SID Banka

25 years.

ANNUAL REPORT

of SID Bank and of the SID Bank Group

2017

Company name:	**SID – Slovenska izvozna in razvojna banka, d. d., Ljubljana**
Abbreviated name:	SID banka d.d., Ljubljana
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BUSINESS REPORT

FINANCIAL REPORT

OTHER DISCLOSURES

List of abbreviations

ALM	Assets Liabilities Management
BAS	Bank Association of Slovenia
BGN	Bloomberg Generic Price
CCF	Credit Conversion Factor
CEB	Council of Europe Development Bank
CMSR	Centre for International Cooperation and Development
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
EAD	Exposure at Default
EAPB	European Association of Public Banks
EBA	European Banking Authority
EC	European Commission
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
ELTI	European Long-Term Investors
EU	European Union
EUA	European Emission Allowances
EUAA	European Aviation Allowances
EWS	Early Warning System
GDP	Gross Domestic Product
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards as adopted by the EU
ILAAP	Internal Liquidity Adequacy Assessment Process
IMAD	Institute of Macroeconomic Analysis and Development
KfW	Kreditanstalt für Wiederaufbau
LCR	Liquidity coverage ratio
LGD	Loss Given Default
MEDT	Ministry of Economic Development and Technology
MEIP	Minimum Export Insurance Premiums
NEFI	Network of European Financial Institutions for Small and Medium Sized Enterprises
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Co-operation and Development
PD	Probability of Default
RS	Republic of Slovenia
SID-PKZ	SID – Prva kreditna zavarovalnica
SMEs	Small and medium-sized enterprises
SORS	Statistical Office of the Republic of Slovenia
SPPI	Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
SSH	Slovenian Sovereign Holding
SVRK	Government Office for Development and European Cohesion Policy
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
ZZavar-1	Insurance Act
ZZFMGP	Insurance and Financing of International Commercial Transactions Act

BUSINESS REPORT

A word from the President of the Management Board

Dear shareholders, investors, business partners and colleagues,

In its twenty-fifth year of existence and tenth year of operation as a bank, SID Bank has operated successfully. In all these years, it has successfully managed major risks and seized new opportunities to the benefit of the Slovenian economy and its competitiveness, and of the holistic and integrated development of Slovenia.

In 2017 the Bank operated in a very favourable global and national macroeconomic environment, as GDP growth in Slovenia stood at 5%, primarily on account of the strong growth in exports (10.6%), growth in domestic demand (4.1%) and investment (8.4%). Almost 500 corporates received funding via banks directly or indirectly through SID Bank's credit products over the past year in the amount of EUR 216 million. When we add insurance products to this figure that number expands to around 2100 final beneficiaries that were funded or insured, in particular small and medium-sized enterprises (SMEs), in total contributing EUR 3 billion to Slovenian exports and creating approximately 20,000 jobs.

In accordance with its mission and the features of its countercyclical operation, the Bank also faced certain challenges generated by external and internal environment. The latter was characterised by the restructuring of the management board with the arrival of its new board member, Mr. Goran Katušin, and the Bank's reorganisation to adjust the bank's business model to the changing external environment. The external environment was characterised in particular by the continued decline in demand from banks and their re-activation, which eliminated market gaps that had been covered by SID Bank in the past, and the increasingly large regulatory framework, particularly due to the transition to the new international financial reporting standards (IFRS 9). Given the aforementioned market characteristics and solid business climate, SID Bank continued its withdrawal from the market, resulting in its total assets declining by 3.8% to EUR 2.452 billion. Since banks continued their repayment of credit lines that were opened in the past, lending to banks decreased indirectly by 16% to EUR 678 million, or to 53% of the entire credit portfolio. Given the rapid repayment of loans by SMEs, the direct lending segment declined by 2.1% to EUR 598 million, this accounting for 47% of the credit portfolio.

Direct and indirect financing was primarily executed in the form of specialised credit lines for SMEs, promoting technological development projects and innovations and employment, environmentally-friendly and energy-efficient infrastructure investments, and implementation of financial instruments that strengthens capitalisation of SMEs (equity and mezzanine-like debt financing). That segment was characterised by a 57% growth in placements from the financial engineering loan programme, to EUR 78 million. That programme was developed together with the Ministry of Economic Development and Technology (MEDT) for long-term development of corporate loans and, in fact, represents mezzanine financing of SMEs. In addition to successfully covering this market, over the last year SID Bank also managed to close the most important gap for SMEs, i.e. the capital gap. Together with the EIF it set up a EUR 100 million Slovene Equity Growth Investment Programme, which it manages under the aegis of the EIF. It is one of the first programme of this type in Slovenia, which over the next ten years will enable Slovenian SMEs, during a period of growth in capital investments by international and domestic investors, which will help generate new jobs, to produce new development and export champions and increase the value added of Slovenian products and services.

Within the scope of establishing a new business model the Bank continued its introduction of advisory services last year, as a point of entry for the Investment Plan for Europe, which comprises part of the European Fund for Strategic Investments (EFSI) and the European Investment Advisory Hub (EIAH), and project financing as SID Bank's new special competence centre. Within the scope of this reorientation it is also SID Bank's new role in allocation of European Structural and Investment Funds (*ESIF*), providing added value to the economy and financial intermediaries. In accordance with our efforts and the trend of shifting from non-refundable to refundable forms of funding at the EU level, Slovenia earmarked EUR 253 million for the implementation of financial instruments in the form of a Fund of Funds, and at the end of the year appointed SID Bank as manager of the Fund of Funds for Slovenia, which is thereby expecting more efficient use of cohesion funds, as this will secure EUR 373 million together with the financial intermediaries' own funding, which owing to re-use will again be made available after the end of this financial framework. With the development of these new products, SID Bank is concluding the transition from its interventionist role and returning to a development-oriented course.

In the past year the Bank did not undertake any borrowing on international financial markets but took advantage of the opportunity to draw targeted longer-term refinancing operations (TLTROs) at the Bank of Slovenia or ECB in the amount of EUR 173 million. These favourable sources of funding were combined with funding from similar development banks (EIB, KfW, CEB) and transferred to end-users as value added within the context of our products mentioned above. In addition, in light of the current market situation, we actively managed refinancing risk and repurchased our own bonds (EUR 10 million), and repaid maturing bonds in the amount of EUR 97 million and maturing promissory notes in the amount of EUR 77 million, thereby reinforcing our financial strength.

The Bank's internal development primarily followed the requirements put forth by the regulatory framework, in particular in relation to the new method and forms of reporting and implementation of the IFRS 9. To that end, methodologies and internal models for the assessment of expected losses were put in place and the relevant information support was provided. The Bank made organisational changes with regard to risk management, as the area of risk management is now organised as a third function of the internal controls mechanism (alongside compliance and internal auditing) that is directly responsible to the Bank's management board. The strategy function and product development were also positioned in a similar manner. These changes brought greater transparency, efficiency and responsibility for the challenges we face as a result of the changing environment.

Despite the increased risk appetite, risk exposure remains acceptable. Due to the continued improvement in the financial position of corporates on account of economic growth, credit risk exposure also declined in relative terms, including non-performing exposures, which dropped in value by 46%, in particular due to the successfully completed corporate restructuring procedures, while coverage by impairments in the remaining part increased by just over 10 percentage points. Liquidity risk remained low, as the balance of liquid assets remained high. Exposure to interest rate risk remained unchanged at a relatively high level, with the internal limit remaining twice as high as required by the banking regulations. In an environment of low interest rates, profitability risk remains high, which the Bank is trying to control through various measures. In addition to the realignment of the business model described above and new product launches, the Bank is also upgrading its assets liability management (ALM), optimising business processes and investing in information technology.

SID Bank has thus achieved high capital adequacy (36.8%) and high liquidity and liquidity coverage ratios (LCR), and a net stable funding ratio that is significantly above the regulatory minimum, which indicates the Bank's high level of stability with a 15.5% leverage ratio.

Last year supervision of operations of the Bank of Slovenia enhanced also the scrutiny of SID Bank, where no supervisory measures were required. In June 2017, Standard & Poor's raised SID Bank's rating to A+ with a stable outlook.

The above described performance of the Bank was reflected in the statement of profit or loss in a return-on-equity of 3.5%. The Bank generated EUR 14 million in net profit, down 35% on 2016, when the extremely high profit was primarily the result of one-off events of the sale of non-performing loans. In an environment of extremely low interest rates, net interest was down 15% and amounted to EUR 20 million. Unlike previous years, the Bank generated net revenues from impairments and provisions in the amount of EUR 6.5 million. Net non-interest income was down significantly on the previous year, standing at just EUR 2.6 million, which was primarily the result of revaluation operating expenses from the positive performance of loan programme on the basis of net revenues and release of impairments and provisions for loans under special loan programme which we created together with the MEDT. This improved the result of loan programme and increased SID Bank's liabilities to the MEDT. The Bank's cost efficiency was down last year (CIR: cost-to-income ratio of 58), which is a reflection of the listed lower revenues and increased employment costs in connection with the described upgrade of the development business model, new product launches and start-up costs for setting up the aforementioned management of the Fund of Funds.

In terms of insurance operations with non-marketable risks, which is carried out on behalf of and for the account of the Republic of Slovenia, the volume of insurance operations grew by 14% to EUR 613 million in 2017. This was the result of an increase in the scope of securing current receivables due to high economic growth and exports, in particular. We also concluded transactions under the project financing scheme. The collateral breakdown by country is no different from previous years, given that the majority of insurance operations are still in Russia, followed by Croatia, Bosnia and Herzegovina, and the Ukraine. SID Bank is continuing activities in this segment for market diversification, using insurance lines to penetrate new markets, primarily in Africa and Asia. Insurance premiums and commissions increased by 8% to stand at EUR 3.6 million. Claims paid reached EUR 15.3 million which led to a negative operating result. Contingency reserves that cover these cases declined during the year, but the Ministry of Finance contributed EUR 12 million in new assets. This even resulted in a year-end increase in contingency reserves of 1.5% to EUR 132 million, which allows SID Bank to continue promoting exports to markets exposed to higher risks.

The highly competitive environment continued for the SID Bank Group, in particular for our subsidiary SID – Prva kreditna zavarovalnica (SID-PKZ) continued in the previous year, primarily as a result of the market activities carried out by its competitors. This affected lower premium rates, but the insurance company nevertheless achieved a 4.3% higher premium of EUR 15 million, primarily on account of higher turnover growth (EUR 6.7 billion) regarding the economic growth. SID-PKZ generated a high claims ratio in the past year (EUR 25 million), which due to the reinsurance protection did not significantly impact the operating result. Because of all these events and our wish to provide even better insurance services to our customers in the future, the procedure of verifying the possibility of selling SID-PKZ to the best partner that could facilitate the achievement of these objectives in the future began last year.

SID Bank places great emphasis on providing value added to all our customers and stakeholders, therefore operating in a transparent, efficient and socially responsible manner and on the basis of values and business ethics in all areas of operation, not only in relation to responsible lending. It also places a great deal of importance on employee satisfaction and development. We therefore thank our employees and all other stakeholders, from corporates to banks and supervisors, for their trust in SID Bank as a partner in the development of Slovenia.

The Bank will continue to provide financial services in areas where market gaps or other market irregularities are identified through creation and implementation of countercyclical and development schemes, supported by European structural and investment funds and other promotional sources, addressing demands of the Slovenian corporate and infrastructure sector.

The forecasts for this and next year are favourable, prompting the Bank to continue to implement the developmental forms of operation in line with its mission. However, the Bank is also prepared and sufficiently robust to tackle potential surprises that may bring financial and economic risks, mostly geopolitical and technological by nature, in the coming years. This was also brought to our attention by participants at the international symposium on the new industrial revolution and digitalisation, which we organised in Ljubljana to mark our 25th anniversary. In accordance with this, SID Bank's strategy focuses on the coherency of its future operations with the post 2020 multiannual financial framework. The current high economic growth and renewed credit growth after seven years require flexible adjustments in SID Bank's operations and further changes to its business model to satisfy the specific needs of the corporate sector. In addition, the EU is placing some restrictions on the framework of operation of developmental and promotional banks and increasing the functioning of multilateral institutions. New products and programmes are therefore being developed to use niches to effectively complement market services and the benefits of the Slovenian corporate sector, public infrastructure and environmental and energy efficiency. SID Bank and its employees will continue to carry out tasks as the central Slovenian promotional and developmental financial institution in all forms and methods, as it has over the past 25 years. We have capacity and are prepared to resolve future challenges, both in terms of the competitiveness of the Slovenian economy and Slovenia's sustainable development, always in the interest of long-term development and inclusive and coordinated development of the Slovenian economy and Slovenia as a whole, and as an active member of the EU.

Sibil Svilan, M.Sc.

Report of the Supervisory Board for 2017

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 competences prescribed by the law, the Bank's Articles of Association and Rules of Procedure, and within that framework and taking account of the Bank's strategic objectives and the risks to which the Bank is exposed, assessed the adequacy of the Bank's management and operations.

The members of the supervisory board in 2017 were Monika Pintar Mesarič (Chair of the Supervisory Board), Janez Tomšič (Deputy Chair until the expiry of his term of office on 5 April 2017), Marko Tišma (Deputy Chair since 14 July 2017), Štefan Grosar (member until the expiry of his term of office on 5 April 2017), Marjan Divjak (member until the expiry of his term of office on 5 April 2017 and again after his reappointment since 18 May 2017), Leo Knez, Aleš Berk Skok, PhD (member since 13 April 2017) and Zlatko Vili Hohnjec (member since 18 May 2017).

In 2017 the supervisory board held twelve (12) ordinary sessions and four (4) correspondence sessions, at which it discussed general and specific matters relating to the Bank's operations, and also made decisions on transactions pursuant to its powers. 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 members of the supervisory board signed a statement of independence through which they affirmed that there were no circumstances that could influence their impartial, professional and comprehensive judgement in the discharging of their duties or decision making. In the discharging of the duties and decision-making of the members of the supervisory board, 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 member of the supervisory board did not receive the materials and information and was not present at the session during the discussion and decision-making on the matter in which they had a conflict of interest.

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

- the audit committee, which met at seven sessions, at which it discussed and drew up positions primarily with regard to the Bank's interim performance reports and financial statements, the compilation of the unaudited annual report for 2016, the Bank's financial plan for 2018, 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, the concluding of contracts with an audit firm for the performance of non-audit services, monitored the progress of the final audit for 2016 and the preliminary audit for 2017, and the progress of activities relating to the implementation of IFRS 9;
- the risk committee, which met at eight sessions, and provided expert support to the supervisory board in the area of risk appetite and risk management, and drew up positions primarily with regard to the risk management strategy and policy, the methodologies and assessments of the Bank's and the Group's risk profile, the methodologies and implementation of the internal capital adequacy assessment process and internal liquidity adequacy assessment process, the findings of the Bank of Slovenia in the process of the supervisory review and evaluation of risks, the findings of the Bank of Slovenia after its review of the Bank's operations, and risk management and control within the scope of the discussion of the regular performance reports;
- the appointments and remuneration committee, which met at eight sessions and provided the supervisory board with expert support in the assessment of the appropriateness of remuneration policies and practices, drew up a proposal for

amendments to the policy for selecting members of the supervisory board and performance evaluations of the work of the management board, carried out an assessment procedure and adopted a final assessment with regard to the knowledge, skills and experience of the individual members of the management board and 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 i.e. the appointment of new members to the supervisory board, discussed and adopted the suitability assessments drawn up by the suitability assessment committee.

The major issues discussed and/or decided on by the supervisory board in 2017 were:

- the annual report for 2016 with the auditor's report, and the proposal for the use of the distributable profit for 2016;
- the Bank's action strategy for 2018-2020 and the realisation of the strategic objectives in 2017;
- the annual operational plan with elements of the business policy and risk management policy, and the financial plan for 2018;
- the Bank's risk management strategy and polices;
- the determination of the risk appetite;
- Bank of Slovenia findings from two supervisory reviews;
- regular reports on the performance of the Bank and the companies in the Group;
- regular risk management reports;
- the internal audit department's plan of work for 2018 and strategic plan of work for 2018 and 2019, the annual internal audit report for 2016 and the quarterly reports by the internal audit department;
- the department's work programme and regular compliance reports, and the report on the implementation of the code of ethics and professional standards;
- the Bank's risk profile assessment for 2017;
- the Bank of Slovenia's report on the internal capital adequacy assessment process and internal liquidity assessment process, and the Bank of Slovenia's findings in the supervisory review and evaluation process;
- decision-making on specific financing and borrowing transactions pursuant to its powers and in accordance with the Bank's Articles of Association;
- approving new Bank products and programmes;
- regular reports on the status of reschedulings of granted loans and company restructuring;
- report on the review of external providers;
- remuneration policy;
- procedure of checking the possibility of the sale of Prva kreditna zavarovalnica and the process of orderly wind-down of the companies 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 make decisions pursuant to its powers.

In 2016 the supervisory board assessed its own operations in 2016, while the self-assessment and assessment of the work of the supervisory board in 2017 was carried out in March 2018 based on the recommendations of the manual governing the assessment of the efficiency of work of supervisory boards issued by the Slovenian Directors' Association. Before beginning the self-assessment procedure the members of the supervisory board 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 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 2017 annual report

The unaudited annual report of SID Bank and the SID Bank Group for 2017 was discussed by the audit committee at a session on 15 March 2018, the risk committee at a session on 14 March 2018 and the supervisory board at a session on 15 March 2018. The audited annual report was discussed by the audit committee and the risk committee at sessions on 16 April 2018, when both committees were also reported to by the certified auditor. Both committees assessed the annual report as satisfactory, and proposed that the supervisory board approve the annual report.

The supervisory board discussed and reviewed the annual report of SID Bank and the SID Bank Group at a session on 16 April 2018, together with the proposal for the use of the distributable profit for 2017 submitted by the SID Bank management board, and had no reservations or comments.

The supervisory board also discussed the independent auditor's report, in which Deloitte Revizija d.o.o., Ljubljana issued an unqualified opinion of the financial statements of SID banka d.d., Ljubljana and the consolidated financial statements of the SID Bank Group for 2017. In the opinion of the auditor, the financial statements present, in all material aspects, a fair picture of the financial position of the company as at 31 December 2017 and its operating results and cash flows, while the consolidated financial statements present the consolidated financial position of the Group as at 31 December 2017, and its consolidated operating results and consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The supervisory board had no reservations or comments with regard to the report by Deloitte Revizija d.o.o.

After the review, the supervisory board unanimously approved the annual report of SID Bank and the SID Bank Group for 2017.

