0	0	51,899
22	Other exposures	4,846	1	0	8	0	196	5,050
23	**Total standardised approach**	**1,122,976**	**597,963**	**344,243**	**155,999**	**139,312**	**303,748**	**2,664,241**
24	**Total**	**1,122,976**	**597,963**	**344,243**	**155,999**	**139,312**	**303,748**	**2,664,241**

31 Dec 2018		Net values						
		Financial and insurance activities	Public administration and defence, compulsory social security	Manufacturing	Transportation and storage	Wholesale and retail trade (maintenance and repair of motor vehicles)	Other	Total
7	Central governments or central banks	120,871	492,199	0	0	0	0	613,070
8	Regional governments or local authorities	0	55,174	0	0	0	0	55,174
9	Public sector entities	23,287	8,999	0	0	0	0	32,286
10	Multilateral development banks	13,000	0	0	0	0	0	13,000
12	Institutions	995,042	0	0	0	0	0	995,042
13	Corporates	27,668	0	275,284	150,153	115,546	264,304	832,954
16	Defaulted exposures	1,381	0	8,058	6,514	14,107	2,408	32,468
21	Equity instruments	15,287	0	0	4,942	0	0	20,230
22	Other exposures	5,398	0	0	0	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**

Within the framework of exposure to other economic sectors, the largest exposures as at 31 December 2019 were disclosed against the sector of wholesale and retail trade (maintenance and repair of motor vehicles) in the amount of EUR 122,623 thousand, and the sector of professional, scientific and technical activities in the amount of EUR 60,418 thousand.

5.13 Template 10 – EU CRB-E: Maturity of exposures

(Article 442(f) of the CRR)

The table below shows net on-balance-sheet and off-balance-sheet exposures, broken down by individual exposure class in terms of residual maturity.

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 value of exposures					
31 Dec 2019		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
7	Central governments or central banks	72,573	43,445	237,500	240,490	450	594,458
8	Regional governments or local authorities	0	115	5,021	62,599	0	67,736
9	Public sector entities	0	16,733	0	16,969	0	33,702
10	Multilateral development banks	0	0	0	3,254	12,000	15,254
12	Institutions	56	104,541	259,463	570,420	0	934,480
13	Corporates	8	39,814	244,099	645,625	0	929,547
16	Defaulted exposures	467	6,736	12,963	7,191	0	27,357
17	Items associated with particularly high risk	0	0	0	0	4,758	4,758
21	Equity instruments	0	45,352	0	0	6,547	51,899
22	Other exposures	0	0	0	0	5,050	5,050
23	**Total standardised approach**	**73,104**	**256,736**	**759,046**	**1,546,550**	**28,805**	**2,664,241**
24	**Total**	**73,104**	**256,736**	**759,046**	**1,546,550**	**28,805**	**2,664,241**

		a	b	c	d	e	f
		Net value of exposures					
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	0	47	3,360	51,767	0	55,174
9	Public sector entities	0	0	14,074	18,211	0	32,286
10	Multilateral development banks	0	0	0	1,000	12,000	13,000
12	Institutions	313	85,815	190,263	718,651	0	995,042
13	Corporates	8	44,898	252,278	535,771	0	832,954
16	Defaulted exposures	2,967	6,722	16,679	6,099	0	32,468
21	Equity instruments	0	0	0	0	20,230	20,230
22	Other exposures	0	358	0	0	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**

5.14 Template 11 – EU CR1-A: Credit quality of exposures by exposure class and instrument

(Article 442(g) and (h) of the CRR)