Monika Pintar Mesarič
Chair of the Supervisory Board

1 Major financial data and performance indicators of SID Bank and the SID Bank Group

Major financial data[1]

in EUR thousand	SID Bank 2017	SID Bank 2016	SID Bank 2015	SID Bank Group 2017	SID Bank Group 2016	SID Bank Group 2015
Statement of financial position						
Total assets	2,451,641	2,548,643	3,198,967	2,497,302	2,596,076	3,247,397
Loans and deposits by the non-banking sector	454,828	487,427	420,538	454,828	487,427	420,538
Equity	409,893	393,829	364,165	427,600	413,808	382,525
Loans to banks	1,032,179	996,368	1,606,153	1,037,431	1,002,502	1,612,787
Loans to non-banking sector	597,740	610,563	605,465	597,740	610,563	605,465
Impairments of financial assets measured at amortised cost and provisions for off-balance-sheet liabilities	145,380	199,744	239,977	145,380	199,744	239,977
Off-balance sheet items	89,272	64,253	540,227	89,272	64,253	540,227
Statement of profit or loss						
Net interest	20,294	23,841	22,246	20,596	24,166	22,608
Net non-interest income	2,641	21,213	9,659	4,932	27,192	13,850
Labour costs, general and administrative costs	(12,394)	(11,018)	(10,227)	(16,664)	(15,288)	(14,084)
Amortisation/depreciation	(852)	(805)	(789)	(1,267)	(1,115)	(1,114)
Impairments and provisions	6,535	(7,914)	(8,221)	6,571	(7,619)	(7,454)
Pre-tax profit	16,224	25,317	12,668	14,168	27,336	13,806
Corporate income tax	(2,268)	(3,954)	(2,169)	(2,406)	(4,371)	(2,411)
Net profit for the financial year	13,956	21,363	10,499	11,762	22,965	11,395
Statement of comprehensive income						
Other comprehensive income before tax	2,603	10,399	(1,940)	2,506	10,594	(1,852)
Corporate income tax in association with items that may be reclassified subsequently to profit or loss	(495)	(2,097)	330	(476)	(2,147)	316
Number of employees as at 31 December	170	162	158	266	277	349
Shares						
Number of shareholders	1	1	1			
Number of shares	3,121,741	3,121,741	3,121,741			
Nominal value of one share (in EUR)	96.10	96.10	96.10			
Book value per share (in EUR)	132.08	126.91	117.35			
Long-term credit rating as at 31 December						
Moody's	-	-	Baa3			
Standard and Poor's	A+	A	A-			

[1] The prescribed data and indicators are calculated in accordance with the Guidelines for compiling the statement of financial position, income statement and statement of comprehensive income, and calculating the performance indicators of banks and savings banks that was 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 RS, No. 50/15).

Selected indicators[2]

In %	SID Bank 2017	SID Bank 2016	SID Bank 2015	SID Bank Group 2017	SID Bank Group 2016	SID Bank Group 2015
Equity						
CET1 ratio	36.8	33.6	29.5	-	34.0	29.1
Tier 1 capital ratio	36.8	33.6	29.5	-	34.0	29.1
Total capital ratio	36.8	33.6	29.5	-	34.0	29.1
Leverage	15.5	14.0	10.7	-	14.5	11.1
Quality of assets in the statement of financial position and liabilities assumed						
Level of coverage for classified items by impairments and provisions	8.0	10.5	9.7	-	11.4	10.5
Proportion of non-performing claims	6.6	11.8	14.8	-	13.1	11.3
Profitability						
Interest margin	0.8	0.9	0.7	0.8	0.9	0.7
Financial intermediation margin	0.9	1.6	1.0	0.8	1.6	0.9
Return on assets after tax	0.6	0.8	0.3	0.5	0.8	0.3
Return on equity before tax	4.0	6.6	3.5	3.4	6.8	3.7
Return on equity after tax	3.5	5.6	2.9	2.8	5.7	3.0
Operating costs						
Operating costs/average assets	0.5	0.4	0.3	0.7	0.6	0.5
Operating costs/net income	57.8	26.4	34.5	70.2	31.9	41.7
Liquidity						
Liquid assets/current financial liabilities to the non-banking sector measured at amortised cost	5,855.3	14,340.2	18,209.4			
Liquid assets/average assets	26.2	26.0	22.3			

[2] Notes to indicators:
(1) As of 2017 SID Bank is no longer required to meet the requirements on a consolidated basis under the CRR (prudential consolidation), meaning that the total capital ratio, leverage ratio, level of coverage for classified items by impairments and provisions and the proportion of non-performing claims are exclusively calculated on an individual basis for SID Bank.
(2) The calculation of the financial intermediation margin for the SID Bank Group does not take account of PKZ's income from insurance operations.

2 About SID Bank and the SID Bank Group

2.1 About SID Bank

SID Bank is a specialist promotional, export and development bank authorised to carry out long-term financial services designed to supplement financial markets in various areas under the Slovene Export and Development Bank Act (hereinafter: the ZSIRB) that are material for the sustainable development of Slovenia. 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 operation is based on a clear strategy and business model that is derived from the long-term development documents of the European Union and the Republic of Slovenia. The Republic of Slovenia ensures the long-term stable operations of SID Bank for SID Bank transactions and all activities in order to pursue the long-term developmental policies of the Republic 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 specified 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.

SID Bank provides financial services in order to generate direct or indirect value added for the users of these services in accordance with the objectives of individual transactions, without pursuing the objective of maximising profit. In its operations it does not compete with other financial institutions on the market. In order to achieve the objective of not competing with financial institutions on the market, SID Bank applies the principle of equal access and non-discrimination of all users of SID Bank's financial services.

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 taking up risks, purchase of receivables, finance leasing, financial engineering, concessionary loans and other instruments of international development cooperation, capital investments and other methods of financing, and integrate 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. At that time, SID's business activities were regulated by the Slovenian Export Finance and Insurance Company Act.

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

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

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

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

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

2008 Entry into force of the ZSIRB, which confers upon the Bank the following two powers:
- SID Bank is authorised to act as Slovenia's specialist promotional, export and development bank in the pursuit of activities under the ZSIRB;
- SID Bank is the authorised institution for all transactions under the ZZFMGP.

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

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

2011 SID Bank was recognised as a bank material to Slovenia's banking system on the basis of a decision rendered 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 Slovenian 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 recruitment of staff associated therewith.

2014 SID Bank was one of three Slovenian banks in which the ECB carried out a comprehensive assessment of performance, which comprised an assets quality review and stress tests. The comprehensive assessment was completed successfully by SID Bank, and no capital shortfall was determined.

2015 On the basis of the ZBan-2 the Bank of Slovenia issued a decision that identified SID Bank as the second systemically important bank.

2016 In accordance with the agreement on financing and implementing the financial engineering measure to promote investments, operations and capital enhancement of SMEs, SID Bank, together with the MEDT, established a new loan fund, within the scope of which two credit lines were introduced, i.e. a development and promotional programme for the financing of operations and capital enhancement of SMEs and SID Bank's development and promotional programme for the financing of investments and capital enhancement of SMEs, each in the amount of EUR 100 million.

[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 Group" or simply "the Group".

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 EUR 100 million Slovene Equity Growth Investment Programme.

Banking services

In accordance with its aforementioned role, purpose and tasks, SID Bank primarily provides financial services within the framework of authorisations issued by the Bank of Slovenia. The main service is the provision of loans, which largely flow via banks, in cooperation with other commercial banks in bank syndicates, in certain instances, 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 small and medium-sized enterprises (SMEs) and entrepreneurship;
- research, development and innovation;
- environmental protection, energy efficiency and climate change;
- international business transactions and international economic cooperation;
- regional development;
- economic and public infrastructure.

As at 31 December 2017 SID Bank held a Bank of Slovenia authorisation to provide the following mutually recognised financial services under Article 5 of the ZBan-2:

- 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);
- issue of guarantees and other sureties;
- trading for own account or for the account of customers:
  - in foreign legal tender, including currency-exchange transactions;
  - in standardised futures and options;
  - in currency and interest-rate instruments;
- trading on own account:
  - in money-market instruments;
- credit rating services: collection, analysis and dissemination of information about creditworthiness.

SID Bank's activities under Republic of Slovenia authorisation are presented in detail on Section 8.2.3.

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, into which EUR 253 million will be paid from European cohesion funds that are available to Slovenia within the 2014 – 2020 financial framework until 2023. The assets in the Fund of Funds are earmarked for the promotion and financing of the sustainable economic growth and development, investments in innovations and current operations through debt and equity financing focused on four areas: research, development and innovations, small and medium-sized enterprises, energy efficiency and urban development.

Guarantee schemes and sureties for investments

Under the Republic of Slovenia Guarantee Scheme Act, SID Bank was authorised in 2009 to provide a guarantee scheme for corporates on behalf of and for the account of the Republic of Slovenia. The act was adopted as part of the EU stimulus package, and was not renewed after its expiry at the end of 2010.

Under the Republic of Slovenia Guarantee Scheme for Natural Persons Act, SID Bank was authorised in 2009 to provide a guarantee scheme for natural persons on behalf of and for the account of the state. The legal deadline for the issue of government guarantees under this act was the end of 2010.

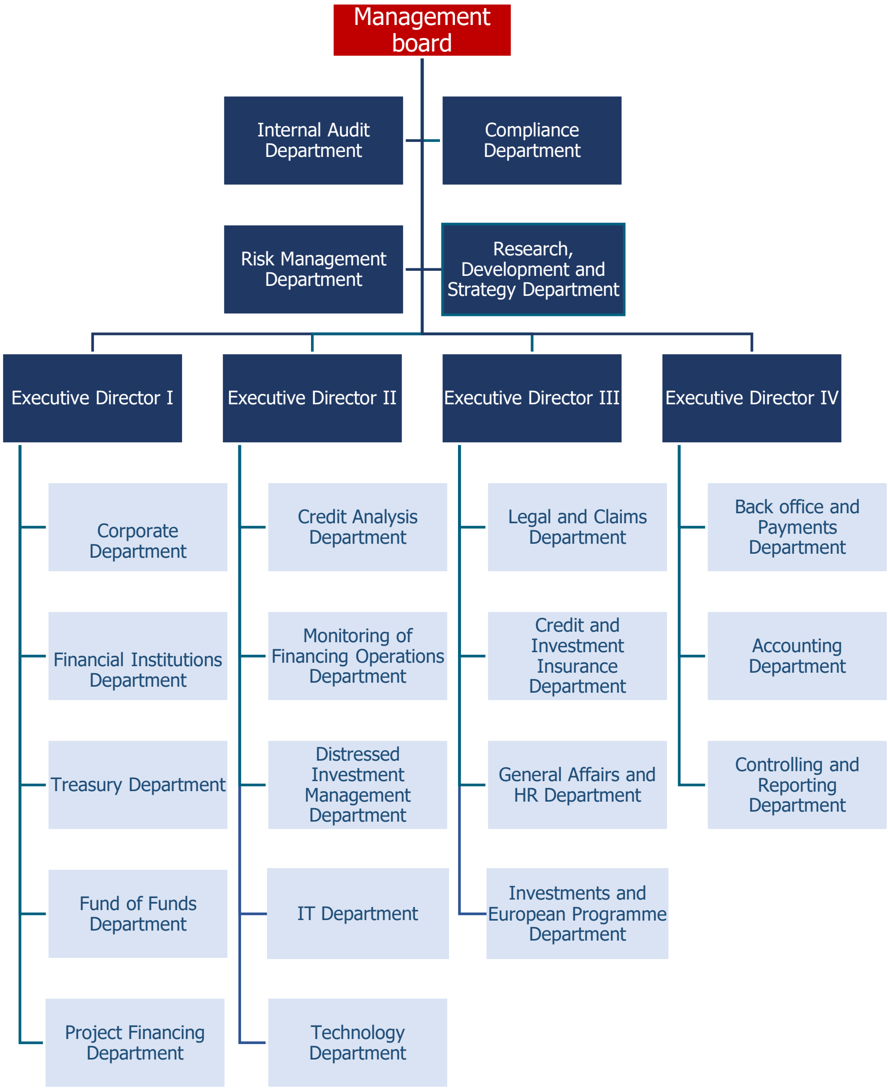
With the amendment to the Act on Guarantees of the Republic of Slovenia to Finance Corporate Investments, SID Bank stopped issuing state guarantees on 31 December 2015.

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

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.

Organisational structure of SID Bank as at 31 December 2017



In order to increase the scope of work and efficiency, in particular the quality of the Bank's work as a whole, changes were made to the Bank's organisational structure in the first half of 2017 in accordance with the banking regulations, and primarily in accordance with the principles of vertical reporting within the scope of the corporate and supervisory mechanism.

Changes were also required due to the introduction of new products, the new business model and the resulting redistribution of work, and also due to the major technical and technological upgrades, and the possibility of the automation and digitalisation of processes.

This also ensured increased efficiency and the balancing of individual pillars and organisational units, optimisation of staffing and a greater focus on the Bank's customers.

Share capital

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

There were no changes to the share capital in 2017, which amounted to EUR 300,000 thousand as at 31 December 2017.

Shareholders as at 31 December 2017	Number of shares	Holding of share capital (%)
Republic of Slovenia	3,103,296	99.4
SID Bank (treasury shares)	18,445	0.6
Total	3,121,741	100.0

There 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. Under the provisions of Article 4 of the ZSIRB, the Republic of Slovenia is the sole shareholder in SID Bank. The distributable profit cannot be used for distribution to shareholders, but is allocated to other profit reserves.

On 5 July 2017 the SID Bank general meeting passed a resolution allocating the distributable profit for 2016 of EUR 10,147,574.10 to other profit reserves.

Total equity as at 31 December 2017 amounted to EUR 409,893 thousand. As at 31 December 2017 the audited book value of one share stood at EUR 132.08 compared with EUR 126.91 as at 31 December 2016.

2.2 About the SID Bank Group

SID Bank Group

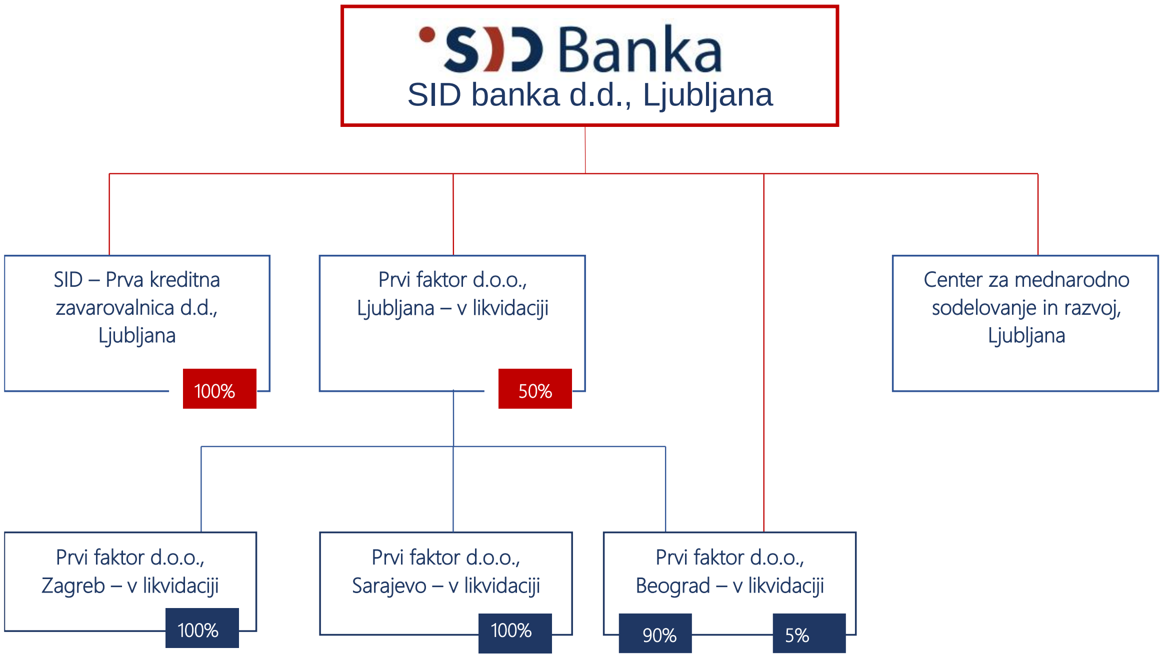
As at 31 December 2017 the SID Bank Group comprised:

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

The SID Bank Group's consolidated financial statements include SID Bank and SID – Prva kreditna zavarovalnica d.d., Ljubljana under the full consolidation method, and the Prvi faktor Group according to the equity method.

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

Organisational structure of the SID Bank Group as at 31 December 2017



About the group companies

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

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

SID-PKZ insures short-term trade credits, generally with a maturity of up to 180 days, or up to 1 year when the nature of the transaction or the type of goods so requires. The insurance covers commercial and optional risks, and also non-commercial (political) risks. The insurance contracts are generally annual or apply for a two-year period, and cover the policyholder's entire turnover on an open basis. It is also possible to insure one particular segment of sales (e.g. exports, domestic sales, loans financed by the bank), if SID-PKZ assesses that objective criteria apply to the selection of the segment offered for insurance, and not any kind of moral hazard. Pre-delivery risks (production risks) may also be insured separately in insurance contracts. SID-PKZ also insures factoring operations under adjusted terms and specific project and engineering operations if the payment periods do not exceed two years. In 2017 SID–PKZ offered its customers three new additional coverages: transitional coverage, the insurance of disputed receivables and extended coverage for previously approved orders. Transitional coverage enables secure and quick transition (transfer of limits) of a policyholder from competitive insurers to SID-PKZ, the insurance of disputed receivables provides the possibility of insurance payout advances whenever receivables are contested by a customer, and in the event of lowering or cancelling a limit, extended coverage for previously approved orders provides coverage for receivables that arise on the basis of approved orders.

The nominal value of SID Bank's interest in SID-PKZ stood at EUR 8.4 million as at 31 December 2017.

In 2017 SID-PKZ was managed by a two-member management board that was chaired by Ladislav Artnik, with Igor Pirnat as its member. The term of office of the president and the member of the management board expired on 31 December 2017. The supervisory board of SID-PKZ adopted a resolution in June 2017 on the appointment of new members to the management board, with their term of office commencing on 1 January 2018, appointing Sergej Simoniti as the president of the management board and Igor Pirnat and Denis Stroligo as members of the management board.

The supervisory board of SID-PKZ was comprised of the following members in 2017: Goran Katušin as chairman, Bojan Pecher as deputy-chairman, Ph.D. Matejka Kavčič and Mirjam Janežič as members (representatives of SID Bank), and Andraž Tinta and Sanja Dimec as members (employee representatives). In 2017 the audit committee was comprised of four members, i.e. three members of the supervisory board and an independent expert, Blanka Vezjak. The audit committee operated in the following composition: Ph.D. Matejka Kavčič as chair, Mirjam Janežič as deputy-chair, and Bojan Pecher and Blanka Vezjak as members.

In accordance with the strategic policies for performing the core activity of a development bank, which sets out the procedure of selling subsidiaries, SID Bank began the procedure of verifying the possibilities of selling the company in 2017. Due to the limits on SID Bank's support (state ownership, role of development banks in the EU), the potential sale of SID-PKZ to a new owner could offer it better opportunities for the expansion of operations and thus increase its growth and development, both in geographic and product terms.

Prvi faktor, faktoring družba, d. o. o. – in liquidation

The main activity of Prvi faktor, faktoring družba, d. o. o. – in liquidation, Ljubljana (Prvi faktor, Ljubljana – in liquidation) was the provision of factoring services. SID acquired a 50% interest in the nominal capital and half of the voting rights of the company in 2002. The other partner was Nova Ljubljanska banka d.d., Ljubljana (NLB). The nominal value of SID Bank’s interest in the company stood at EUR 1.6 million as at 31 December 2017.

On 28 December 2016 the company's general meeting adopted a decision on the commencement of voluntary liquidation proceedings and appointed the two previous directors as liquidators. In 2017 the company's liquidators were Klemen Hauko and Marcel Mišanović Osti. SID Bank was represented at the company's general meeting by Saša Keleman and Branko Jerak.

Prvi faktor, Ljubljana – in liquidation is the founder and 100% owner of companies Prvi faktor, faktoring društvo, d. o. o. – in liquidation, Zagreb and Prvi faktor, d. o. o. – in liquidation, Sarajevo, and the 90% owner of Prvi faktor - faktoring doo, Belgrade – in liquidation.

Prvi faktor, faktoring društvo, d. o. o. – in liquidation, Zagreb was established on 17 December 2003. The company’s nominal capital amounts to EUR 2.7 million. The company has been in liquidation since 31 December 2016. The liquidators of the company in 2017 were Jure Hartman and Marko Ugarković. The company's general meeting comprises representatives of Prvi faktor Ljubljana, i.e. Marcel Mišanović Osti (chair of the general meeting) and Klemen Hauko. The chair of the company's supervisory board is Klemen Hauko, with members Igor Jarc and Matjaž Jevnišek.

Prvi faktor – faktoring d.o.o., Belgrade – in liquidation was established on 24 February 2005. The company has been in liquidation since 3 August 2017. The company’s nominal capital amounts to EUR 2.5 million. The company was managed by liquidator Željko Atanasković in 2017. SID Bank was represented at the general meeting in 2017 by the Bank's management board or the proxies Saša Keleman and Branko Jerak. With the conversion of cash and receivables into the company's equity 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.

Prvi faktor, d. o. o. – in liquidation, Sarajevo, was established on 27 February 2006. The company's nominal capital amounts to EUR 1.4 million. The company has been in liquidation since 29 December 2016. The previous director and current liquidator of the company is Đenan Bogdanić. The company's general meeting comprises representatives of Prvi faktor Ljubljana, i.e. Marcel Mišanović Osti (chair of the general meeting), Klemen Hauko and Svetlana Miškić.

Centre for International Cooperation and Development (CMSR)

Together with the Republic of Slovenia, SID Bank is a co-founder of the CMSR. The institute's core activities are macroeconomic, political and other analysis of sovereigns, assessments of country risk and publicity activities. On the basis of the Slovenian Government's authorisation, the CMSR carries out technical and operational work in the field of international development cooperation.

The institute's management bodies are the director and the council. The institute is represented by its director, Gašper Jež. The council has six members. SID Bank's representatives on the council are Sibil Svilan, who is also the chairman of the council, and Bojan Pecher.

3 Corporate governance statement

3.1 Corporate Governance Code

Corporate governance code for companies with capital assets of the state

The operations of SID Bank, as a company exclusively owned by the Republic of Slovenia, are in compliance with the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenian Sovereign Holding, which were both amended in May 2017. SID Bank fully implements the code, except in exceptional cases when a particular issue is determined otherwise by the ZSIRB.

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

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

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

Recommendations shall be used as appropriate.

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

Point 4.3
The responsibility to nominate members of SID Bank's supervisory board shall be shared by the minister responsible for finance who nominates one candidate, the minister responsible for economy who also nominates one member and the minister responsible for development and European affairs (now the Government Office for Development and European Cohesion Policy) who nominates five independent experts. The responsibility for the appointment of the members of SID Bank's supervisory board shall be conferred upon the Government of the Republic of Slovenia (Article 18 of the ZSIRB).

6. Supervisory Board

Point 6.1
SID Bank shall discuss the succession plan for members of management body periodically at supervisory board meetings and within the HR development plan. This recommendation shall be used as appropriate.

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

Point 6.5
As a bank, SID Bank shall be required to comply with the provision of the ZBan-2 (Article 49), which sets out that regardless of the provisions of the ZGD-1, only members of a bank's supervisory board shall serve as members of the latter's committees.

Point 6.6
Members of SID Bank's supervisory board shall be appointed by the Government of the Republic of Slovenia upon the ministers' proposal (Article 18 of the ZSIRB).

Point 6.7
This recommendation shall be used as appropriate. Members of SID Bank's supervisory board shall be appointed by the Government of the Republic of Slovenia upon the ministers' proposal (Article 18 of the ZSIRB). The procedure for assessing candidates shall proceed in accordance with the ZBan-2, the EBA Guidelines and internal acts in the manner presented in detail in Section 3.2 in the section that relates to the committee for the assessment of the suitability of members of the management body and of key function holders.

Point 6.8.2
The same applies for this case as for the supervisory board's audit committee (point 6.5), SID Bank shall comply with the provisions of the ZBan-2.

Point 6.8.5
The provisions of this point shall apply as appropriate in accordance with Article 18 of the ZSIRB.

Point 6.8.8
Members of SID Bank's supervisory board shall be appointed by the Government of the Republic of Slovenia upon the ministers' proposal (Article 18 of the ZSIRB).

Point 6.8.9
Members of SID Bank's supervisory board shall be appointed by the Government of the Republic of Slovenia upon the ministers' proposal (Article 18 of the ZSIRB).

Point 6.9.2
The currently applicable resolutions were adopted in 2011. In the event of session fees (for supervisory board sessions and sessions of its committees) and in case of payments (remuneration) to the committee chair the maximum payment amount shall be limited to 50% (75% at most) of the payment for carrying out the function of member of the supervisory board or 25% (37.5% at most) of the payment for carrying out the function of member of the supervisory board (downward deviation). In the event of correspondence session payment an upward deviation is possible – payment for a regular session and not payment for a correspondence session is determined as the basis for the fee.

Point 6.10
As a bank, SID Bank shall be required to comply with the provision of the ZBan-2 (Article 49), which sets out that regardless of the provisions of the ZGD-1, only members of a bank's supervisory board shall serve as members of the latter's committees.

Point 6.13
As a bank, SID Bank shall be required to comply with the provision of the ZBan-2 (Article 49), which sets out that regardless of the provisions of the ZGD-1, only members of a bank's supervisory board shall serve as members of the latter's committees.

7. Senior management

Point 7.4
The provisions of this point shall be used as appropriate.

8. Transparency of operations and reporting

Point 8.1.1
As a bank, SID Bank shall be required to comply with the provisions of the ZBan-2 regarding disclosures. During the compilation of the business report the Bank shall comply with the requirements referred to in Section 4 of the ZBan-2 (Articles 86 to 93), Sections 3.2 and 3.4. Regulation on the books of account and Article 70 of the ZGD-1. The annual report must include disclosures from Part Eight (Articles 431 to 455) and Article 492 of the CRR in the format and with the content set out by the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 issued by the EBA.

Corporate Governance Code

In 2017 SID Bank also took into account the revised Corporate Governance Code, the recommendations of which shall be used in accordance with the "comply or explain" principle. Due to the aforementioned legal restrictions (the ZSIRB and the ZBan-2), SID Bank failed to comply with all the recommendations of the aforementioned code, as described below.

Corporate governance framework

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

Relations between the company and its shareholders

Point 6
Since the Republic of Slovenia is the sole shareholder in SID Bank, the recommendations shall apply as appropriate (Article 4 of the ZSIRB).

Point 8.1
The Republic of Slovenia is the sole shareholder in SID Bank (Article 4 of the ZSIRB).

Point 8.2
The Republic of Slovenia is the sole shareholder in SID Bank (Article 4 of the ZSIRB).

Point 8.4
The Republic of Slovenia is the sole shareholder in SID Bank (Article 4 of the ZSIRB).

Point 8.9
A representative of the Company's certified auditor is not invited to the general meeting. The sole shareholder (Slovenski državni holding) is regularly informed of SID Bank's operating results.

Point 8.10
The Republic of Slovenia is the sole shareholder in SID Bank (Article 4 of the ZSIRB).

Supervisory Board

Points 9, 10, 12 and 13
Recommendations are taken into account as appropriate, as the nomination and appointment of supervisory board members is determined by the ZSIRD (Article 18). To that end, SID Bank is required to also comply with the provisions of the ZBan-2 and the regulations adopted on its basis (e.g. the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks).

SID Bank implements its corporate governance arrangements in accordance with the legislation applicable in the Republic of Slovenia, taking account of its own bylaws (e.g. the Articles of Association of SID Bank). In addition, SID Bank also takes into account the regulatory framework of the European Banking Authority, the legal acts of the ECB and the regulation and other acts of the Bank of Slovenia.

Point 18.1
As a bank, SID Bank shall be required to comply with the provision of the ZBan-2 (Article 49) that sets out that the bank's supervisory board must have an audit committee and risk committee. Regardless of SID Bank not being classed as a significant bank under ECB's criteria, it has an appointments and remuneration committee.

Point 18.2
As a bank, SID Bank shall be required to comply with the provision of the ZBan-2 (Article 49), which sets out that regardless of the provisions of the ZGD-1, only members of a bank's supervisory board shall serve as members of the latter's committees.

Point 18.3
As a bank, SID Bank shall be required to comply with the provision of the ZBan-2 (Article 49), which sets out that regardless of the provisions of the ZGD-1, only members of a bank's supervisory board shall serve as members of the latter's committees.

Management board

Point 21.1 to 21.6
As a bank, SID Bank shall be required to comply with the provisions of Section 6.5 "Remuneration policy" (Article 169 to 171), and additionally also with the Regulation on the application of the EBA Guidelines on Internal Governance, the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities, Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile and the ZSIRB.

Transparency of operations

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

Point 28.2
The provisions of this point shall be used as appropriate.

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

Slovenian corporate integrity guidelines

SID Bank is a signatory of the Slovenian corporate integrity guidelines of January 2014.

3.2 Management bodies

Composition and functioning of management and supervisory bodies and their committees

The Bank has a two-tier system of governance: it is managed by the management board, while its operations are supervised by the supervisory board.

Supervisory board of SID Bank

In accordance with the ZSIRB the supervisory board comprises seven members who are appointed by the Slovenian government. Members of the supervisory board are appointed to a five-year term of office. The procedure and requirements for the selection of suitable members are set out in the ZSIRB and ZBan-2, and in the policy for the selection of supervisory board members that was adopted by the Slovenian government. The policy sets out the method that facilitates the selection of candidates who possess the relevant knowledge, skills and experience to supervise and monitor the management of the Bank's transactions and the required reputation, and ensures that the supervisory board as a whole possesses the relevant knowledge, skills and experience that are 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, qualification, social status and other circumstances attributed to candidates. The supervisory board comprises at least one member with knowledge and experience in the areas of financial risk management, supervision and auditing of SID Bank's activities, commercial law and corporate governance, management and remunerations, and at least two members with specific banking knowledge and several years of experience in banking.

In March 2017 the appointments and remuneration committee completed a regular annual assessment of the management body and assessed the supervisory board as suitable, both in terms of the knowledge, skills and experience of individual members and the body as a whole, and regarding its structure, size and the performance of its work, regardless of its incomplete composition in accordance with the provision of the ZSIRB. All three committees of the supervisory board, i.e. the audit committee, risk committee and appointments and remuneration committee, have the proper size and composition, with the committee members possessing the required 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 advisers or experts in 2017.

It was established during the assessment that the composition of the supervisory board ensures diversity according to most criteria referred to in the policy for the selection of supervisory board members. However, the composition lacks balance in terms of gender. As a result, increased focus was placed on this criterion when determining the profiles of supervisory board members, which in 2017 were determined by the appointments and remuneration committee in the procedure of appointing new supervisory board members.

As at 31 December 2017 the supervisory board consisted of Monika Pintar Mesarič as chair, Marko Tišma as deputy-chair and Aleš Berk Skok, PhD, Marjan Divjak, Zlatko Vili Hohnjec and Leo Knez as members.

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 Companies Act, the ZBan-2 and the ZSIRB.

The supervisory board's role includes approving the Bank's strategic policy, reviewing the Bank's annual reports and other 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 Bank's 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 and the internal audit department's annual programme of work, and to 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 appointed an audit committee, risk management committee and remunerations committee as consultancy bodies. Each committee's duties and responsibilities are set out in its own rules of procedure.

Supervisory board's appointments and remuneration committee

The committee is authorised and responsible for the performance of duties relating to the appointment of management board and supervisory board members and the remuneration system. It tasks therefore include: the determination and recommendation of candidates for members 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 work 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 12 ordinary sessions in 2017, also completing four correspondence sessions that year.

As at 31 December 2017 the committee consisted of Monika Pintar Mesarič as chair, Marko Tišma as deputy-chair and Zlatko Vili Hohnjec as member.

Supervisory board's audit committee

As at 31 December 2017 the audit committee consisted of Aleš Berk Skok, PhD, as chair, Leo Knez as deputy-chair and Zlatko Vili Hohnjec as member. In connection with its powers of monitoring and supervision, the committee primarily discusses the Bank's annual and interim financial statements, the activities of the internal audit department, the organisation of the system of internal controls, risk management, and any findings by supervisory authorities in procedures of supervision. The committee also participates in procedures to select an external auditor, and reviews and monitors the auditor's work and impartiality. The committee held seven ordinary and two correspondence sessions in 2017.

Supervisory board 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 regarding the risk management strategy, checks whether risks are taken into account in the incentives within the scope of the remuneration system and checks whether the prices of the Bank's products are compatible with the Bank's business model and risk management strategy.

The risk committee met at eight ordinary sessions and one correspondence session in 2017.

As at 31 December 2017 the risk committee consisted of Leo Knez as chair, Marjan Divjak as deputy-chair and Aleš Berk Skok, PhD, and Marko Tišma as members.

Management board

The Bank's operations are directed by the management board, which represents it in public and legal matters. The management board is appointed by the supervisory board for a term of five years, and may be reappointed. In accordance with the Articles of Association SID Bank's management board has a maximum of three members, one of whom is appointed the president, with the precise number of management board members determined by the supervisory board. As of 1 January 2017 a new two-member management board consisting of Sibil Svilan as president and Goran Katušin as member began its five-year term of office. They both meet the requirements regarding knowledge, skills and experience and other criteria, as well as the management board as a whole fulfilling the collective suitability requirement, meaning that the two management board members are persons who together and without the need for additional training satisfy all the criteria for assessment of suitability. The new composition of the management board follows the guidelines on the composition of the management body, which with the reappointment of Sibil Svilan maintained continuity and with the appointment of Goran Katušin brought a change in the age structure. Given the applications provided by candidates in the procedure of the selection and appointment of the management board on the proposal of the appointments and remuneration committee, it was impossible to select female candidates regardless of the tender terms.

The management board directs the Bank's operations 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.

The management board transferred certain decision-making rights to collective decision-making bodies, such as the credit committee, the government operations committee, 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 regarding transactions to specific employees at SID Bank on the basis of the rules on authorisations.

Credit committee

The credit committee decides on approvals and changes to terms of investment operations that do not constitute refinancing or restructuring due to a borrower's financial difficulties, on the classification of individual investments, exposure limits to an individual customer and on the documentation when introducing new or changing existing financing programmes or individual products. The credit committee monitors individual exposures and the quality of the credit portfolio on the basis of reports issued by individual organisational units and also decides on the transfer of investments (loans) with increased credit risk to non-performing investments. The credit committee had five members that met at regular weekly sessions at the end of 2017.

Asset-liability and liquidity management committee

Within the scope of its responsibility to manage the Bank's liquidity, the committee manages liquidity risk and structural liquidity. To that end, it makes decisions on the raising of funding and placement of assets on the money and capital markets in Slovenia and in the rest of the world, and on the utilisation of Bank of Slovenia and ECB instruments, and approves and supervises the exchange rate and interest rate policy. In the area of asset-liability management the committee sets out, changes 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 and changes thereto, monitors the Bank's capital adequacy, approves the treasury investment policy and monitors and discusses the stress test results. The committee also manages liquidity and manages assets and liabilities (balance sheet) in relation to SID Bank's operations under Republic of Slovenia authorisation, primarily managing liquidity risk and structural liquidity, and in the area of asset-liability management adopts the policy for contingency reserve investments and assesses the impact of new programmes of insurance up to the amount of contingency reserves. In terms of membership, this committee has the most members, with nine members. Regular sessions focused on liquidity management tasks are held weekly, while asset-liability management is discussed monthly.

Committee for operations under Republic of Slovenia authorisation

The aim of the special committee is the consistent distinction between SID Bank's operations and the 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 government, including the financing of international commercial transactions from contingency reserves, (re)insurance and guarantee schemes and on matters related to these transactions. The committee is also responsible for the discussion and adoption of various documents related to financial instruments funded via the European structural and investment funds. The committee had five members that met at regular weekly sessions at the end of 2017.

Distressed investment management committee

The distressed investment management committee, which has five members, manages non-performing claims, which according to the credit committee's decision acquired the status of a non-performing investment, 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 right in proceedings resulting from insolvency). The committee meets at regular weekly sessions.

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

The committee for the assessment of the suitability of members of the management body and key function holders and the appointments and remuneration committee of SID Bank's supervisory board carry out the process of assessing the suitability of the members of the management body. Members of the management body are subject to assessment by both committees before their appointment or commencement of their function, and also if new circumstances appear on the part of a particular member of the management body. In addition, members of the management body are also assessed once a year by the compliance department.

The committee for the assessment of the suitability of members of the management body and key function holders was appointed by the management board upon prior approval of the supervisory board. The committee is autonomous and independent of the management board and supervisory board during its work. The committee consists of three members, i.e. two external colleagues with knowledge and experience in the area of providing banking and financial services and in recruitment, psychology and related professional fields, while the third member is an employee, the director of the compliance department, to whom the management board ensures suitable protection against potential retaliatory measures.

There were changes to the composition of the committee in 2017 with the appointment of a temporary member with knowledge in recruitment, psychology and related fields for the period of absence of the permanent member.

The policy for the selection of members of SID Bank's management body complies with the applicable banking legislation. The provisions of the Banking Act, Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, the Corporate Governance Code, the Corporate Governance Code for Companies with Capital Assets of the State, the regulations of the Bank of Slovenia, the regulatory framework of European Banking Authority and the special arrangements derived from the ZSIRB were taken into account.

In addition to the statutory provision, the procedure of appointing members of the supervisory board is also determined by the policy for the selection of supervisory board members and the policy for the assessment of the suitability of members of the management body and key function holders.

In 2017 the compliance department assessed the work of the management body in 2016 and to that end drafted eight annual assessments for the management body, of which six were intended for members of the supervisory board and two for management board members.

Owing to the expiry of the term of office of individual members of SID Bank's supervisory board and due to the supervisory board not operating in its full complement (with only six members being appointed out of the seven required by law), the two committees drafted five comprehensive assessments of the suitability of candidates for SID Bank's supervisory board members in 2017 and one partial assessment of the suitability for one candidate member.

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 is involved in a transaction. It also holds decisive powers on other matters related to risk management, such as approvals for:

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

The international trade promotion commission regularly monitors the Bank's operations in areas regulated by the ZZFMGP, discussing performance reports and providing an opinion of the Bank's exercise of authorisations under the ZZFMGP for the Ministry of Finance.

As at 31 December 2017 the commission operated in the following composition: Franc Stanonik, as chair, Matej Čepeljnik, as deputy-chair and Jože Renar, Alenka Suhadolnik, Stanislava Zadravec Caprirolo and Jernej Tovšak, as members.