		a	b	c	e	f	g
		Gross carrying values					
	31 Dec 2019	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs in 2019	Credit risk adjustment charges in 2019	Net values (a+b-c)
16	Central governments or central banks	0	594,480	22	0	(9)	594,458
17	Regional governments or local authorities	0	67,752	16	0	26	67,736
18	Public sector entities	0	33,724	22	0	(18)	33,702
19	Multilateral development banks	0	15,254	0	0	0	15,254
21	Institutions	0	935,926	1,446	0	(686)	934,480
22	Corporates	0	952,988	23,441	0	(8,183)	929,547
23	*Of which: SMEs*	0	333,152	12,317	0	(2,277)	320,834
28	Defaulted exposures	47,885	0	20,528	19,688	(2,717)	27,357
29	Items associated with particularly high risk	0	4,758	0	0	0	4,758
33	Equity instruments	15,616	51,917	15,635	0	(18)	51,899
34	Other exposures	0	5,050	0	0	0	5,050
35	**Total standardised approach**	**63,501**	**2,661,850**	**61,110**	**19,688**	**(11,604)**	**2,664,241**
36	**Total**	**63,501**	**2,661,850**	**61,110**	**19,688**	**(11,604)**	**2,664,241**
37	Of which: loans	47,885	1,653,349	43,652	19,688	(10,437)	1,657,582
38	Of which: debt securities	0	658,328	309	0	(54)	658,019
39	Of which: off-balance-sheet exposures	0	259,689	1,532	0	(1,112)	258,157

30 Jun 2019		a	b	c	e	f	g
		Gross carrying values					
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs in 1st half of 2019	Credit risk adjustment charges in 1st half of 2019	Net values (a+b-c)
16	Central governments or central banks	0	646,498	8	0	6	646,490
17	Regional governments or local authorities	0	57,535	33	0	8	57,501
18	Public sector entities	0	31,511	3	0	2	31,508
19	Multilateral development banks	0	12,695	0	0	0	12,695
21	Institutions	0	1,033,094	680	0	81	1,032,414
22	Corporates	0	836,289	21,251	298	(5,844)	815,039
23	*Of which: SMEs*		*293,395*	*10,825*	*0*	*(138)*	*282,569*
28	Defaulted exposures	49,375	0	22,696	298	(1,088)	26,678
29	Items associated with particularly high risk	0	5,842	41	0	23	5,800
33	Equity instruments	20,558	6,602	15,616	0	0	11,544
34	Other exposures	0	5,527	0	0	0	5,527
35	**Total standardised approach**	**69,933**	**2,635,593**	**60,330**	**298**	**(6,812)**	**2,645,196**
36	**Total**	**69,933**	**2,635,593**	**60,330**	**298**	**(6,812)**	**2,645,196**
37	Of which: loans	49,375	1,652,202	44,110	0	(6,884)	1,657,466
38	Of which: debt securities	0	634,119	185	0	(69)	633,933
39	Of which: off-balance-sheet exposures	0	194,613	418	0	(2)	194,195

5.15 Template 12 – EU CR1-B: Credit quality of exposures by industry or counterparty types

(Article 442(g) of the CRR)

31 Dec 2019 Sector	a	b	c	e	f	g
	Gross carrying values					
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs in 2019	Credit risk adjustment charges in 2019	Net values (a+b-c)
Financial and insurance activities	483	1,139,490	16,997	0	(373)	1,122,976
Public administration and defence, compulsory social security	0	598,002	40	0	17	597,963
Manufacturing	11,546	356,725	24,028	0	(11,034)	344,243
Transportation and storage	6,625	150,434	1,060	55	1,531	155,999
Electricity, gas, steam and air conditioning supply	0	139,765	453	0	363	139,312
Other	29,231	293,050	18,533	19,632	(2,108)	303,748
Total	**47,885**	**2,677,466**	**61,110**	**19,688**	**(11,604)**	**2,664,241**

30 Jun 2019 Sector	a Gross carrying values Defaulted exposures	b Non-defaulted exposures	c Specific credit risk adjustment	e Accumulated write-offs in 1st half of 2019	f Credit risk adjustment charges in 1st half of 2019	g Net values (a+b-c)
Financial and insurance activities	729	1,242,874	16,214	0	402	1,227,388
Public administration and defence, compulsory social security	0	580,840	42	0	16	580,799
Manufacturing	11,479	304,376	20,476	0	(7,486)	295,379
Transportation and storage	7,137	160,912	2,147	0	492	165,902
Wholesale and retail trade (maintenance and repair of motor vehicles)	12,827	101,041	3,895	254	(472)	109,974
Other	17,202	266,109	17,556	43	237	265,755
Total	**49,375**	**2,656,152**	**60,330**	**298**	**(6,812)**	**2,645,196**

5.16 Template 13 – EU CR1-C: Credit quality of exposures by geography

(Article 442(h) of the CRR)