3.3 Description of the main features of the internal control and risk management mechanisms in relation to the financial reporting process

The internal control mechanisms, which are provided for all SID Bank's business activities in proportion to the material significance and risk of the individual activities, include:

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

The implementation of internal controls takes place primarily on the basis of documented rules and procedures for ensuring the Bank's operations comply with the regulations, standards and bylaws and with the requirements of the Bank of Slovenia and other competent supervisory authorities, through monitoring the compliance of business transactions and investments with the adopted risk limits, supervising the proper implementation of the prescribed work procedures in connection with business and operational and organisational activities on the part of employees, verifying the accuracy of internal and external reports, protecting the Bank's assets, and through the development and ensuring 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 in 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 that is organised within the risk management department (for more details see Section 6 of the business report and Section 3.3 of the financial report) and the compliance function, including the function ensuring the security of information, which is organised within the compliance department.

The supervisory board established an audit committee, whose work is focused especially on financial reporting, and a risk committee, whose responsibilities relate, in particular, to supervision and the provision of advice on risk management.

Compliance

SID Bank established a compliance department in 2008 and was therefore one of the first banks in Slovenia with a compliance function, regardless of the fact that SID Bank was not required to establish that function in accordance with the banking laws.

Irrespective of the implementation of the compliance function, SID Bank's management board remains primarily responsible for managing compliance risk and for ensuring that SID Bank's operations comply with regulations. All 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 is an independent organisational unit whose director is directly accountable to the management board and able to communicate directly with the supervisory board.

The aim of the compliance function is to eliminate or mitigate SID Bank's compliance risk, strengthen its corporate ethics and integrity and prevent fraud and abuse. With minor discrepancies (defined in Section 3.1), 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, which governs 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 the 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 the review of breaches of the aforementioned code and the consideration of anonymous or public reports and/or complaints, filed either by employees or third parties. Despite the system enabling anonymous reporting, most of the reports made in 2017 were not anonymous.

An information security engineer also operates within the compliance department. This function was established to safeguard the security of information systems for the purpose of preventing unauthorised access to information in storage, during processing or transfer, and changes thereto, including the management of risks of this type.

The compliance department exercises its supervisory role by means of regular and extraordinary audits of operations from the point of view of compliance, focusing on those areas where analysis of the risk profile suggests that the risk of non-compliance is highest. During the audits the compliance department cooperates with the internal audit department by exchanging information and findings, and with the risk management department. The compliance function includes monitoring and reporting on compliance risk, and providing advice and training on the management of compliance risk.

Internal auditing

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

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

The aim of the functioning 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 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 and the regulator's requirements for mandatory auditing of individual areas of the Bank's operations, aiming to cover with audits the most high-risk areas of the Bank's operations and to also cover periodically low-risk or yet to be audited areas. The two plans are adopted by the management board, subject to the supervisory board's approval.

Seven regular audits from the annual plan of work were conducted in 2017. No extraordinary audits were conducted. The plan was not completely realised primarily due to staffing reasons, prompting one regular audit to be transferred to the department's annual plan of work for 2018.

The internal audit department also devoted considerable attention to progress in the implementation of recommendations. In addition to the regular audits and the monitoring of the implementation of recommendations the department also performed advisory services and coordinated the preparation of responses to inquiries and audits conducted by the Bank of Slovenia.

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

A new director joined the internal audit department team in December 2017, meaning that there were three employees at the department at the end of the year, one of whom worked part-time. All the employees possess the required licences and professional titles to perform the internal auditing tasks.

4 Social responsibility

SID Bank's mission

SID Bank has been placed in a special role in terms of conducting its operations in a socially responsible way. The establishment, mission and activity of SID Bank is focused on the performance of promotional and development tasks and financial services in areas where market gaps or deficiencies appear or are identified, and are defined by all three components of sustainable development: the economy, the environment and society. SID Bank's activities are based on long-term development documents issued by the EU and by Slovenia, which set out the priority areas with the requisite social consensus.

SID Bank's role is intermediation by way of financing and insurance in areas where there are market gaps, and the resulting provision of wider social benefits primarily in terms of:

- sustainable and balanced economic development in Slovenia;
- research and innovation, and other forms of economic development activity;
- sustainable development with a high degree of protection for the environment and living spaces, public and commercial infrastructure, and energy efficiency;
- social progress, education and employment and the preservation and creation of new jobs;
- other activities that contribute to economic growth, sustainable development and social prosperity.

The dedicated funds that SID Bank pours into the economy 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. SID Bank's financial services are available to their beneficiaries with very long maturity, as the ultimate objective of the Bank's activity is to provide the opportunity to satisfy the needs of future generations.

To that end, SID Bank does not finance or insure activities with potential harmful effects on the environment that cannot be mitigated or remedied and are considered to be ethically or morally questionable. This includes the following activities, in particular: gambling and betting activities, treatment and disposal of hazardous waste, nuclear fuel production, manufacture of explosives, manufacture of weapons and ammunition, manufacture and trade of tobacco products and alcohol, etc. In addition, SID Bank does not support the financing of research, development or technical applications whenever compliance with the European Convention for the Protection of Vertebrate Animals used for Experimental and other Scientific Purposes is not ensured.

Socially responsible approach to customers and the environment

Effects of the Bank's activities

With its important role during the crisis, SID Bank became one of the key Slovenian financial institutions supporting Slovenia's economy and sustainable development policies. The effects of its activities were analysed in an independent evaluation of SID Bank's activities for the period 2007-2010. Using the methodology summarised in the aforementioned study, the SID Bank Group's services facilitated EUR 8.6 billion in sales by Slovenian companies, EUR 3.5 billion in GDP, EUR 4.1 billion in exports and more than 20,000 jobs in 2017, without taking into account guarantee schemes.

With its activities in the development segment in 2017, SID Bank, despite the banks' high liquidity under conditions of lending growth, still held one of the leading roles in corporate lending. Through its operations, SID Bank achieves more than economic effects; it also achieves social and environmental effects, depending on the projects that it supports and the development-promotional projects that it implements.

Circular economy

The concept of a circular economy is the basis for the targeted implementation of SID Bank's programmes and also represents the foundation for the development of new products. SID Bank was one of the promoters of the introduction of the circular economy principle in Slovenia, thus supporting a circular and green economy in the scope of its existing financial programmes that it implements independently and directly or indirectly via commercial banks. SID Bank uses these programmes to address 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 environment-friendly production, and regional and social development.

Within the scope of directly financing SMEs the Bank promotes, for example, the purchase of secondary raw materials or waste and 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 reusable waste for the same product, etc. Examples of financing in support of the circular economy: treatment plants, the funding of environmental protection projects relating to efficient use of resources and other industrial projects.

Responsible lending

SID Bank complies with the principles of responsible corporate lending issued by the BAS, which represent guidelines and recommendations to fulfil the objective of being responsible to its customers, owners and other stakeholders. On the one hand, responsibility to customers primarily focuses on the provision of products and solutions that are based on appropriate analytical and professional assessment of operational risks, and through the proper management of these risks the Bank can help customers achieve success and the long-term viability of their operations. On the other hand responsibility to owners and other stakeholders means adopting the suitable credit strategies and credit risk management policies, defining appropriate credit process, suitable instruments, employment of professionally qualified staff to implement the credit process and management of the appropriate pricing policy.

SID Bank has incorporated the principles of responsible lending to the highest possible extent, taking into account the requirements of its mandate as a development bank. Within the scope of its powers SID Bank follows the principles of sustainability and financial self-sufficiency, and not profitability at all costs. It cannot operate solely under the principles that apply to commercial banks.

SID Bank upholds the principles of responsible lending in practice, which in addition to an economic and financial assessment encompasses an assessment of the intellectual, raw material, environmental, energy efficiency and innovation assets of borrowers. This enables a comprehensive risk assessment in terms of sustainable development. In addition to 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 changes in the lending activities of final beneficiaries and commercial banks.

SID Bank is aware of the importance of ethical, responsible and sustainable activities, spreading these principles and values in the environment particularly in the scope of the development-promotional and financial system, and functions as a unique promoter of the development of responsible lending. In the past SID Bank invested a great deal of resources in the pin the development of a practical concept of responsible lending and its integration into the internal decision-making process. SID Bank's role is thus not to support all transactions, but only those transactions that are economically and financially justifiable, and that include a sustainable development component. Transactions are evaluated on the basis of a thorough assessment of a wider range of risks and established economic criteria of profitability. Only this makes it possible in the long-term to ensure the financial sustainability of the Bank, the viability of its operations, and to maintain or prudently increase its level of capital.

The concept of responsible lending is also seen in ensuring the added value of the Bank's services using the following levers:

- diversity of funding sources;
- more efficient use and allocation of funds;
- programmes with a longer maturity and increased take up of risks of final beneficiaries, lower prices of services and other more favourable terms and conditions;
- promotion of the functioning of the private sector in the direction of sustainable development and an increase in its capacities (capacity building);
- transfer of added value to final beneficiaries;
- development of financial instruments tailored to the needs of the Slovenian economy;
- achievement of positive external effects (socially benefits);
- links with other public-promotional institutions and combination of refundable and non-refundable funds; and
- provision of advisory services.

In transactions with customers and in specific projects, special attention is given to preventing corruption and to environmental policy. The Bank is also aware of its special position with respect to the potential distortion of free competition, and therefore implements measures that prevent it from competing with other commercial and financial institutions on the market in the performance of its activities. SID Bank's activities were therefore principally established in a framework that is complementary to other market participants.

Accessibility to services

With the aim of facilitating suitable access by final beneficiaries to financial services for sustainable development projects, SID Bank once again pursued the concept of covering the key phases of the corporate lifecycle in the range of products and programmes provided in 2017. The provision of services was thus focused on the key phases of the production chain, from sources for growth to sale on domestic and foreign markets, or even until the final repayment of the claims so incurred. The Bank also strives to pursue the principle of equal access to and equal treatment of all users of its services, meaning the provision of the same services under the same conditions for all equally entitled entities. Another of its objectives is the appropriate regional allocation of development funds.

One of the key tasks of SID Bank will be the integration of the content and the upgrading of the existing development support system. This requires the concentration of a critical mass of specialised and professional qualified staff, improving the exploitation of major synergistic effects and optimisation of certain functions that overlap or function in a less coordinated manner within the scope of the functioning of individual institutions. With the additional combination of the current broad selection of services the role of SID Bank has therefore also expanded to the reduction of administrative obstacles and easier access of potential users to public promotional instruments, and to a higher quality, more rational and efficient system of support to entrepreneurship.

Professional commitments and cooperation

SID Bank places great emphasis on the recommendations and inter-bank agreements with financial institutions on a national and also international level. They reinforce best practices and the rules and principles of the banking profession, and contribute to long-term sustainable operations, responsible lending, security and liquidity both within and outside the banking sector. In addition, the Bank is actively involved in the exchange of information, best business practices and in the enforcement of professional values. Agreements within the Bank Association of Slovenia and within other domestic and foreign associations of which it is a member are of particular importance for SID Bank. The Bank is also a member of several international associations of financial institutions, including the EAPB, ELTI, NEFI and the Berne Union.

With the aim of strengthening cooperation with European institutions, SID Bank also became a shareholder in the EIF, in concert with which it set up a capital growth investment programme for the equity financing of Slovenian companies in 2017 in the amount of EUR 100 million. The objective of the programme was the equity financing of Slovenian innovative and fast-growing (scaleups) SMEs, mid-cap companies with up to 3000 employees and the creation of new jobs in Slovenia.

Together with more than 50 other members of the Berne Union, SID Bank signed a special declaration at the end of 2017 by which it undertook to pursue 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. The OECD's sustainable lending policy was introduced in practice in the area of export credit insurance. SID Bank cooperates with the European Investment Advisory Hub (EIAH), where it appears as a national access point for providing support for investment projects, in particular in the scope of the European Fund for Strategic Investments (EFSI).

SID Bank is also a signatory of the Slovenian corporate integrity guidelines. Within its domestic institutional environment it is active as a founding member together with 22 other founding members from the corporate sector, banking, academic sphere, and regional and local organisations in the form of a European Economic Interest Grouping – Slovenian Innovation Hub.

Communication with external publics

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

The primary focus of external communications is on the business public, in particular business partners. SID Bank provides comprehensive information about its programmes and opportunities to receive its funds with the use of contemporary communication channels. In addition to press releases and notification via its website, SID Bank organised presentations of new and existing products for companies, banks and local government in 2017, and provided regular information and enhanced business relationships with companies and other banks that provide SID Bank funds to companies.

Communication with the business public was especially active in 2017. In light of the 25th anniversary of the SID Bank's operations and the operations of its predecessor, Slovenska izvozna družba, a ceremony was organised in the form of a conference to mark this anniversary for business partners and important stakeholders during the company's 25-year history.

Communication with the media particularly intensified in November, during which two funds were established: the Slovenian Capital Growth Investment Programme (equity financing) and the Fund of Funds.

SID Bank representatives attended and participated in various events, seminars, conferences, round-tables, etc., at 75 events throughout Slovenia, where they discussed topics material to the activities of SID Bank, such as exports, development, energy sector, environment, circular economy, competitive entrepreneurship, sustainable economic growth and other topics.

Environment-friendly company

SID Bank also upholds internal social responsibility in terms of environmental protection and energy efficiency. It also compiled an energy-environmental balance sheet in 2017, calculating its carbon footprint and monitoring other indexes of social responsibility. Using the aforementioned index, the Bank monitors the implementation of measures and the achievement of objectives in fulfilling social responsibility.

	Unit	2017	2016
Consumption of energy for heating	kWh	330,111	274,700
per employee	kWh/employee	1,988.6	1,716.9
Electricity consumption	kWh	172,605	170,203
per employee	kWh/employee	1,039.8	1,063.8
Consumption of water	m^3	1,109	1,311
per employee	m^3/employee	6.9	8.2
Carbon footprint/CO_2 emissions	t	245	235
per employee	t/employee	1.5	1.5
Use of office paper	t	6	4.7
per employee	kg/employee	33.0	29.4
Value of other office supplies	EUR	18,977	17,794
per employee	EUR/employee	114.3	111.2
Size of business premises			
per employee	m^2/employee	13.8	14.3

SID Bank recognises its involvement in the social and natural environment, prompting it to earmark most of the funds allocated for the New Year gifts intended for business partners in 2017 to a donation to construct a typical Slovenian apiary, thereby enabling the training and participation of young Slovenian and international beekeepers.

Socially responsible activity at the Bank

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

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

To that end, SID Bank adopted a governance policy for the Bank that is also based on its internal socially responsible activity. This policy highlights corporate values, reference governance codes, cooperation with all stakeholders, the policy of transactions between the company and related parties, the commitment to identify conflicts of interest and the independence of management and supervisory bodies, and the assessment of the efficiency and protection of interests of employees.

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

Internal communications

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

Various forms of notifying and communicating with employees are in place at the Bank. They include direct communication between management and employees (e.g. regular internal meetings and meetings between employees and the management board, meetings with the trade union), access to electronic data collections, notification via an internal electronic newsletter and the quarterly publication of an in-house newsletter.

Responsibility to employees

SID Bank facilitates flexible working hours, making it easier to achieve work-life balance, in particular enabling parents with younger children the possibility of arranging different working hours as apply to other employees. The management board enables work at home to employees who request 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 safety and health, working conditions, social security, personal and professional development, social dialogue and mutual relationships.

In the area of employee health and safety in 2017, SID Bank continued the practice of facilitating prior targeted and regular 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 must attend. Through activities within the scope of promoting health at the workplace it shows responsibility for the health and well-being of employees at the workplace. To raise an individual's awareness to take care of their health and maintain their ability to work in a comprehensive manner, the Bank organised the workshop "Responsibility for health at the workplace" with special emphasis on the ways to avoid chronic illnesses and disorders due to extended periods of sitting and working in front of a computer screen.

Valid legislation and the collective agreement for the banking sector is observed when setting wages and determining other labour costs for employees. Remuneration for performance and advancement is governed by the company-level collective agreement, in which the terms, conditions and criteria for additionally motivating key staff are also set out. In 2017 the Bank continued the practice of paying premiums for voluntary health insurance and supplementary pension insurance for employees.

Special attention at SID Bank is devoted to the development of employees. By updating the employee development system the Bank maintains the educational and qualification structure appropriate for the Bank’s development and strategic objectives, thereby ensuring that each employee at the Bank has the knowledge, skills and abilities required for the efficient performance of their work, as a result raising the quality of work of individuals and teams. The incentive-based system of remuneration additionally contributes to the effective adaptation of employees to changes and challenges within the organisation and the environment, and will also offer employees sufficient professional challenges in the future. The system of competences for specific posts ensures a quality structure within the scope of SID Bank's complex functional structure as a development bank.

Annual development interviews, which are conducted with employees, represent the basis for assessing the development potential of individuals, the definition of key staff members and the drafting 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 represents one of the guidelines of SID Bank’s action strategy. A total of 96% of all employees attended various forms of training in 2017. A great deal of emphasis is also placed on the internal transfer of newly acquired knowledge and the evaluation of training programmes.

In the context of internal social responsibility, the Bank strives to implement and live by the Bank's values in the everyday life and work of employees through conducting annual interviews and employee meetings. The employees also attend numerous meetings and round-tables 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 proposals for improvements to procedures and processes via a well-established system of promoting creativity and management of proposed improvements that comprises, in particular, the informing of employees of the importance of creativity for the viability and development of the Bank, the regular monitoring of the creativity accomplishments and the remuneration of proposals and implementation of improvements in practice.

Employment was conducted in line with the annual employment plan in 2017 and in line with guidelines from the action strategy, which is based on a new business model and on the adjustment of employment to growth in the scope of operations and the development of new products, on the employment of experts with specific skills and experience and on retaining competent and promising employees. In 2017 SID Bank hired 16 new employees, mostly to replace employees who found new challenges outside the Bank or due to temporary leaves of absence, and partly as a response to needs and challenges dictated by new tasks and an increased scope of work for the launch of new products and the transition to a new business model.

The organisational structure was also adapted to this model in 2017 by establishing new organisational units, i.e. a department dedicated to implementing the Fund of Funds, a department for project financing and a department for investments and European programmes. The recruitment of competent and dedicated staff will be required for the implementation of the new tasks, which will provide the Bank with a new challenge given the changes to the labour market.

The Bank had 170 employees at the end of the year, of whom 115 were women and 55 were men. The average number of employees in 2017 was 165.

Education level	SID Bank		SID Bank Group	
	No.	%	No.	%
5 or less	14	8,2	26	9,8
6/1	10	5,9	16	6,0
6/2	34	20,0	55	20,7
7	91	53,5	138	51,9
8/1	16	9,4	26	9,8
8/2	5	2,9	5	1,9
Total	**170**	**100,0**	**266**	**100,0**

5 Strategy of SID Bank

The basis for strategic planning at SID Bank comprises a three-year strategy that covers all key aspects of the Bank's medium-term operations. Based on the audited medium-term strategic plans the Bank's action strategy was adopted at the end of 2017 for the period 2018–2020. This ensures that the strategic guidelines are up-to-date, which, given the need to continuously adapt the Bank to outside circumstances, is vital to its further development.

Changes to the strategy were primarily brought about by changes in the functioning of financial markets and the banking system in Slovenia and abroad, and also by improvements in the economic situation and in the medium-term macroeconomic projection. In accordance with this, needs arose for changes to key internal elements that triggered changes in the action strategy, primarily adjustments to the business model, products, method of lending and management of risk.

Mission, vision and values

As Slovenia’s central financial institution in the areas of promotion and development, SID Bank develops and provides long-term financial services to complement the financial market, thereby promoting economic competitiveness, job creation, inclusiveness and sustainable development. With its dedication to its mission, comprehensive range of services to complement the financial market and its connecting role as Slovenia's central financial institution in the areas of promotion and development it is consolidating its role as a major factor in Slovenia's sustainable development.

By assessing companies over their different stages of operations and providing adapted financial services, SID Bank ensures suitable financing terms and conditions where the market range of services proves insufficient. To that 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 financial value of services for final beneficiaries, the implementation of the national development strategy and the effective exercise of its public authorisations are the foundation on which SID Bank pursues its objective of being an effective and valued development partner.

SID Bank operates in a transparent, effective and socially responsible manner, placing great significance on 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 create the organisational culture and constitute the fundamental principles that guide SID Bank staff in their everyday work, in their mutual relations, and in their dealings with customers and other interest groups.

Key strategic policies

The basis for SID Bank's operations is defined by European and Slovenian long-term development policies, the institutional framework in which it functions and the binding operating principles and expectations of stakeholders. As a result the Bank must operate in accordance with the banking legislation and regulations that apply for development and promotional institutions that relate to rules on state aid, the demonstration of market gaps, terms for financing firms in difficulty, etc.

Market aspect

The new market circumstances with high economic growth and renewed positive credit growth require flexible adjustments to the Bank's operations. Within the scope of the limitations of the institutional framework, SID

Bank therefore adapted its business model in the direction of the needs of the economy and the needs of the economic and development policy, and in accordance with the stakeholders' expectations. All programmes are developed to complement the financial services provided by financial intermediaries operating on an arm's length basis under the given circumstances.

Macro-financial circumstances dictate the expansion of SID Bank's activity to areas where market gaps appear and where commercial banks fail to provide the sufficient range of services given the companies' needs. To that end, a major emphasis will continue to be placed on the active adaptation of existing products and on the development of new products. The Bank is developing new products primarily in the following areas: SMEs, infrastructure financing, environmentally-friendly programmes, support for the financial and business restructuring of the economy, and capital market catalysis.

The Bank will continue to devote special attention to SMEs in which it sees high potential in terms of their development and growth. In the area of project and investment financing the Bank plans to contribute to the construction of the required infrastructure at the national level. By providing support to exporters the Bank plans to continue to strengthen its activity in the segment of export financing.

The function of the Fund of Funds intended for the efficient use of European cohesion funds is a major addition to the Bank's business model. As the appointed manager of the Fund of Funds SID Bank will develop financial instruments that will be earmarked for the promotion and financing of the sustainable economic growth and development, investments in innovations and current operations through debt and forms of equity financing.

Financial aspect

The objective of SID Bank is to promote sustainable economic development, thus ensuring that the Bank will continue to pursue a risk policy that is characteristic of development banks. It is reflected in a higher take up of risks, longer maturity of products, lower interest rates and the resulting lower returns during the simultaneous introduction of appropriate measures for the management of risks. Of key significance will continue to be the provision of favourable terms of financing and access to financing for the final beneficiaries. SID Bank will strive to provide a broad range of programmes with different maturities and purposes of use.

SID Bank prioritises the development of programmes with elements of state aid, meaning the provision of favourable terms of financing in market gaps. The Bank pursues this objective by using the financial engineering concept, where the Bank uses its own resources in combination with public and private funds, thereby pursuing the appropriate risk-sharing and risk management mechanisms. Owing to favourable economic growth SID Bank is focused on the development segment of the activity of development banks.

Despite changes to the business model to increase the scope of services and thus the ensuing higher needs for resources, SID Bank will continue to maintain its cost-effectiveness at the appropriate level. The maintaining of a conservative policy for the creation of impairments and provisions will continue to be one of the Bank's key policies in the future.

Internal aspect

In light of the changes to the business model, activities will continue in relation to optimising internal processes, and personnel and organisational solutions. SID Bank will strive to preserve internal cohesion and cooperation, and to develop the organisational structure at the Bank in line with the established ethical values and high professional standards.

In addition, the Bank will continue activities in the area of procedure digitalisation and the ensuring of data integrity and the availability of quality data, with aim of establishing an effective data model and uniform data platforms and reporting.

Learning and development aspect

SID Bank's business model adjustments are headed in a direction that is significantly more intensive in terms of personnel and expertise. Human resources required to pursue the business policy will be secured primarily through the training and development of existing personnel by transferring the best practices from other institutions and countries into SID Bank.

Since the Bank's operations in key areas is based on the excellence of its staff, the Bank will continue to develop "competence centres and pools of knowledge" in key areas of operations, which will provide the required competences and the resulting long-term development in the quality of operations. SID Bank will strive to maintain and acquire competences in the areas of developing and marketing financial instruments, drawdown of cohesion funds, inclusion in central European programmes, implementation of the advisory function and project financing.

SID Bank will continue to function as a linking capacity in four directions, i.e. real economy, financial sector, public sector, and the public and promotional system.

SID Bank built an important professional network in the past in the financial, technical and technological and institutional areas, in which it will remain involved for the exchange of best practices.

Plans for 2018

In accordance with changes in environment, the Bank adjusted its business model in the action strategy for the period 2018–2020 within the scope of seven priority policies: (1) focus on the Bank's mandate and needs of the economy, (2) updating existing financial products, (3) insurance of export operations in non-marketable segments, (4) forwarding of funds of the European Cohesion Policy, management of the Fund of Funds and collaboration with the EIB/EIF (including the development and implementation of new financial products and their updating), (5) development of competences and the support role in drafting the development policy, (6) adjustment of the scope of activities to the decreased/increased need for intervention activity focused on development, and (7) adjustment of the effectiveness of the Bank's organisational structure, computerisation and support services.

Given the envisaged macro-financial situation in 2018, the Bank will continue to devote the majority of activities to direct financing. An expansion of activities is envisaged in areas where market gaps appear and where the support of commercial banks is lacking. Given the increase in direct financing, the Bank will carry out with due diligence the already established methods of preventing the distortion of competition and potential crowding-out of commercial banks.

Among the new products that are expected to be available to companies in 2018, the Bank is also planning to set up new loan funds, new products within the scope of the Fund of Funds and equity financing within the scope of the European Fund for Strategic Investments (EFSI). The Bank will devote special attention to export financing, planning to strengthen activity in this segment by providing intensive support to exporters.

In operations via banks, activities are envisaged in 2018 within the scope of the existing development programmes, i.e. the development of a competitive economy, the development of a knowledge-based society and innovative entrepreneurship, regional and social development, and the development of an environment-friendly society and environment-friendly production.

The balance of the Bank's operations, which is indicated in the Bank's capital stability, robust liquidity, suitable cost-effectiveness, and the proactive management of all risks, remain the foundation of SID Bank's future activities in 2018.

6 Risk management

General

Risk to which the SID Bank Group is exposed comprise in particular credit risk, interest-rate risk, liquidity risk, profitability risk, currency risk, operational risk, strategic risk, capital risk and reputation risk. 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 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 regarding 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;
– suitable 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 of employees at all levels of the Bank's operations, which via their actions and attitude towards risk and their proposals for additional internal control functions is reflected in their decisions with regard to the take-up and management of risks at the level of the Bank's daily activities. This way the Bank promotes and strengthens the risk management culture and level of the Bank's standards and values relating to the awareness of the Bank's risks.

Identification of risk 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 a relatively effective internal governance arrangement according to the nature, scope and complexity of risks derived from the Bank's business model. SID Bank's management body is regularly informed of and discusses all types of risks 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 during the Bank's operations, including the consideration of specific development risks, in accordance with the long-term management objectives and 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 power to the risk management function, other organisational units and the Bank's decision-making bodies.

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

The credit committee is responsible for the management of credit risk for operations on behalf of and for the account of SID Bank, primarily through making decisions on proposals in individual transactions that affect exposure to credit risk. The committee monitors individual exposures and the quality of the credit portfolio and makes decisions on proposals to gain the status of a non-performing investment and the classification of individual investments and groups of connected clients.

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

The risk management function as a mandatory function of the Bank's internal controls is organised within the risk management department, which is directly accountable to the Bank's management board, and in organisational terms is 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 the taking up of risks and management of risks to which SID Bank is exposed in its operations, and in accordance with regulations also at the SID Bank Group level. It is also responsible for drafting the relevant methodology and conducting the risk profile assessment, calculation of the internal assessment of capital requirements and internal capital adequacy, drafting the plan of activities for the management of individual risks, risk assessment of external contractors, and together with the treasury department for the implementation of 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 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 development has direct access to the supervisory board to enable him/her to express potential doubts or submit warnings.

SID Bank also established the other two mandatory functions of internal controls, i.e. the internal audit department, which regularly, independently and comprehensively audits the operation of the established internal controls and the implementation of the adopted risk management measures, and provides recommendations to improve the system of internal controls and the risk management procedures, and the compliance department, that includes the information security function and 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 held by the executive director for the assessment and monitoring of credit risk and the IT department, which is included in the credit process within the scope of assessing and monitoring credit risk at the individual exposure level and within the process of managing non-performing investments, and directs, coordinates and supervises the work of organisational units and directors, to whom the latter are directly accountable, and fall within the context of internal controls within the risk management process.

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

The monitoring of financing operations department carries out control activities in the credit process, the documentary and data monitoring of financing operations and the review of collateral, verification of terms for drawdown and the monitoring of debtors. It is also responsible for the compilation of warning 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 non-performing investments management department, which is responsible for the management of NPEs that the credit committee classified among non-performing investments, and for proposing solutions to prevent and minimise potential losses, needs to be mentioned.

The back-office and payments department carries out daily monitoring of currency risk and 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 total 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. 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 scope of SID Bank's annual operational plan. Regular monitoring of risk appetite indicators is provided at SID Bank's management body.

In the area of risk management, SID Bank put in place a strategy and six policies to take-up and manage risks that define the procedures for identifying, measuring or assessing, managing and monitoring risks 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 which proceed 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, taking account the adequate compliance of the Bank's business objectives and business strategy with the risk take-up and management strategy and policies.

The risk management strategy sets out the types of risks that SID Bank faces as an independent institution, and at the same time as the parent company in the SID Bank Group responsible for consolidated risk management, and sets out the methods for managing these risks.

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

The Bank assesses annually the risk profile for the entire SID Bank Group, assessing the subsidiaries at an aggregate level and SID Bank by individual business activity.

The risk profile represents a broad risk assessment of risk areas and business activities and of the control environment. It contains an complete risk overview of the SID Bank Group and serves as a tool for the comprehensive risk management process, in terms of the Bank's management, the management of financial risks and organisation of business activities. 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 risk profile assessment represents one of the key strategic indicators of measuring the success of implementing SID Bank's strategy.

On the basis of its own scenarios and the scenarios submitted by the supervisor, the Bank also conducts stress tests. 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 approach for operational risk. The Bank is exposed to market risks to a limited extent, since it does not perform trading activities. Within the scope of market risks, the Bank takes up, monitors and manages currency risk to a limited extent, and calculates the capital requirement for currency risk in accordance with the provisions of Articles 351 to 354 of the CRR.

Risk exposure in 2017

In 2017 SID Bank recorded high capital adequacy, which as at 31 December 2017 stood at 36.8% and reached a significantly higher leverage ratio than the level prescribed by regulations (leverage ratio under transitional definition as at 31 December 2017: 15.5%), securing stable operations for the Bank also in the future. High liquidity ratios and liquidity coverage ratio (LCR) were also recorded in 2017, which indicates the Bank's good liquidity position.

The Bank intensified it activities relating to the introduction of the IFRS 9 in 2017. As of 1 January 2018, the Bank implemented internal models for the calculation of expected credit losses that are based on reasonable and supportable information on past events, current conditions and forecasts of future economic conditions, in relation to the creation of impairments and provisions. Within the process of introducing the IFRS 9 the Bank also devoted particular attention to the provision of appropriate IT support. Additional notes are given in 2.3.26 of the financial report.

In the area of risk management, SID Bank has continued implementing activities focused on the further strengthening of the system established for the management of all types of risks. Key activities related to risk management in 2017:

- updating the rules on the management of non-performing exposures;
- upgrading the methodology for the creation of individual impairments and provisions;
- upgrading external and internal reporting;
- intensive treatment of non-performing exposures in accordance with the regulator's guidelines and the Bank's strategy in this area;
- introduction of new architecture for business processes, drafting of the methodology for

modelling and documenting business processes and on these bases the implementation of activities regarding the inventory of business processes;
– implementation of activities relating to the upgrade of the monitoring of loss events and management of operational risks.

SID Bank also devotes special attention to risks that proceed from loan funds with respect to which the government covers the first loss in the agreed proportion. 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 their other operations. In addition, for the loans from the loan fund the Bank established internal methods and procedures for the implementation of sample reviews of the purpose-specific use of funds and for the supervision and reporting of the quality of the credit portfolio of the loan fund.

Risk management in the coming financial year

In 2018 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 Bank is also planning to take up risk within the scope of the Slovene Equity Growth Investment Programme product (the aim of the equity financing programme is explained in Section 8.2.2 of the business report) that was approved in 2017. The Bank will continue its activities for the management of the Fund of Funds within the scope of the management agreement signed at the end of 2017 (the inclusion of SID Bank in the implementation of financial instruments within the scope of European cohesion is explained in the business report, Section 8.2.2). Its high risk absorption capacity, the Bank's sound capital and liquidity position facilitates the take-up of new risks.

In the area of risk management, SID Bank will devote special attention in the coming year to upgrading the credit rating system and the early warning system for increased credit risk, including a software support upgrade. In addition, it will continue to intensively treat non-performing exposures and maintain the diligent implementation of the lending process and the appropriate risk management culture.

SID Bank will additionally upgrade its internal and external reporting in the coming year, primarily in connection with changes to methodologies and data models within the scope of the transition to the IFRS 9. In accordance with the new architecture and adopted methodology the Bank will carry out the modelling and documenting of business processes and upgrade the monitoring and management of operational risks. In 2018 the Bank plans to create a risk profile on the basis of the already adopted revised business process structure, including changes in individual elements for the assessment of the risk profile.

Within the scope of upgrading existing techniques for risk management focused on system integrity and sensibility, key upgrades to the portfolio risk management, liquidity risk management scenarios, measurement of interest-rate risk in the banking book and automation of data capture within the scope of upgrading the asset-liability management system are planned.

In accordance with market developments, SID Bank expects, in particular, the environment of low interest rates in the euro area to continue to have a significant impact on profitability risk. In an environment of low market interest rates SID Bank faces excess liquidity, which also impacts the exposure derived from interest rate risk in the banking book, which remains within the boundaries of the adopted interest rate risk appetite. SID Bank will therefore continue to focus its attention on the structure and concentration of liquidity reserves and the regular monitoring of developments on financial markets, and in managing liquidity reserves take into account any adverse developments on financial markets.

Favourable economic circumstances and the forecasts of the main economic indicators have led to improvements in the financial position of corporations, according to which the Bank can also expect further improvements in the quality of the credit portfolio in 2018, including a reduction in the proportion of non-performing exposures. In 2018 in the area of non-performing exposures, the Bank is planning to update the strategy in relation to reducing non-performing exposures, in which the Bank will also include a policy regarding the timely write-off of non-performing exposures, while also carefully monitoring the activities of the

European Banking Authority, which is planning to issue guidelines on the management of non-performing loans for all banks in the EU in the second half of 2018.

Risk management of operations under Republic of Slovenia authorisation

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

To prevent conflicts of interest and to maximise efficiency, credit and investment insurance operations are provided in a special department that is organisationally separate from banking operations all the way to the level of the executive director and management board, while a special committee for operations under Republic of Slovenia authorisation decides on and discusses these types of operations. The powers to conclude operations are set out in the bylaws similarly to the banking operations, whereby all transactions of EUR 5 million or more are decided on by the international trade promotion commission. The commission has the power to make decisions in other areas related to risk management, such as approvals for the policy of insurance operations in individual countries or groups of countries, which together with the limits on insurance already set out in the ZZFMGP act to limit potential claims. In addition, SID Bank uses a risk management model (value-at-risk technique – 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 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 loss from the collateral portfolio is based on coefficients indicating the probability of a loss event, both for states (sovereigns) and individual debtors. The calculation of the probability of default for a specific state or customer is based on recognised international ratings and the corresponding adjusted probabilities of default.

Please refer to Section 3 of the financial report for more information regarding risk management.

7 Statement of the management body regarding the appropriateness of the risk management framework

In accordance with Article 435 (point 1e) 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, which comprises the

Management board:

Sibil Svilan, M.Sc., president of the management board, and Goran Katušin, member, and

Monika Pintar Mesarič, chair of the supervisory board,

by signing this statement, confirms the appropriateness of the risk management framework at SID Bank and in the SID Bank Group, which ensures that the established risk management systems comply with the Bank's risk profile and business strategy.

Within the Bank's organisational structure, the risk management framework or function is separated 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 Bank's 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 risk committee and supervisory board on risks to which the Bank is exposed is also ensured. The risk management function is provided direct access to the chair of the supervisory board and 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 established systems for the management of identified risks comply with the Bank's profile and business strategy.

Notwithstanding the aforementioned, the Bank's management body (management board and 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 environment factors, and for supervision of the implementation of the adopted risk management strategies and policies.

Ljubljana, 7 March 2018

8 Operations in 2017

8.1 Macroeconomic environment in 2017[5]

International environment

The improved global economic situation continued in 2017 with 3.7% economic growth, in particular in developed countries and in developing countries, which contribute roughly three quarters of the global added value growth. Growth in developing countries relied on investments and private consumption, both stimulated by rising profits of corporates and consumer confidence. A high inflow of foreign capital into developing countries is the result of seeking returns among global investors, which enables favourable financing terms, alongside which growth in banking loans has also stabilised. Low inflation in developed countries will also facilitate the persistence of the expansionary monetary policy. The situation is improving in developed countries on account of accelerated investment growth, favourable conditions on the labour market and regained consumer confidence. The US Federal Reserve is gradually abandoning its expansionary monetary policy, while the ECB is not expected to raise its key interest rates before the end of 2018. Foreign demand of the euro area reached a record six-year high in the middle of 2017. Economic activity is also strengthening on Slovenia's main export markets, i.e. Germany, Italy, Croatia, Austria and France.

Economic growth strengthened above expectations in the euro area in 2017 and reached 2.5% alongside strong foreign and domestic demand. Foreign demand encouraged an increase in investment, also mitigating the limiting impact of the rise in the euro, and also the high level of exploitation of production capacity, the level of corporate deleveraging (debt repayments) achieved in some countries, lower uncertainty, increased profitability and increased needs for the modernisation of production structures.

Private consumption growth is a result of favourable conditions the labour market in the context of declining unemployment, growth in disposable income and high levels of consumer confidence.

The ECB expects the stimulative growth factors to decrease gradually and economic growth until 2020 is expected to outpace potential growth. The effects of the ECB's expansionary monetary policy continued to be seen in low interest rates and favourable lending terms, which facilitated further growth in household loans and, to a lesser extent, growth in corporate loans. Contrary to expectations, in the context of an increase in issues of debt securities, companies in the euro area strengthened the non-banking segment of external financing during the crisis. The corporate sector also used surpluses to generate extensive internal reserves, so a significant increase in lending was not required for strong growth in investments. By January 2018 the ECB had already halved the programme for the purchase of securities and extended its validity to September 2018. This shows the careful monitoring of inflation trends, the level of excess liquidity on financial markets and other potential imbalances in property prices, such as the growth in real estate prices in some countries of the euro area.