31 Dec 2019 Geographical area	a Gross carrying values Defaulted exposures	b Non-defaulted exposures	c Specific credit risk adjustment	e Accumulated write-offs in 2019	f Credit risk adjustment charges in 2019	g Net values (a+b-c)
Slovenia	42,857	2,197,773	60,011	10,319	(11,407)	2,180,619
Other EU Member States	4,696	402,548	(137)	0	109	407,381
Other European countries	332	56,109	535	9,368	(11)	55,906
Other countries	0	21,036	701	0	(296)	20,335
Total	**47,885**	**2,677,466**	**61,110**	**19,688**	**(11,604)**	**2,664,241**

30 Jun 2019 Geographical area	a Gross carrying values Defaulted exposures	b Non-defaulted exposures	c Specific credit risk adjustment	e Accumulated write-offs in 1st half of 2019	f Credit risk adjustment charges in 1st half of 2019	g Net values (a+b-c)
Slovenia	41,082	2,187,077	55,843	298	(7,141)	2,172,315
Other EU Member States	3,910	402,149	(70)	0	235	406,129
Other European countries	4,383	51,958	4,427	0	101	51,914
Other countries	0	14,968	129	0	(7)	14,839
Total	**49,375**	**2,656,152**	**60,330**	**298**	**(6,812)**	**2,645,196**

Templates 11, 12 and 13 illustrate on-balance-sheet and off-balance-sheet gross and net exposures. Provisions for off-balance-sheet liabilities are disclosed under specific credit risk adjustments.

Total gross write-offs amounted to EUR 19,688 thousand in 2019.

5.17 Template 14 – EU CR1-D: Ageing of past-due exposures

(Article 442(g) and (h) of the CRR)

		Gross carrying values					
	31 Dec 2019	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	1,374	357	17	1,640	158	14,994
2	Debt securities	0	0	0	0	0	0
3	Total exposures	1,374	357	17	1,640	158	14,994

		Gross carrying values					
	30 Jun 2019	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	19	0	170	0	893	18,353
2	Debt securities	0	0	0	0	0	0
3	Total exposures	19	0	170	0	893	18,353

5.18 Template 15 – EU CR1-E: Non-performing and forborne exposures

(Article 442(g) and (i) of the CRR)

		a	b	c	d	e	f	g
		Gross carrying values of performing and non-performing exposures						
					Of which non-performing			
	31 Dec 2019		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne		Of which defaulted	Of which impaired	Of which forborne
010	Debt securities	658,328	0	0	0	0	0	0
020	Loans and other financial assets	1,794,941	8	0	68,863	68,863	34,958	55,680
030	Off-balance-sheet exposures	259,689	0	0	0	0	0	0

		h	i	j	k	l	m
		Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		On performing exposures		On non-performing exposures			
	31 Dec 2019		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne
010	Debt securities	(309)	0	0	0	0	0
020	Loans and other financial assets	(23,124)	0	(41,506)	(8,218)	22,894	22,627
030	Off-balance-sheet exposures	1,532	0	0	0	0	0

		a	b	c	d	e	f	g
		Gross carrying values of performing and non-performing exposures						
					Of which non-performing			
	30 Jun 2019		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne		Of which defaulted	Of which impaired	Of which forborne
010	Debt securities	634,119	0	0	0	0	0	0
020	Loans and other financial assets	1,870,068	2,710	3,884	85,179	85,179	36,618	73,623
030	Off-balance-sheet exposures	194,613	0	0	0	0	0	0

		h	i	j	k	l	m
		Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		On performing exposures		On non-performing exposures			
	30 Jun 2019		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne
010	Debt securities	(185)	0	0	0	0	0
020	Loans and other financial assets	(21,414)	210	(58,501)	(12,641)	58,181	57,063
030	Off-balance-sheet exposures	418	0	0	0	0	0

5.19 Template 16 – EU CR 2-A: Changes in the stock of general and specific credit risk adjustments

(Article 442(i) of the CRR)

		31 Dec 2019 Accumulated specific credit risk adjustment	30 Jun 2019 Accumulated specific credit risk adjustment
1	Opening balance	44,296	37,365
2	Increases due to amounts set aside for estimated loan losses during the period	14,988	12,031
3	Decreases due to amounts reversed for estimated loan losses during the period	(11,320)	(4,803)
4	Decreases due to amounts taken against accumulated credit risk adjustments	(4,008)	(298)
6	Impact of exchange rate differences	5	1
9	**Closing balance**	**43,961**	**44,296**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	129	1

The table shows stocks and flows in the credit risk adjustments of financial assets (loans granted and debt securities), excluding provisions for off-balance-sheet items.