In 2017 inflation stood at 1.4% in the euro area, primarily as a result of the rise in oil and commodity prices. The ECB expects a rise in inflation by 2020 to around 1.7% in the context of economic growth outpacing potential growth, and thereby pressure on wage growth due to inconsistencies relating to the limited supply of labour in some countries.

[5] Data from publicly accessible publications of the SORS, Bank of Slovenia, IMAD and the European Commission

The government budget balance and gross government debt in the euro area improved in 2017 to -1.1% and 87% of GDP, respectively. In the context of expected economic growth, lower interest expenses and lower unemployment benefits, the gross government debt is expected to fall to 81% of GDP by 2020, while the structural budget deficit is not expected to change significantly. The differences in the requested returns of euro area countries will continue to narrow in the context of the favourable macroeconomic situation and monetary policy, and high liquidity on the market.

Slovenian economy

The macroeconomic situation in Slovenia is very favourable, which also applies to the forecasts of the main economic indicators, which were revised upwards in line with the most recent forecasts. Economic growth stood at 5% in 2017. Growth in household consumption, which exceeded 3%, and growth in investments of over 8% contributed significantly to economic growth. Growth in income and profits in recent years in the context of favourable expectations and high utilisation of production capacities allows corporates to respond by intensifying their investment activity.

Exports are primarily growing in competitive segments, also supported by new investments. Exports increased in 2017 by almost 11%, and the growth of imports as a result of increased domestic demand is similar. Alongside an improvement in the terms and conditions of trade, the trade surplus remained unchanged at 6.5% of GDP in 2017, which enables a reduction in the net debt to the rest of the world. The persistence of a high trade surplus is also reflected by favourable changes to indicators of price and cost competitiveness in Slovenia compared with the euro area.

The economic recovery has also led to more favourable conditions on the labour market. Further reduction of unemployment and other inconsistencies on the labour market will be gradually reflected in pressures on wage growth. If the wage growth deviates significantly from productivity growth, the risk of declining cost competitiveness and pressures on inflation, which in 2017 fluctuated around the euro area average at 1.4%, could begin to emerge.

Increased household consumption alongside a decrease in the saving rate to 12%, which is the same level as in the euro area, also allows continued growth in consumer loans at nearly 13%. An increase in household investment was seen in the last year, which is reflected in the increased volume of turnover and price pressures on the real estate market. Growth in housing loans has remained at 5%. This is expected until the excess demand that is stimulated by loans under favourable terms is met by a large number of new housing units.

Slovenia's rating was upgraded by two rating agencies in 2017 on account of the government budget balance transitioning to a surplus of 0.8% of GDP and a decline in public debt to 75.2% of GDP. The decline was the result of high economic growth, the recovery of the financial sector and also austerity measures and structural reforms. The required yield on 10-year government bonds dropped below 1% and impacted the decline in the burden of servicing the debt of the government to 2.6% of GDP.

Banking environment

Following an extensive recapitalisation in 2013, Slovenia's banking system strengthened its capital position. Income risk and the growing mismatch between the maturity of investments and the sources of funding of banks appear as the most important challenges that the system will face. Liquidity risk remains low in the context of a high proportion of liquid assets in the banks' balance sheets. Banks increased their capital when a positive operating result was generated, while increased lending brought an increase in the amount of capital requirements for the banking system.

The banking system's gross income in 2017, in a continued environment of low interest rates, decreased alongside a slowed decline in net interest and non-interest income. In the context of the required re-creation of additional impairments and provisions, the expected increase in lending will contribute to a gradual increase in interest income, which is also pressured by maturing higher-yielding government securities from bank portfolios.

Since the discontinuation of the reduction of operating costs, the banking system's profitability has improved due to the releasing of the costs of impairments and provisions as a successful resolution of non-performing claims at banks. The dynamic of the transfer of demand deposits, which account for 68% of the total deposits from the non-banking sector, to fixed-term deposits will be important in that respect.

Within bank funding, deposits from the non-banking sector are continuing to strengthen. They already exceed 70% of total balance sheet, ensuring that the banks' requirements for wholesale funding remain very limited. The increased stock of loans can only be funded by banks through an increase in deposits, which are expected to use surplus liquid assets with a positive effect on income in addition to deposits in the future. The loan-to-deposit ratio has decreased to around 78% at a very slow pace, which indicates a gradual stabilisation of financing.

Growth in banking loans to the corporate sector, primarily to SMEs, is increasing, which indicates a rise in corporate demand for external sources of funding. Despite this, the savings-investment gap of the corporate sector remains positive. Companies remain a net creditor of other corporate sectors, while the sectoral credit position structure is changing. In 2017 we can see signs of the net deleveraging of companies to the rest of the world, while at the same time the net inflow of foreign equity and net outward investments in the form of commercial loans are increasing. By the end of June 2017, companies, primarily through reducing debt, recorded the same amount of equity as the amount of debt (liabilities) they disclosed, thereby reducing their leverage to the pre-crisis level, which is comparable to the euro area average. On the other hand, the ratio of debt to GDP in the Slovenian corporate sector was significantly below the euro area average. The ratio of interest to corporate operating surplus is just over 3%, declining from 20% at the beginning of 2009.

A particular highlight among the stimulative factors of the supply of loans is the reduction in the banks' non-performing claims to 6% of total exposure, which ranks Slovenia among the most successful countries in the euro area. The stock of claims more than 90 days in arrears approached the pre-crisis level. Slovenian banks did not drastically change their credit standards on corporate loans in 2017. At the end of 2017 short-term corporate loans also recorded positive growth, while long-term loans have been growing since the end of 2016. Interest rates on corporate loans dropped to a level of around 2.5%. With respect to loans for more than EUR 1 million with interest rates of around 2.3%, a difference of more than one percentage point is still maintained compared with the euro area, while interest rates for operations with a value of up to EUR 1 million do not differ significantly from one another.

According to data from Bank of Slovenia surveys, banks recorded increased demand in 2017 for loans for current operations and investments, which increased primarily in the manufacturing sector and also in sectors associated with real estate. The rate of excess demand is declining in line with the increased level of lending, but remains highest for loans for investment. Reasons preventing the conclusion of agreements include disagreement with lending terms, poor customer ratings mostly in the construction sector, high expectations of companies regarding low interest rates and looser standards for collateral.

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

SID Bank's operations in 2017 were conditioned by very favourable trends in the macroeconomic environment, and the beginning of the resurgence in corporate lending on the part of banks. The strong economic growth is largely based on very high export and investment dynamics, which must be supported by appropriate financial support. Both these dynamics must be sustained. SID Bank therefore carries out supplementary measures according to the activities of commercial financial intermediaries, ensuring its presence in the area of market gaps, and thereby preventing its activities from crowding commercial banks out of the functioning segment of the market. After the previous exceptional growth in the intervention activity of SID Bank during the years of the crisis resulting from the declining lending activity of commercial banks, the scope of SID Bank's activities is being reduced and it is redirecting its focus to financial support for the sustainable development of the economy in the phase of the improved economic situation: support for research, development and enterprise innovations, support for the long-term investment projects of companies, support for infrastructure and environmental protection projects, financial instruments for strengthening the capital position of companies and support for SMEs.

In light of the consolidation of the Slovenian banking system, access to very affordable ECB financing, low deposit interest rates and increased savings in both the retail and corporate sectors, the injection of development funds into the corporate sector is extremely difficult. The current assets to deposits ratio suggests surplus capacity, which means banks have a very low demand for external sources of financing, and therefore a low appetite for SID Bank's dedicated sources of financing. One of the financial advantages of SID Bank's financing is thus a long maturity of funds that are secured by the Bank for promoting dedicated financing. Given the weak investment activity in the country, corporate demand for such types of sources of funding at banks is very limited. In recent years SID Bank has further expanded its range of services in this segment of financing and developed various new development programmes. However, these programmes cannot compensate for the decline in loans from the period of the Bank's crisis-related activity. The Bank is endeavouring to take over part of the administrative tasks in connection with dedicated financing and adjusting the credit lines to the new pricing terms. The deleveraging of commercial banks vis-à-vis SIB Bank was thus significantly slowed in 2017.

After a protracted period of contraction in corporate loans, positive growth was again recorded in 2017. Despite the favourable financing terms, corporates continue to save, while on average also being capable of independently financing an increasingly large part of production and investments. The banks increased their lending primarily to SMEs last year, mostly in the segment of long-term loans. Regardless of this, market gaps in some areas of financing require the presence of a development bank, in particular in the segment of SMEs with poor ratings, low capacity to secure loans or a need for longer maturities. Banks became significantly more aggressive when dealing with existing demand for corporate loans, but only in the segment of companies with higher ratings. The new programmes helped SID Bank to stabilise its activities in the area of direct corporate financing.

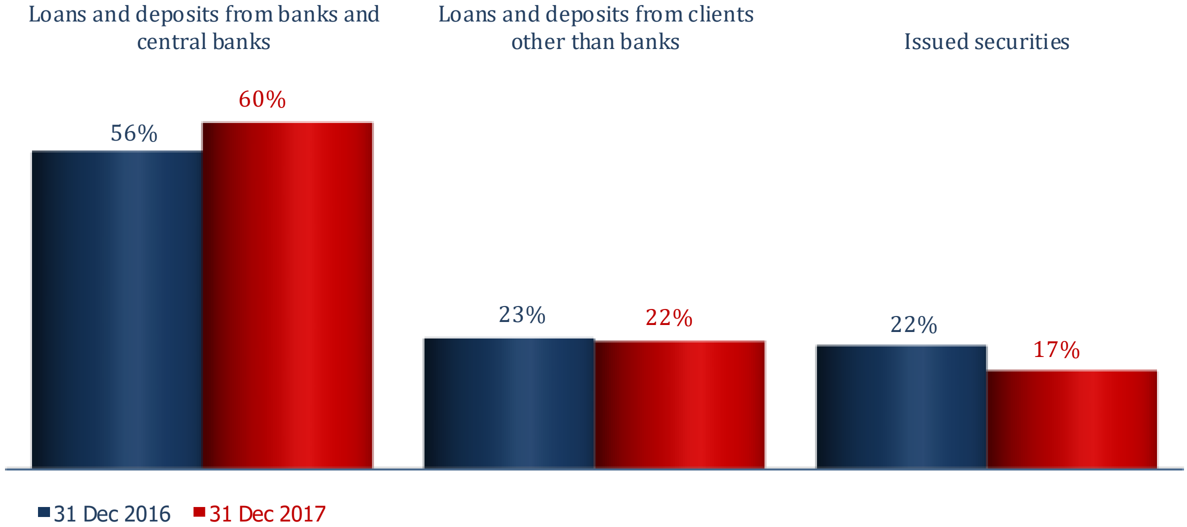
8.2 Performance of SID Bank

8.2.1 Funding and liquidity

As a specialised bank supported by a Slovenian government guarantee, the Bank secures long-term sources of funding primarily on international financial markets and at related banking institutions. With the aim of generating new value for the target groups of final beneficiaries, the Bank's credit lines also include long-term dedicated financing from the European Investment Bank, the KfW bank, the Council of Europe Development Bank and the MEDT, in addition to other sources of funding. In 2017 the Bank therefore again contributed to the continued securing of favourable medium-term and long-term sources of funding for corporates, in particular for SMEs, to the more efficient transfer of funds to final beneficiaries and the indirect expedited transformation of companies during any changes to existing or introduction of new business models.

The Bank pursues a borrowing strategy that provides stability and the ability to adjust (flexibility) to the needs of financing operations. The Bank is thus characterised by diversity of funding, scopes and types of instruments and borrowing maturities. The Bank endeavours to obtain long-term funding on capital markets that is comparable in price terms to government funding, allowing for minimum premiums over sovereign borrowing.

Structure of financial liabilities

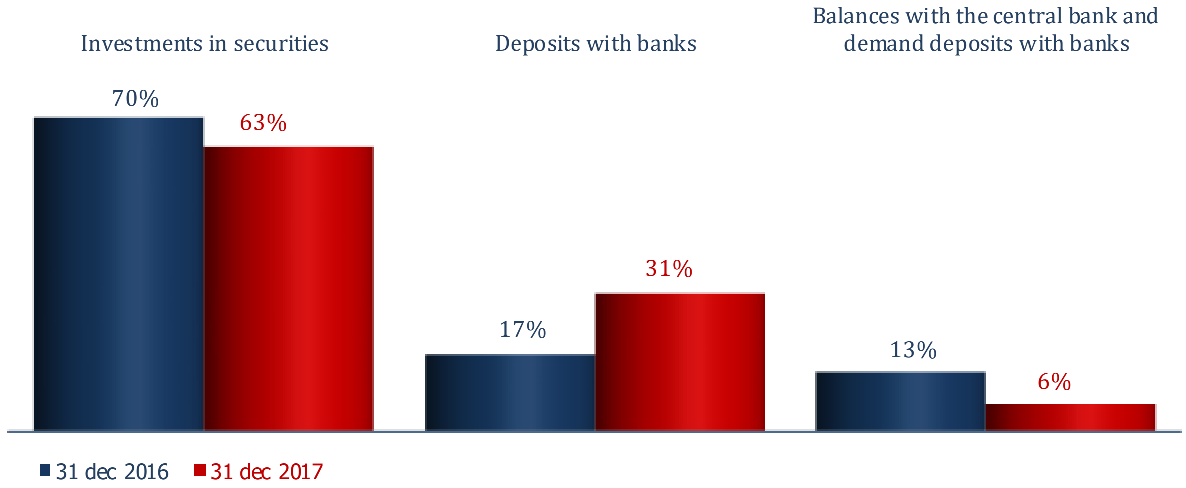


SID Bank devotes a great deal of attention to the active management of its liabilities, primarily to mitigating the risk of refinancing raised funds. In 2017 the Bank repaid a matured bond in the nominal amount of EUR 96,832 thousand, additionally repurchasing own bonds on the capital market in the nominal amount of EUR 10,165 thousand and repaying a matured promissory note in the amount of EUR 77,000 thousand.

SID Bank did not borrow on international financial markets in 2017, as it took advantage of its opportunity to draw down targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia in the amount of EUR 173,140 thousand at a favourable interest rate, in order to transfer the advantages of the source of funding to final beneficiaries.

The Bank took out temporary loans on the international money markets at domestic and foreign commercial banks in 2017, which helped it manage liquidity in the short-term and take advantage of the conditions of negative interest rates.

Structure of liquid assets



SID Bank's assets earmarked for the management of liquidity amounted to EUR 1,146,256 thousand or 46.8% of total assets at the end of 2017. At the end of 2017 securities accounted for 62.9% of the assets earmarked for securing liquidity, while the remainder of EUR 425,624 thousand was accounted for by deposits at domestic and foreign commercial banks and cash balances at the central bank. Investments in securities mostly consist of Slovenian and foreign government bonds and marketable bonds of other issuers, and are fully denominated in euros. When investing in securities the Bank gives priority to investments that it can use as collateral for repo transactions on the market and at the European Central Bank, and investments that count towards the first-bucket in calculations of liquidity ratios. The Bank generally invests liquid assets in securities and deposits from banks from the EU with at least an investment-grade credit rating. Their proportion in the total liquid assets amounted to 92.3% at the end of 2017. Investments with a BBB- or lower rating, which account for 7.7% of total liquid assets, represent domestic bank securities and deposits placed at domestic banks, securities of domestic non-financial institutions and government bonds from European countries.

8.2.2 Financing

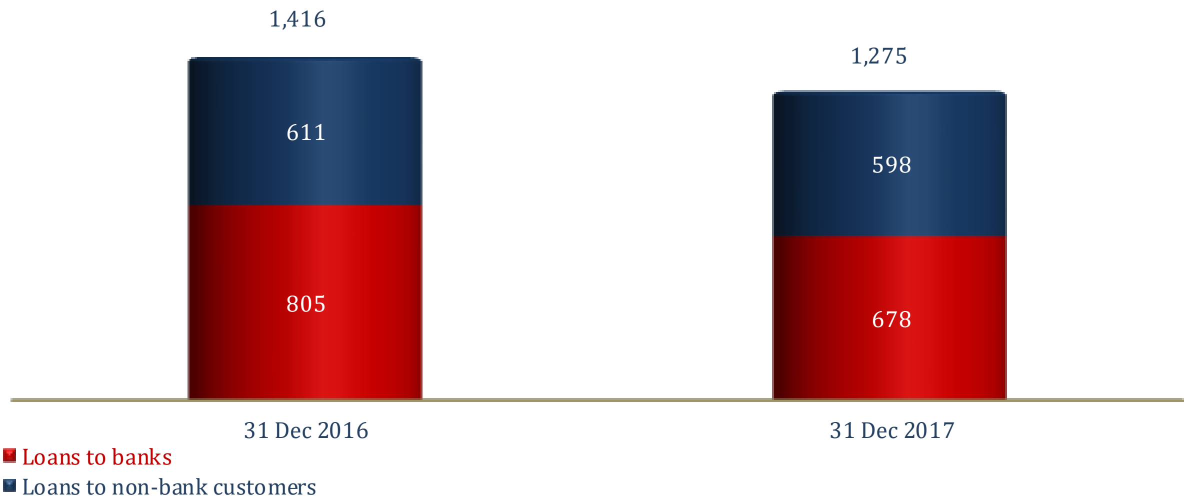
The scope and method of financing by the Bank is complementary by nature given the identified market gaps, market needs and activity of other financial institutions.

Financing is based on already established financing instruments such as dedicated loans to commercial banks, loans with or without the status of state aid, purchase of receivables, accession to debt and other forms of risk taking and participations, project financing, export credits, etc.

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

The total net stock of loans granted stood at EUR 1,275,366 thousand at the end of 2017 (2016: EUR 1,415,552 thousand), down 9.9% on the balance at the end of 2016.

Loan portfolio (EUR million)



In 2017 the financing of final beneficiaries was also carried out primarily on the basis of long-term dedicated financing via banks. Commercial banks in the role of intermediaries thus remain the most important partners in financing final beneficiaries. Loans to banks account for 53% of SID Bank's credit portfolio (2016: 57%). The stock of loans granted to commercial banks stood at EUR 677,626 thousand at the end of 2017 and was down 15.8% on the 2016 amount. Despite the lower stock of the portfolio, the Bank exceeded the figures planned for 2017. The declining trend of loans via banks that existed in recent years and was primarily the result of the broader macroeconomic situation and conditions in the economy, as well as of the specific countercyclical activities of SID Bank, had already stabilised in 2016.

Within the scope of direct lending to corporates and other customers, the Bank mostly carried out financing either within the scope of the notified state aid schemes or in the form of the co-financing of corporates, together with other banks. In 2017 direct financing was therefore carried out in the form of specialised credit lines for the promotion of technological and development projects, research, development and innovations, investment and employment, energy efficiency, to increase capitalisation and development of SMEs and environmentally-friendly public investments at the local level. Loans to non-bank customers amounted to EUR 597,740 thousand at the end of 2017, down 2.1% on the end of 2016. They accounted for 47% of the credit portfolio, which was up 4 percentage points on 2016.

In accordance with the change to the business model, SID Bank's activity in 2017 was focused on development financing and complex schemes of operation, in particular project financing and advisory services. In the area of forwarding sources of funding via banks, the Bank, in line with the aforementioned changes, adjusted its range of services and strengthened its function of providing administrative technical assistance to intermediaries (simplifications, consultancy, workshops, development of software support). It has strengthened its partnerships with other stakeholders in the development and implementation of major export projects, the opening of new markets for the Slovenian economy, stimulated the increase in the capitalisation of SMEs via development loans and joined initiatives focusing on circular economy, environmental protection and energy efficiency. Within the scope of the activities/organisational framework of the European Investment Advisory Hub (EIAH), the Bank represents the point of entry for the Investment Plan for Europe, which comprises part of the European Fund for Strategic Investments (EFSI).

Target groups of final beneficiaries

In 2017, SID Bank funds were used to directly or indirectly fund a total of 490 final beneficiaries established in Slovenia via banks in a total amount of EUR 215.8 million. The total number of final beneficiaries funded directly or indirectly by SID Bank stood at 2144 at the end of 2017. The funds were earmarked primarily for the promotion of research, development and innovations, job preservation and job creation, corporate growth (primarily SMEs), energy efficiency, reduction of pollution and increased environmental protection.

In terms of the primary purpose, development of economic competitiveness accounted for 82.3% of new loans in terms of total value. In terms of corporate size, a total of 459 SMEs established in Slovenia (93.7% of all borrowers) received support in the amount of EUR 158 million (73.2% of loans), of which 76 were sole traders (16.6% of all SMEs), who received EUR 7 million.

Distribution of loans by region in Slovenia

In the regional breakdown of new loans approved for borrowers established in Slovenia, borrowers from Central Slovenia accounted for the largest proportion (36%), followed by borrowers from Savinjska (13.9%), Goriška (10.3%), Podravska (6.6%), Coastal-Karst (6.2%), and other regions (27%).

Firms in the manufacturing sector were prevalent among borrowers (33.6% of new loans in value terms), followed by wholesale and retail trade, maintenance and repair of motor vehicles (15.3%), transport and storage (8.4%), and other sectors.

Development programmes via commercial banks and savings banks

In 2017 SID Bank continued to enhance its cooperation with commercial banks, primarily through adjusting and optimising its existing range of services, also taking account of the regulatory framework, developing additional specialised credit lines and simplifying execution.

Credit lines that are submitted via banks are adjusted to the method of financing and to the specific conditions of dedicated (purpose-specific) financing. The terms for final beneficiaries are also formulated accordingly.

On the basis of SID Bank's re-established partnership with KfW bank, at the end of 2016 SID Bank prepared an additional programme for indirect long-term financing of SMEs and so-called mid-cap companies in 2017, in addition to the existing range of services from EIB sources of funding and other SID Bank sources. The programme's disposable value, together with other SID Bank sources of funding, stands at EUR 150 million.

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

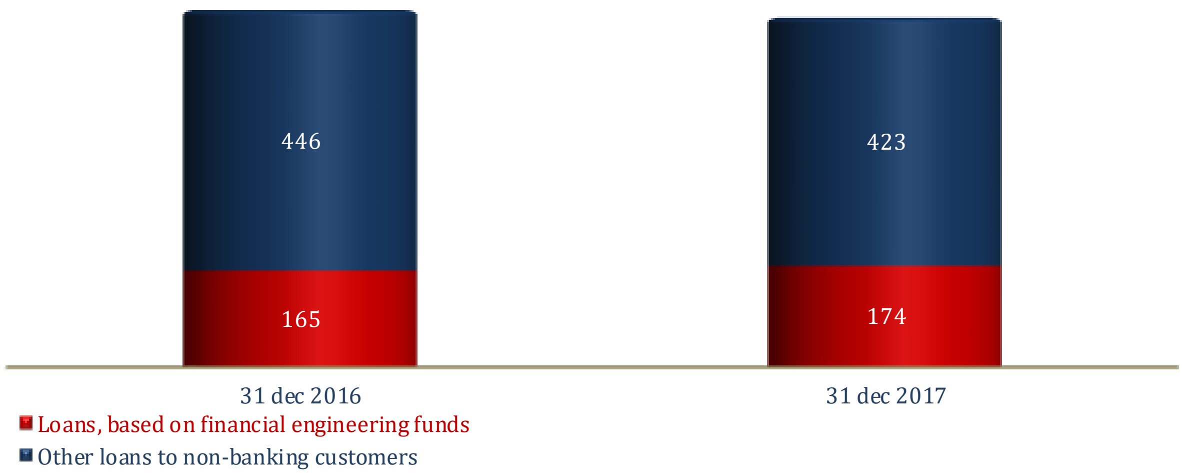
- activities for maintaining and expanding the circle of financial intermediaries and increasing their role of intermediation (number of final recipients, scope of sub-credits);
- marketing activities to strengthen the recognition of SID Bank sources of funding (presence at regional events, advertisements, website, etc.);
- ensuring a suitable combination of pricing terms, maturity, and purposes of use, and conveying the financial advantages to the final recipients;
- ensuring administrative and technical support for banks (drafting typical questions and answers, monitoring the effects of specific investments, workshops with the banks' account managers);
- 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 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.

Financial engineering-based products

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.

Loans to non-banking customers (EUR million)



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

In 2017, the Bank and the MEDT implemented six financial engineering measures in the form of six specialised credit lines, in particular:

- two credit lines for the financing of current operations of SMEs, within the scope of which it secured funding with a maturity of two to three years and loans from EUR 30 thousand to EUR 1 million. These funds were earmarked for the financing of the purchase of materials, goods and wages, and could be acquired by corporates directly from SID Bank. SID Bank achieved one of its main objectives for this product in 2017, i.e. the approval of more than 1000 loans;
- credit lines for the financing of investments and employment of SMEs, which were earmarked for the financing of fixed assets and costs of wages for positions created through the new investments. The objective of the investments was to expand borrower capacities for existing products or services or technological innovation. The loans were for EUR 30 thousand – EUR 5 million, with a loan maturity of 2-9 years and a grace period on the principal payment up to 2 years. SMEs used these loans to expand and, in technological terms, upgrade their production and service capacities, thereby strengthening their competitiveness;
- credit lines for the financing of research, development and innovations of SMEs in the form of loans for EUR 30 thousand – EUR 10 million, and with a maturity of 2-9 years and a grace period on the repayment of the principal. SID Bank used this credit line for finance projects that included research and development activity to develop innovations in terms of technology, processes and organisational changes. Funds were earmarked for the financing of employee wages on the project, contractual research, advisory and other services, and material, instrument and equipment that are used on the project;
- credit lines for the financing of the operations and capital enhancement of small and medium sized enterprises; and
- credit lines for the financing of investments and capital enhancement of small and medium sized enterprises.

Credit lines earmarked for the capital enhancement of SMEs in the total amount of EUR 200 million are based on the principle of a favourable 6-12 year long-term loan with a grace period on principal repayment in the amount of half of the loan's maturity. The amount of the loan was between EUR 100 thousand and EUR 5 million. In addition to the typical development effects given the Bank's target areas (investments, research, development, innovations, non-current working capital), the main purpose of the product is to enable companies with low capital adequacy to improve the maturity structure of their debt, gradually strengthen their capital position and introduce a (new) business model with good prospects.

The aforementioned credit lines generally contain elements of state aid that are reflected in favourable interest rates on loans. The weighted average maturity of the loans was 7.8 years, while the weighted average mark-up on the reference interest rate was 2.46 percentage points. The funding from the MEDT and the EIB played a key part in reducing financing costs for final beneficiaries. 3.8 euros of primary lending potential were available for each euro of ministry financing.

A total of EUR 68.6 million in new loans was placed in 2017 within the scope of financial engineering funds. The net stock of loans granted in that respect amounted to EUR 174.4 million at the end of 2017. Four credit lines were terminated at the end of 2017, with the Bank planning to introduce new lines to stimulate the Slovenian economy in 2018.

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

Programme for the financing of municipalities

In 2017 SID Bank continued the promotion of investments in local public infrastructure, local measures regarding efficient use of energy, utilities connections and the provision of a public-owned housing fund. The Bank earmarked EUR 100 million for these purposes from sources of funding raised at the EIB and CEB. Municipalities could acquire 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 acquired by the municipalities under this programme was between EUR 34 thousand and EUR 17 million, with a maturity of 5-20 years and the possibility of a grace period on the repayment of the principal. Funds from the loan could be used to finance at most 85% of the entire project, while the remaining 15% were required to be secured by the municipality. The municipalities often acquire most of the funds from non-refundable government and EU funding, using SID Bank's loans to secure the other required funds.

Infrastructure financing

In order to improve the logistical, utilities and other commercial and public infrastructure in the region of the Republic of Slovenia, SID Bank, in cooperation with commercial banks or independently, financed investments into this type of infrastructure, thus contributing to more balanced and faster regional development. With respect to financing, in addition to other sources of funding, the Bank also used funds from loans from the EIB and CEB and thus secured long-term funds under favourable terms for the development of infrastructure projects.

Export financing

In 2017 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 on third markets with domestic, foreign or international entities.

Other financing

By using long-term sources of funding, independently and in cooperation with other banks, SID Bank complements the range of service of commercial banks in all areas for which it can provide support in accordance with the ZSIRB, i.e. in particular in the areas of energy efficiency, environmental protection, provision of housing for vulnerable groups of people, encouraging internationalisation, competitiveness, employment, technological development, research and innovations. To that end it employs various financing instruments, such as dedicated loans to commercial banks, syndicated loans, independent direct financing, purchase of receivables, accession to debt and other forms of risk participation, project financing, etc.

Fund of Funds

In 2017, within the scope of potential upgrades and the provision of added value for the economy and financial intermediaries, SID Bank examined the possibility of more intensive participation in the implementation of financial instruments within the scope of the European Cohesion Policy 2014–2020. In accordance with the trend of transitioning from non-refundable to refundable forms of financing at the EU level, the Republic of Slovenia also defined a portion of funds for the implementation of financing instruments within the scope of the Operational Programme for the Implementation of European Cohesion Policy 2014–2020, and at the end of the year signed the relevant agreement with SID Bank, in which the latter was appointed manager of the Fund of Funds in the amount of EUR 253 million.

Equity financing programme

Together with the European Investment Fund (EIF), SID Bank set up a EUR 100 million extensive investment programme in November 2017 called the Slovene Equity Growth Investment Programme, into which both strategic partners will each contribute EUR 50 million. This is one of the first equity financing programmes, which on the basis of the EIF-NPI Equity Platform, which was co-founded by SID Bank and the EIF, and the European Fund for Strategic Investments, was established by the EIF in cooperation with the national promotional institutions in the EU. On the basis of its 15-year mandate granted by SID Bank, the programme will be managed and administered by the EIF, which is the largest manager of funds in the EU.

The programme focuses on the equity financing of Slovenian innovative and rapidly growing SMEs and mid-cap companies, and on the creation of new jobs in Slovenia via the mobilisation of investments by the private sector in private equity investment funds. The programme will support the managers of such funds whose investment objectives significantly include Slovenian companies. In addition to equity financing of Slovenian companies via private equity funds, the programme also supports the equity financing of Slovenian companies in the form of co-investment.

Only private equity funds that support a strategy of growth and development and are managed by managers who passed the EIF eligibility test are entitled to the programme funds. These managers, independent of SID Bank and in accordance with their professional due diligence, will also adopt investment decisions on equity corporate financing under the investment policy that was coordinated between the EIF and SID Bank.

The financing will take place via the EIF's two standardised activities, i.e. new primary fund investments and co-investments, which will be implemented through an open call, and through activities adjusted to the needs of the development of the private equity Slovenian market and the institutions and/or managers of private equity, which will be implemented through a closed or time-restricted call. The latter allows larger investment focus on Slovenia and the transfer of knowledge on investment and management of private equity in companies. The first investments under the Bank's programme are planned in 2018, when the EIF will also announce calls for applications for fund managers.

8.2.3 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 given their nature and level of risk the private sector is not willing to take up or has limited capacity to take up. EU regulations class commercial and political risks with a maturity of more than 2 years in OECD countries and all risks in non-OECD countries 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.

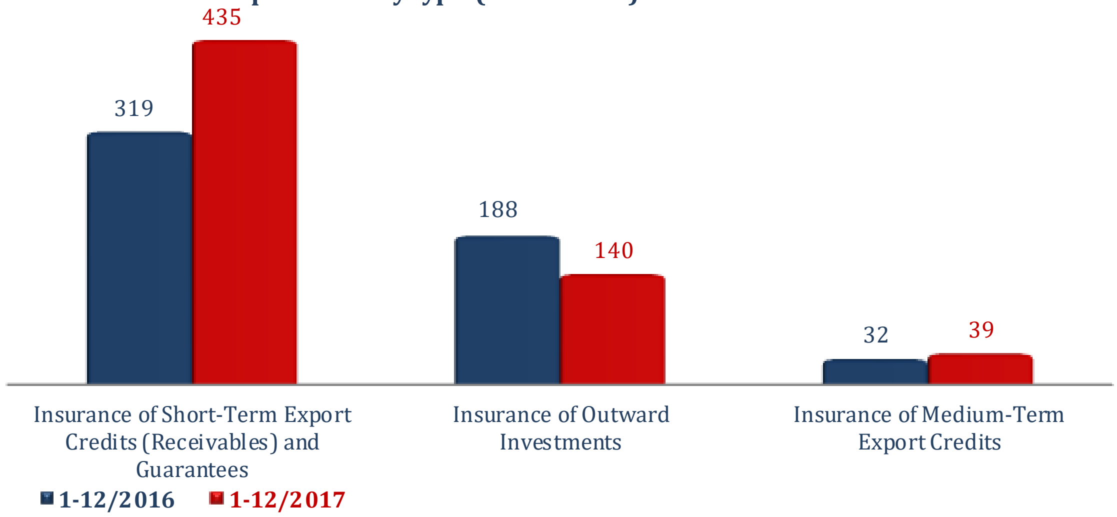
Volume of insurance operations

The volume of operations amounted to EUR 613,071 thousand in 2017, up 13.8% on the previous year, which is primarily the result of an increased volume of insurance of short-term receivables. An increase in this type of (re)insurance is the result of a decision made by private insurance undertakings to not insure certain markets or sectors due to insufficient reinsurance capacities. SID Bank included the majority of these risks in its portfolio. In 2017 SID Bank issued a policy for the first time for a major transaction under the project financing scheme.

The realised volume in 2017 accounted for 5.3% of the limit on potential new annual liabilities defined in the ZZFMGP.[6]

[6] Under the limit prescribed by the ZZFMGP in connection with new liabilities (new insurance operations) assumed in a particular calendar year, the liabilities may not exceed one-third of the most recent officially determined value of Slovenia's annual exports of goods and services (exports stood at EUR 35,596,000 thousand in 2017; source: IMAD 2018). The volume of new insurance operations during the period 1 January 2017 to 31 December 2017 amounted to EUR 613,071,433 and was within the statutory limit of EUR 11,865,333,333 prescribed by the ZZFMGP. The utilisation of the limit was 5.2% as at 31 December 2017.

Volume of Insurance Operations by type (EUR million)



Reinsurance of short-term export credits accounted for the largest proportion of the volume of insurance operations at 67.8% (renewable insurance of non-marketable risks), followed by insurance of outward investments (22.8%), while the remainder was accounted for by short-term and medium-term credits, guarantees and credits for preparations for exports. In 2017 the total volume of insurance items was up relative to the previous year, save for insurance of medium-term credits and insurance of investments, which decreased the most in absolute value.

In 2017 the structure of insurance by country does not deviate significantly from the structures in previous years. The largest proportion relates to insurance operations in Russia (45.6%), followed by Croatia (14.7%), Bosnia and Herzegovina and the Ukraine (5.6%), the US (5.4%), Serbia (4.3%), Belarus (2.5%), Kazakhstan (1.8%), Iran (1.6%) and Uzbekistan (1.3%).

The greatest opportunities are recognised by SID Bank in the area of export financing insurance, where due to structural changes the banking sector still remains too passive. It is a challenge to provide insurance support for small and medium-sized exporters, which SID Bank will encourage to engage in joint export ventures in order to generate the required financial strength.

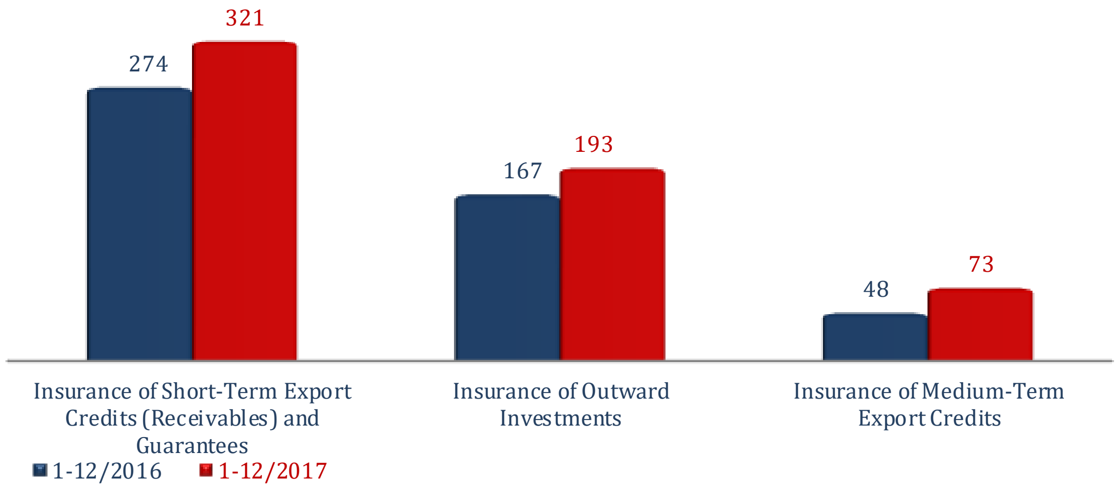
Activities continue in the area of opening routes to new markets, either through insurance lines or other similar products. Potential opportunities are found relating to factoring and forfeiting insurances, primarily for operations in Africa and Asia. The possibilities for higher coverage of receivables in the event of customer default will be verified in that respect.

The declining trend in insurance operations reversed in 2017, demonstrating that SID Bank provides adequate support to the corporate sector by adjusting to the current situation on the export markets of Slovenian companies. The number of insurance beneficiaries has increased in recent years, and the losses of insurance operations resulting from bankruptcies of major Slovenian construction firms is compensated for annually by other operations.

Exposure

Exposure from current insurance policies amounted to EUR 564,769 thousand at the end of 2017. Exposure from firm insurance commitments, which under the ZZFMGP is included in the total net exposure, amounted to EUR 22,028 thousand.

Exposure by type (EUR million)



Total exposure from insurance operations for the account of the state and from issued firm insurance commitments amounted to EUR 586,797 thousand, up 20% on the end of 2016. The reasons for the higher exposure substantively coincides with the elements that caused the higher volume of insurance operations, i.e. growth in the number of newly insured operations.

The exposure amount represents 27.9% of the limit defined in the State Budget 2017 Implementation Act (ZIPRS) and 1.7% of the limit defined in the ZZFMGP.[7]

The largest exposures in the insurance portfolio in 2017 were shown towards Russia, the US, Croatia, Belarus, Serbia, Bosnia and Herzegovina, the Ukraine, France, Kazakhstan and Iran.