5.20 Template 17 – EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities

	31 Dec 2019	a Gross carrying value of defaulted exposures
1	Opening balance as at 1 July	49,375
2	Loans and debt securities that have defaulted or impaired since the last reporting period	4,757
3	Returned to non-defaulted status	(394)
4	Amounts written off	(6,344)
5	Other changes	492
6	**Closing balance**	**47,885**

	30 Jun 2019	a Gross carrying value of defaulted exposures
1	Opening balance as at 1 January	53,818
2	Loans and debt securities that have defaulted or impaired since the last reporting period	830
3	Returned to non-defaulted status	(170)
4	Amounts written off	(298)
5	Other changes	(4,806)
6	**Closing balance**	**49,375**

5.21 Template 18 – EU CR3: CRM techniques – Overview

(Article 453(g) of the CRR)

Total exposures secured by financial guarantees

	31 Dec 2019			30 Jun 2019		
	Exposures unsecured – carrying amount	Exposures secured	Exposures secured by financial guarantees	Exposures unsecured – carrying amount	Exposures secured	Exposures secured by financial guarantees
Total loans	1,657,582	0	0	1,657,446	0	0
Total debt securities	658,019	0	0	633,933	0	0
Total exposures	**2,315,601**	**0**	**0**	**2,291,379**	**0**	**0**
Of which defaulted	27,357	0	0	26,678	0	0

The template above shows the carrying amount of loans and debt securities. The Bank does not take account of collateral received for credit risk mitigation purposes in the calculation of capital requirements, for which reason the stock of secured exposures is zero in the above template. The management of credit protection is described in detail in section 3.1 of the financial report.

5.22 Template 19 – EU CR4: Standardised approach – Credit risk exposure and CRM effects

(Article 453(f) and (g) of the CRR)

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM			
	31 Dec 2019	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	574,086	20,371	574,086	10,186	2,724	0.5%
2	Regional governments or local authorities	60,900	6,836	60,900	3,418	12,886	20.0%
3	Public sector entities	33,702	0	33,702	0	6,740	20.0%
4	Multilateral development banks	3,254	12,000	3,254	12,000	2,400	15.7%
6	Institutions	917,038	17,442	917,038	9,171	213,801	23.1%
7	Corporates	727,140	202,407	727,140	129,334	859,685	100.4%
10	Defaulted exposures	27,357	0	27,357	0	27,639	101.0%
11	Exposures associated with particularly high risk	4,758	0	4,758	0	7,137	150.0%
15	Equity instruments	51,899	0	51,899	0	51,899	100.0%
16	Other exposures	5,050	0	5,050	0	5,050	100.0%
17	**Total**	**2,405,185**	**259,057**	**2,405,185**	**164,109**	**1,189,961**	**46.3%**

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM			
	30 Jun 2019	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments and central banks	626,119	20,371	626,119	10,186	7,830	1.2%
2	Regional governments or local authorities	44,930	12,571	44,930	6,286	10,309	20.1%
3	Public sector entities	31,508	0	31,508	0	6,302	20.0%
4	Multilateral development banks	695	12,000	695	12,000	2,400	18.9%
6	Institutions	974,779	57,635	974,779	32,093	227,456	22.6%
7	Corporates	717,297	97,742	717,297	81,534	800,603	100.2%
10	Defaulted exposures	26,678	0	26,678	0	26,772	100.4%
11	Exposures associated with particularly high risk	5,374	426	5,374	213	8,381	150.0%
15	Equity instruments	11,544	0	11,544	0	11,544	100.0%
16	Other exposures	5,527	0	5,527	0	5,527	100.0%
17	**Total**	**2,444,451**	**200,745**	**2,444,451**	**142,311**	**1,107,124**	**42.8%**

The template 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 assets and the breakdown by individual exposure class. The Bank does not use collateral received to reduce its capital requirements.

5.23 Template 20 – EU CR5: Standardised approach – breakdown of exposures with respect to exposure class and risk weight

(Article 444(e) of the CRR)

	31 Dec 2019	Risk weight							Of which	
	Exposure class	0%	20%	50%	100%	150%	250%	Total	unrated	Deducted
1	Central governments or central banks	575,823	7,999	0	0	0	450	584,272	584,272	(456)
2	Regional governments or local authorities	0	64,301	0	0	17	0	64,318	64,318	(2)
3	Public sector entities	0	33,702	0	0	0	0	33,702	33,702	(17)
4	Multilateral development banks	3,254	12,000	0	0	0	0	15,254	15,254	0
6	Institutions	0	890,510	0	35,699	0	0	926,209	926,209	(128)
7	Corporates	0	0	0	850,050	6,424	0	856,473	856,473	(55)
10	Defaulted exposures	0	0	0	26,793	564	0	27,357	27,357	(13)
11	Exposures associated with particularly high risk	0	0	0	0	4,758	0	4,758	4,758	(5)
15	Equity instruments	0	0	0	51,899	0	0	51,899	51,899	(7)
16	Other exposures	0	0	0	5,050	0	0	5,050	5,050	(980)
17	**Total**	**579,078**	**1,008,512**	**0**	**969,491**	**11,763**	**450**	**2,569,293**	**2,569,293**	**(1,663)**

	30 Jun 2019	Risk weight							Of which	
	Exposure class	0%	20%	50%	100%	150%	250%	Total	unrated	Deducted
1	Central governments or central banks	616,418	10,916	8,390	0	0	581	636,305	636,305	(450)
2	Regional governments or local authorities	0	51,165	0	0	50	0	51,216	51,216	(2)
3	Public sector entities	0	31,508	0	0	0	0	31,508	31,508	(14)
4	Multilateral development banks	695	12,000	0	0	0	0	12,695	12,695	0
6	Institutions	0	974,269	0	32,602	0	0	1,006,871	1,006,871	(117)
7	Corporates	0	0	0	795,286	3,545	0	798,831	798,831	(58)
10	Defaulted exposures	0	0	0	26,490	188	0	26,678	26,678	(13)
11	Exposures associated with particularly high risk	0	0	0	0	5,587	0	5,587	5,587	(3)
15	Equity instruments	0	0	0	11,544	0	0	11,544	11,544	(12)
16	Other exposures	0	0	0	5,527	0	0	5,527	5,527	(966)
17	**Total**	**617,112**	**1,079,859**	**8,390**	**871,449**	**9,370**	**581**	**2,586,762**	**2,586,762**	**(1,634)**

5.24 Template 25 – EU CCR1: Analysis of CCR exposure by approach

(Article 439(e), (f) and (i) of the CRR)

	31 Dec 2019	Notional amount	EAD post CRM	RWAs
2	Original exposure	15,000	900	180
11	**Total**	**15,000**	**900**	**180**

	30 Jun 2019	Notional amount	EAD post CRM	RWAs
2	Original exposure	85,000	6,550	1,310
11	**Total**	**85,000**	**6,550**	**1,310**

5.25 Template 26 – EU CCR2: CVA capital charge

(Article 439(f) of the CRR)

		31 Dec 2019		30 Jun 2019	
		Exposure value	RWAs	Exposure value	RWAs
4	All portfolios subject to the standardised method	900	1,354	6,550	12,318
5	Total subject to the CVA capital charge	900	1,354	6,550	12,318

5.26 Template 32 – EU CCR5–B: Composition of collateral for exposures to CCR

	a	b	c	d
	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
31 Dec 2019	Segregated	Unsegregated	Segregated	Unsegregated
Deposits	0	0	0	959
Total	**0**	**0**	**0**	**959**

	a	b	c	d
	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
30 Jun 2019	Segregated	Unsegregated	Segregated	Unsegregated
Deposits	0	0	0	7,106
Total	**0**	**0**	**0**	**7,106**

5.27 Encumbered and unencumbered assets

(Article 443 of the CRR)

The table below shows the medians of consecutive quarterly mean values of the Bank's encumbered and unencumbered assets over a twelve-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 (TLTRO II) from the Bank of Slovenia and the ECB. The balance of the loan was EUR 171.2 million as at 31 December 2019. Variation margin assets used to manage mutual exposure under Credit Support Annex (CSA) agreements and the reserve requirement held at the Bank of Slovenia are also disclosed as encumbered assets.

	Encumbered assets		Unencumbered assets	
31 Dec 2019	Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances at central bank	211	211	113,372	113,372
Equity instruments	0	0	13,752	13,752
Debt securities	108,324	108,324	512,727	548,164
Loans and receivables	65,619	65,902	1,542,551	1,545,310
Other assets	0	0	9,956	9,956
Total assets	**174,155**	**171,525**	**2,192,358**	**2,195,938**

	Encumbered assets		Unencumbered assets	
30 Jun 2019	Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances at central bank	58	58	108,881	108,881
Equity instruments	0	0	15,331	15,331
Debt securities	113,179	113,179	509,788	509,788
Loans and receivables	59,762	59,903	1,472,092	1,475,075
Other assets	0	0	15,753	15,753
Total assets	**172,999**	**173,082**	**2,121,845**	**2,124,828**

5.28 Exposures in equities not included in the trading book

(Article 447 of the CRR)

	31 Dec 2019	31 Dec 2018
Carrying amount	11,305	11,817
Realised gains	2,232	0

The amount of EUR 4,758 thousand relates to investments in equity instruments mandatorily at fair value through profit or loss, while the amount of EUR 6,547 thousand relates to an investment in EIF shares. The aforementioned investment is measured at fair value through other comprehensive income. Shares are not listed on the stock exchange.

In 2019 the Bank sold an investment in securities acquired from the conversion of receivables. That sale generated a gain of EUR 1,843 thousand, which was recognised directly in equity as retained earnings. The Bank generated a net gain of EUR 389 thousand from investments in equity instruments.

5.29 Leverage ratio

(Article 451 of the CRR)

Summary of reconciliation of accounting assets and leverage ratio exposure measure

		31 Dec 2019	30 Jun 2019
1	Total assets as per published financial statements	2,665,854	2,594,594
4	Adjustments for derivative financial instruments	(900)	(6,650)
6	Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures)	(96,481)	(98,802)
7	Other adjustments	(2,167)	9,297
8	**Total leverage ratio exposure**	**2,566,306**	**2,498,439**

Leverage ratio: common disclosure

		31 Dec 2019	30 Jun 2019
On-balance-sheet exposures (excluding derivatives and SFTs)			
1	On-balance-sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,405,185	2,444,451
2	(Asset amounts deducted in determining Tier 1 capital)	(2,987)	(2,959)
3	Total on-balance-sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2,402,197	2,441,492
Derivative exposures			
EU05a	Exposure determined under original exposure method	900	6,550
11	Total derivative exposures (sum of lines 4 to 10)	900	6,550
Other off-balance-sheet exposures			
17	Off-balance-sheet exposures at gross notional amount	259,689	194,613
18	(Adjustments for conversion to credit equivalent amounts)	(96,481)	(58,852)
19	Other off-balance-sheet exposures (sum of lines 17 and 18)	163,209	135,761
Capital and total exposures			
20	Tier 1 capital	424,365	418,350
21	Total leverage ratio exposures (sum of lines 3, 11 and 19)	2,566,306	2,583,803
Leverage ratio			
22	**Leverage ratio**	**16.54%**	**16.19%**

Breakdown of on-balance-sheet exposures

		31 Dec 2019	30 Jun 2019
EU-1	**Total on-balance sheet-exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**2,405,185**	**2,444,451**
EU-3	Banking book exposures, of which:	2,405,185	2,444,451
EU-5	Exposures treated as sovereigns	577,341	626,814
EU-6	Exposures to regional governments, MDBs, international organisations and PSEs not treated as sovereigns	94,602	76,438
EU-7	Institutions	917,038	974,779
EU-10	Corporates	727,140	717,297
EU-11	Defaulted exposures	27,357	26,678
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	61,707	22,446

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 policies and objectives**			
1.	**Risk management objectives and policies**			
	(a) the strategies and processes to manage those risks	BUS	Risk management	44 – 47
		FIN	3	144 – 147
	(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	44 – 46
		FIN	3	144 – 147
	(c) the scope and nature of risk reporting and measurement systems	BUS	Risk management	44 – 47
		FIN	3	144 – 147
		FIN	3.1	147 – 167
		FIN	3.2	167 – 170
		FIN	3.3	171 – 173
		FIN	3.4	174
		FIN	3.5	175 – 178
		FIN	3.6	178 – 182
	(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	107
		FIN	3.3	172
	(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	51
	(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	186 – 188
2.	**Information regarding governance arrangements**			

Article	Requirement	Section of annual report	Chapter	Page
	(a) the number of directorships held by members of the management body	FIN	5.2	192
	(b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	BUS	Corporate governance statement	35
	(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	23 – 35
	(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	146
	(e) the description of the information flow on risk to the management body	BUS FIN	Risk manage-ment 3	44 – 46 145 – 147
436	**Scope of application**	FIN FIN FIN FIN	2.3.3 5.6 5.7 5.8	96 197 – 198 198 – 199 199
	(a) the name of the institution to which the requirements of this Regulation apply			
	(b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are fully consolidated, proportionally consolidated, deducted from own funds, neither consolidated nor deducted			
	(c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries			
	(d) the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries			
	(e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9			
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 5.4	179 194
	(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	5.3	193
	(c) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	FIN	5.3	193
	(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	5.4	194
	(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	5.3	193
	(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 manage-ment 3.6	47 180 – 181

Article	Requirement	Section of annual report	Chapter	Page
	(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 5.9 5.10	179 – 180 200 200
	(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 The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155(2)	N/A		
	(e) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3) (1) position risk (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits (3) currency risk (4) settlement risk (5) commodities risk	FIN FIN	3.6 5.9	180 200
	(f) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately	FIN	5.9	200
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	166 – 167 178
	(b) a discussion of policies for securing collateral and establishing credit reserves	FIN	3.1	166 – 167
	(c) a discussion of policies with respect to wrong-way risk exposures	FIN	3.1	166 – 167
	(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	166 – 167
	(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	5.24 5.26	212 212
	(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	5.24 5.25	212 212
	(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		
	(i) the estimate of α if the institution has received the permission of the competent authorities to estimate α	N/A		
440	**Capital buffers**	FIN	3.6	181
	(a) the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	FIN	5.5	195 – 196
	(b) the amount of its institution-specific countercyclical capital buffer.	FIN	5.5	196
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	103 157
	(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments	FIN FIN	2.3.11 3.1	102 – 105 150

Article	Requirement	Section of annual report	Chapter	Page
	(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	5.10	200
	(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	FIN	5.11	201
	(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	5.12	202
	(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate	FIN	5.13	203
	(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	5.15	205 – 206
	(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	5.16	206
	(i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately – 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	5.19 5.20 2.4.4	208 209 118 – 121
443	**Unencumbered assets**	FIN	5.27	213
444	**Use of ECAIs**			
	(a) the names of the nominated ECAIs and ECAs and the reasons for any changes	FIN	3.6	178
	(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	178
	(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 from own funds	FIN	5.23	211
445	**Exposure to market risk**	FIN	3.4	174 – 175
446	**Operational risk**	FIN	3.5	175 – 178
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	98 – 106

Article	Requirement	Section of annual report	Chapter	Page
	(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	2.4.2 2.4.3	116 117
	(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures	FIN	5.28	213
	(d) the cumulative realised gains or losses arising from sales and liquidations in the period	FIN	5.28	213
	(e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in original of additional own funds	N/A		
448	**Exposure to interest rate risk on positions not included in the trading book**	FIN	3.3	171 – 174
	(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	137 – 142
	Institutions shall disclose at least the following information, for those categories of staff whose professional activities have a material impact on its risk profile: (a) information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders			
	(b) information on link between pay and performance			
	(c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria			
	(d) the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU			
	(e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based			
	(f) the main parameters and rationale for any variable component scheme and any other non-cash benefits			
	(g) aggregate quantitative information on remuneration, broken down by business area			
	(h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, 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 (EN 27.6.2013; Official Journal of the European Union L 176/261)			

Article	Requirement	Section of annual report	Chapter	Page
	(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 1 million 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 5.29	182 214 - 215
	(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) 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	148 – 150
	(c) a description of the main types of collateral taken by the institution	FIN	3.1	148 – 150
	(d) the main types of guarantor and credit derivative counterparty and their creditworthiness	FIN	3.1	166 – 167
	(e) information about market or credit risk concentrations within the credit mitigation taken	FIN	3.1	148 – 150
	(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, on- or off-balance-sheet netting) that is covered – after the application of volatility adjustments – by eligible financial collateral, and other eligible collateral	FIN FIN	5.21 5.22	209 210
	(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	5.21 5.22	209 210
454	**Use of the Advanced Measurement Approaches to operational risk**	N/A		
455	**Use of Internal Market Risk Models**	N/A		

BUS: Business report
FIN: Financial report
N/A: Not applicable

6 Disclosures in accordance with the Regulation on the books of account and annual reports of banks and savings banks

(Article 20(c) of the regulation)

Country	Undertaking	Business activities	Turnover[8]	Headcount (FTE, integer)	Profit / (loss) before tax	Corporate income tax
2019						
EU Member States						
Slovenia	SID banka d. d., Ljubljana	banking	37,099	177	37,238	(5,198)
	Prvi faktor, faktoring družba, d. o. o., Ljubljana (in liquidation)	factoring	161	4	(403)	0
Croatia	Prvi faktor, faktoring družba, d. o. o., Zagreb (in liquidation)	factoring	1,456	3	309	0
Third countries						
Bosnia and Herzegovina	Prvi faktor d. o. o., Sarajevo (in liquidation)	factoring	0	0	(7)	0
Serbia	Prvi faktor, faktoring družba, d. o. o., Beograd (in liquidation)	factoring	92	2	(264)	0
2018						
EU Member States						
Slovenia	SID banka d. d., Ljubljana	banking	32,331	166	17,519	(3,205)
	SID – Prva kreditna zavarovalnica d. d., Ljubljana	insurance	17,013	69	1,207	(239)
	Prvi faktor, faktoring družba, d. o. o., Ljubljana (in liquidation)	factoring	250	6	437	0
Croatia	Prvi faktor, faktoring družba, d. o. o., Zagreb (in liquidation)	factoring	1,212	5	184	0
Third countries						
Bosnia and Herzegovina	Prvi faktor d. o. o., Sarajevo (in liquidation)	factoring	0	0	(15)	0
Serbia	Prvi faktor, faktoring družba, d. o. o., Beograd (in liquidation)	factoring	119	3	336	(32)

[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.

7 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 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.

	31 Dec 2019	31 Dec 2018
Assets		
Customer funds in current accounts	179	9,002
Financial assets measured at fair value through other comprehensive income	145,546	132,736
Loans	18,589	14,128
Loans and advances to banks	18,589	14,128
Equity investments	2,698	1,977
Other assets	520	396
Total assets	**167,532**	**158,239**
Liabilities		
Contingency reserves	160,553	154,281
Accumulated other comprehensive income	3,747	1,534
Other financial liabilities	14	4
Other liabilities	3,218	2,420
Total liabilities	**167,532**	**158,239**
Memorandum account for brokerage	**765,019**	**601,854**

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 this fund is the promotion and financing of sustainable economic growth and development, investments in innovation and current operations through debt and equity financing focused on 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 2019	31 Dec 2018
Assets		
Funds in settlement account	31,079	27,892
Financial assets mandatorily at fair value through profit or loss	76,817	27,537
Loans	5,999	5,995
Loans and advances to banks	5,999	5,995
Other assets	18	1
Total assets	**113,913**	**61,425**
Liabilities		
Financial liabilities	113,819	61,393
Loans from customers	123,795	61,693
Revaluation of loans from customers	(10,294)	(657)
Other financial liabilities	318	357
Provisions	94	32
Total liabilities	**113,913**	**61,425**
Memorandum account for brokerage	**190,524**	**235,159**
Off-balance-sheet receivables	126,500	189,750
Loans received: east	46,450	69,675
Loans received: west	67,550	101,325
Loans received: unclassified	12,500	18,750
Off-balance-sheet liabilities	64,024	45,409
Loans granted: east	23,677	18,770
Loans granted: west	27,623	26,639
Loans granted: unclassified	12,724	0