Other insurance-technical provisions

Premiums and fees from insurance against non-marketable risks amounted to EUR 3,560 thousand in 2017, up 8.2% on 2016. A higher insurance premium is generated from a higher volume of insurance operations and structure of insurance products. The highest percentage of premiums paid was accounted for by (re)insurance of short-term export credits, followed by premiums for investments and medium-term insurance, taking into account that the premium rates on short-term insurance are significantly lower than for medium-term insurance. 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 15,302 thousand in 2017, a significant increase over the previous year (2016: EUR 458 thousand). The largest proportion in that structure was accounted for by claims paid from the reinsurance of short-term receivables, while the reminder relates to costs of the recovery of paid claims from previous years from reinsured short-term receivables, outward investments, medium-

[7] The limit on the Bank's liabilities from insurance against non-commercial, medium-term commercial and short-term commercial non-marketable risks set out under the ZIPRS, i.e. the exposure from current insurance and commitments, is EUR 2,100,000 thousand. Net exposure from current insurance and commitments stood at EUR 586,796,813 as at 31 December 2017.

Under the limit prescribed by the ZZFMGP in connection with the amount of assumed current liabilities from insurance operations, active reinsurance and retrocession, other operations, guarantees and other sureties, the figure may not exceed the most recent officially determined value of Slovenia's annual exports of goods and services (exports stood at EUR 35,596,000 thousand in 2017; source: IMAD 2018). Net exposure from current insurance and commitments stood at EUR 586,796,813 as at 31 December 2017.

term loans to a foreign customer and supplier credits.

Claims under consideration (claims filed) amounted to EUR 2,226 thousand as at 31 December 2017, up EUR 952 thousand on the end of 2016.

At EUR 2,453 thousand, potential claims in 2017 were down by EUR 2,097 thousand on the 2016 figure, while the majority of potential claims relates to reinsurance of short-term receivables.

The 2017 technical result for the account of the Republic of Slovenia was negative and was the result of the aforementioned claims paid. The surplus of expenses over revenue amounted to EUR 9,982 thousand (2016: the surplus of expenses over revenue stood at EUR 12,206 thousand).

Insurance operations with respect to non-marketable risks by type of insurance

Insurance of short-term export loans/credits and guarantees

Short-term insurance in the (re)insurance of export credits, guarantees and preparations for exports stood at EUR 434,534 thousand in 2017, up 36.3% on 2016.

Most of the short-term insurance relates to the reinsurance of short-term revolving export credits in accordance with the concluded reinsurance contract between SID Bank and the subsidiary insurance undertaking SID-PKZ and between SID Bank and Zavarovalnica Triglav. Only a minor part relates to the insurance of individual export operations. The realised volume of this type of insurance in 2017 largely relates to the support of export operations in Russia, followed by the Ukraine, Bosnia and Herzegovina, Kazakhstan and other countries. Exposure from this (re)insurance stood at EUR 312,792 thousand at the end of 2017, up 16.1% on the figure at the end of 2016 (EUR 269,509 thousand).

The higher amount of (re)insurance claims in 2017 was followed by the realised (re)insurance premium. The latter increased by 22.1% to EUR 2,043 thousand. The insurance prices that the primary insurers agreed with their own policyholders continued to decline in 2017. Despite the increased amount of insured receivables the number of exporters dropped, while insurance operations were concluded with an increasing number of foreign debtors, resulting in increased diversification of risks taken-up in terms of the insurance of receivables.

Demand for the reinsurance of short-term export credits is increasing, which can be attributed to a rise in interest among exporters in placing their goods on so-called non-traditional or new markets, such as Russia, Iran and the countries of the former Soviet Union, where higher returns can be generated. Regardless of private reinsurers being willing to take up higher risks, the cumulation of credit risks associated with compliance are such that the majority of these risks cannot be insured. Expectations regarding higher exposure also derive from a higher volume associated with the sharing of risks with the private market (50:50), which is permitted by the reinsurance contract between SID Bank and SID-PKZ that was updated in 2017.

Further growth in Slovenian exports is expected in 2018, which will positively impact the volume of insurance operations of primary insurers concluded with SID Bank, or only for SID Bank if there is a lack of interest from private reinsurers. Most of the export growth will nevertheless be realised on the developed markets of EU and OECD countries, also expecting partial growth on non-marketable markets.

Insurance of medium-term export credits

The largest proportion of insured medium-term export credits, bank guarantees and loans for preparation for exports in 2017 covered the export of general-purpose machinery and equipment, machines for the food industry, electrical devices, and engineering and technical consultancy services. The largest share of medium-term operations were insured for receivables from customers from the US, Belarus, Turkey, Netherlands, Sweden, Bosnia and Herzegovina and Germany. The stock of insured medium-term export credits varies from year to year due to the small number of annually realised projects and their size.

In 2017, the stock of insurance operations concluded for medium-term export transactions (export credits, bank guarantees and loans for preparation for exports), which also covers project financing, was up on the previous year and stood at EUR 39,020 thousand (2016: EUR

32,361 thousand). The export financing insurance product is useful to exporters, but is complex and requires plenty of time from all stakeholders in terms of documenting requirements. As a result exporters prefer to modify the operation such that they utilise other forms of insurance or financing, which are simpler for contractual partners, or even decide to withdraw from the transaction. The insurance of project financing significantly contributed to the solid medium-term insurance result.

The interest of commercial banks to become active in the area of export financing in Slovenia is slowly improving, but the banks still remain cautious. Due to a lack of experience they wish to finance export operations together with SID Bank. Positive shifts in this area are expected in the future, but at a very slow pace.

It is generally the case that major transactions are carried out according to export financing and insurance principles, so the loss of one or two transactions can cause a major deviation from the planned values. Growth in exposure, which is reduced by maturing policies or by the lowering of exposures under existing policies, is dependent on the volume of collateral for new transactions.

As at 31 December 2017, exposure from the insurance of medium-term export credits, bank guarantees and loans for preparation for exports (concluded insurance policies and commitments) amounted to EUR 72.958 thousand, with Belarus prevailing among countries in terms of exposure with a 38% share. Premiums from this insurance amounted to EUR 443 thousand in 2017.

Claims paid from the insurance of medium-term export credits amounted to EUR 45 thousand in 2017.

The highest growth in 2018 is expected from the insurance of medium-term operations. Expected growth is based on increased exports by the corporate sector, which will also gradually begin in the capital goods production sectors. It is expected that Slovenian companies will significantly penetrate third-country markets, in particular the markets of Africa and the Middle East. According to the plans of exporters, the export sector will strengthen in the region of the countries of the former Soviet Union and former Yugoslavia. Active involvement is also expected from Slovenian banks in the export financing of Slovenian exporters.

Insurance of outward investments

The volume of insured outward investments reached EUR 139,518 thousand in 2017, down 25.7% on the previous year. Newly insured outward investments and renewals of investments insured in previous years that in terms of content can be deemed as newly insured investments are included among the stock of insurance contracts. The demand for investment insurance has declined significantly in recent years. This is a result of reduced risks in the countries of the former Yugoslavia that are acceding to EU structures. These countries represented the largest target market for investments by Slovenian companies. Slovenian companies have found ways to internationalise their business functions that are cost-effective and tie up a minimum amount of funds.

The largest proportion of investments within the structure of insured investments is in Croatia, followed by the US and Bosnia and Herzegovina. In 2017 premiums from investment insurance were down 17.2% on the previous year and stood at EUR 932 thousand.

The decline in the volume of insured investments in expected to be reversed in 2018. The insurance of two minor projects, which envisage the utilisation of renewable energy resources under a project financing scheme with elements of investment insurance, is planned in the region of the former Yugoslavia.

Exposure from investment insurance amounted to EUR 193,311 thousand at the end of 2017, up 15.8% on the end of the previous year. Increased exposure from outward investments in 2017 in the context of the aforementioned declining volume is the result of a loan yet to be implemented for a development company in the US. It is expected to be completed in accordance with a resolution of the international trade promotion commission in the first quarter of 2018.

The largest exposure by structure of outward investments is primarily based on the insurance of non-shareholder loans. The current insurance arrangements are expiring in accordance with the signed loan agreements and concluded insurance policies. The insured non-shareholder loans are adequately serviced, therefore exposure also fell in 2017 without new insurance.

This reinforces the expectations for the recovery of the domestic economy, as the number of companies that will intensively internationalise their business functions is also expected to grow in 2018, partly in order to penetrate new markets. As a result a revival is expected also in the area of investment insurance, in particular in the area of exploiting renewable energy sources.

Contingency reserves

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

With the payment of funds by the Ministry of Finance in the amount of EUR 11,899 thousand, contingency reserves in 2017 increased by 1.5% to EUR 132,167 thousand relative to 2016.

Fund of Funds

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 that was conducted by the Slovenian company PwC and supplemented by an analysis conducted by the European Investment Bank: research, development and innovations, small and medium-sized enterprises, energy efficiency and urban development.

In accordance with the objectives of the Operational Programme for the Implementation of the EU Cohesion Policy 2014–2020, SID Bank is already developing financial products within the scope of the Fund of Funds which it will offer to Slovenian companies and municipalities via financial intermediaries (primarily commercial banks and public funds). SID Bank will carry out the selection of financial intermediaries in 2018, making the first funds available to final beneficiaries in the second half of 2018. In addition to the funds from the European cohesion policy, financial intermediaries will have to secure additional funds from other sources of funding due to the leverage requirement.

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 due to higher leverage, the multiplier effect and the revolving effect on state budget funds.

Guarantee scheme for corporates

Pursuant to the Republic of Slovenia Guarantee Scheme Act (hereinafter: the ZJShemRS) a system was set up in 2009 for issuing government guarantees for the liabilities of companies rated A, B or C from long-term loans raised at commercial banks. The legal deadline for issuing government guarantees under this law was 31 December 2010.

In line with its legal authorisations SID Bank again actively managed the portfolio deriving from the ZJShemRS in the recovery segment in 2017.

The Bank did not address changes to lending conditions in 2017, or receive any requests for calling (redemption). A total of EUR 75.3 million was paid out to banks by the Ministry of Finance between 2009 and 2017 on the basis of 294 requests for calling.

At the end of 2017 there were 13 loan agreements secured by government guarantee still active at the commercial banks (2016: 19 loan agreements), the stock of principal amounting to EUR 15.2 million as at 31 December 2017 (2016: EUR 17.7 million).

Guarantee scheme for retail customers

The Republic of Slovenia Guarantee Scheme for Natural Persons Act (hereinafter: the ZJShemFO) allowed retail customers to obtain government guarantees for loans of up to EUR 10 thousand or up to EUR 100 thousand, depending on the category of borrower. The legal deadline for the issue of government guarantees under this act was the end of 2010.

SID Bank received five requests for guarantees to be called in 2017 (bringing the total between 2010 and 2017 to 108 requests received). Three requests for calling were granted to commercial banks by the Ministry of Finance in 2017 having met the conditions under the ZJShemFO, based on which a total of EUR 41 thousand was paid out.

SID Bank initiates a recovery procedure for the guarantees paid out, provided that the conditions have been met. If the borrower fails to fulfil its obligation within eight days of receiving the request, SID Bank transfers the matter to the Financial Administration of the Republic of Slovenia for enforcement.

The stock of loans as at 31 December 2017 was 99 (2016: 114), while the total loan principal amounts stood at EUR 3.7 million (2016: EUR 4.4 million).

Guarantees for investments

The aim of the Republic of Slovenia Guarantees for Financial Investments by Companies Act (ZPFIGD) is to ease corporate access to working capital and to funds for investment. As primary loan collateral, a government guarantee is an instrument for improving access to financing corporate development projects.

The amendment of the ZPFIGD set a limit on the issuing of guarantees until 31 December 2015. The total stock of loans supported by government guarantee was EUR 10 million at the end of 2017 (2016: EUR 12.2 million). Within the framework of that amount the government guarantee amounted to EUR 5.4 million (2016: EUR 9.4 million).

Management of emission allowances and Kyoto units

Pursuant to Article 127 of the Environmental Protection Act (ZVO-1), SID Bank continued its function as the official auctioneer of greenhouse gas emission allowances in 2017 in accordance with Commission Regulation (EU) No 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and the Council establishing a scheme for greenhouse gas emission allowances trading within the Community, as amended by Commission Regulation (EU) 1210/2011.

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

The Bank participated in 137 auctions in 2017 as the official auctioneer of greenhouse gas emission allowances (EUA). A total of 4,351 thousand allowance units were sold at auctions for a consideration of EUR 25,050 thousand.

Three auctions for EU aviation allowances (EUAA) were also held in 2017. A total of 6 thousand permit units were sold for a consideration of EUR 43 thousand.

Transparency of financial relations between SID Bank and the state (Republic of Slovenia)

Activity EUR thousand	Revenues	Expenses
Insurance against non-marketable risks	1.740	(1.708)
Fund of funds	127	(441)
Guarantee scheme for corporates	16	(91)
Guarantee scheme for private individuals	5	(18)
Guarantees for investments	(0)	(18)
Auctions of emission allowances	19	(19)

The table discloses the total (direct and indirect) revenues and expenses for SID Bank's individual activities recorded in 2017. The revenues for an individual activity under Republic of Slovenia authorisation represent the fees that SID Bank receives for pursuing a particular activity on the basis of contracts with the Republic of Slovenia or statutory powers. The indirect expenses for an individual activity are determined on the basis of criteria set out in a bylaw, the Criteria for allocating indirect costs of activities under Republic of Slovenia authorisation.

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

8.3 Performance of the SID Bank Group

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

EUR thousand	December 2017 and	December 2016 and	Index 2017/2016
Total assets	54,079	55,853	96.8
Equity	26,119	28,392	92.0
Gross claims paid	24,603	7,587	324.3
Claims ratio	163%	53%	
Net profit	1,159	1,690	68.6

Economic growth in countries that significantly impact the operations of SID-PKZ continued in 2017, which brought an increase in insurance business and more favourable claims developments for the majority of policyholders. Despite this, the situation on the insurance market has remained difficult, as claims were paid out within some larger insurance limits in 2017. Owing to market activity by competitors and also by insurance intermediaries (pressure to lower premium rates, terminated contracts) SID-PKZ operated in a very competitive environment also in 2017. This impacted SID-PKZ's sales activities and the seeking of new approaches in the sale and monitoring of insurance operations, as well as the development of products and SID-PKZ's future strategy. In addition to the competitive environment, lower premium rates were also affected by favourable claims results in recent years, since SID-PKZ took this fact into account when setting the premium rates.

Despite the continuing decline in premium rates, SID-PKZ generated a 4.3% higher premium relative to 2016 (gross premium written in 2017: EUR 15,060 thousand). Primarily on account of higher growth in insurance business than planned, SID-PKZ achieved the outlined plan for that category. Growth in the scope of insurance business was largely the result of the higher volume of transactions with existing policyholders and partially also due to transactions with new policyholders.

The loss event situation in 2017 deviated greatly from previous years. Fewer claims were reported and resolved, but they included several major loss events. One major loss event accounted for more than 60% of the total annual amount of gross claims written. As a result, the proportion of gross claims written relative to the gross premium written increased from 52.6% in 2016 to 163.4% in 2017. Gross claims written were up 224.3% in 2017 on the figure in 2016 (amounting to EUR 24,603 thousand). Despite SID-PKZ producing a high gross claims result, this had no significant impact on the operations of SID-PKZ due to solid reinsurance protection. Owing to the reinsurance effect, the impact on net expenses was mitigated for claims, which in 2017 were up EUR 1,196 thousand or 69.3% over the figures in 2016. Net revenue from premiums exceeded net expenses for claims in 2017 by EUR 3,019 thousand, down 26.5% from the 2016 figures (2016: EUR 4,108 thousand).

Revenue from reinsurance commissions received were down EUR 79 thousand or 2.6% on 2016. Ceded premiums were higher, as was the commission rate in 2017. The reason for the decline in 2017 was that due to the solid results from previous years, in 2016 SID-PKZ was entitled on the basis of previous reinsurance contracts to a substantial sum of additional commissions and to participation in profit from these years. In contrast, the profit-sharing amount calculated in 2017 was notably lower.

Operating costs increased in 2017, but the cost ratio remained at the level of 2016, standing at 32%, primarily due to a higher premium. The majority of costs is accounted for by labour costs (64.6% in 2017 and 65.2% in 2016), which were up primarily due to higher payment of remuneration given the accrued sums and promotions.

Revenue from investments was down by EUR 11 thousand or 3.4% on 2016. Low market interest rates remain the main reason for the decline in interest income, as well as a low average stock of investments relative to the previous year. SID-PKZ invests exclusively in Slovenian bank deposits and debt financial instruments. Securities issued by the government or EU member states or guarantees issued by these states accounted for 68.9% of the total stock of investments in 2017 (2016: 60.2%).

Net profit amounted to EUR 1,159 thousand in 2017, down EUR 531 thousand on 2016, but above the 2017 plan.

SID-PKZ is planning to maintain the gross premiums written for 2018 at the same level as in 2017, despite the expected continued decline in premium rates. The expectation of maintaining the premium level is thus primarily based on the planned growth in insurance business. It is expected that claims written in 2018 will be down on 2017, but up on the 2016 figures. The financial plan for 2018 therefore envisages that the gross claims ratio will be significantly lower than in 2017, with the net claims ratio expected to remain at a similar level to 2017.

8.3.2 Prvi faktor Group

Orderly wind-down activities continued in 2017 within the Prvi faktor Group, with emphasis placed on the liquidation of the portfolio, cutting costs and setting limits on operations in accordance with the outlined plans. The examining of subsequent optimisations of liquidation proceedings was carried out simultaneously for the quicker and more effective conclusion of operations, in particular the possibility of outsourced management and/or sales. There were no purchases of receivables (factoring) in 2017.

On the basis of the finalisation of unresolved relations and the liquidated portfolio, taking into account the planned costs for the period 2017–2021 and the cash balances, the group’s companies in total repaid EUR 30.5 million of loans to shareholders in 2017.

Prvi faktor, Ljubljana EUR thousand	December 2017 and	December 2016 and	Index 2017/2016
Total assets	2,534	22,511	11.3
Equity	882	2,650	33.3
Net profit or loss	1,180	(22,825)	-
Purchased receivables	-	26,350	-

Prvi Faktor Group EUR thousand	December 2017 and	December 2016 and	Index 2017/2016
Total assets	14,508	45,523	31.9
Equity	6,260	6,386	98.0
Net profit or loss	5,898	(11,045)	-
Purchased receivables	-	74,826	-

The group's total assets at consolidated level amounted to EUR 14,508 thousand as at 31 December 2017, down 68.1% on the end of 2016. According to total assets, the largest company in the Prvi faktor Group is Prvi faktor, Zagreb – in liquidation, whose total assets amounted to EUR 8,521 thousand. It is followed by Prvi faktor, Belgrade – in liquidation with total assets of EUR 3,606 thousand, Prvi faktor, Ljubljana – in liquidation (EUR 2,534 thousand) and Prvi faktor, Sarajevo – in liquidation (EUR 102 thousand).

Due to the group's release of impairments and provisions all group companies ended 2017 with net profit. The consolidated result of the Prvi faktor Group was also positive, i.e. EUR 5,898 thousand.

Equity in the amount of EUR 6,260 thousand was recorded at the Prvi faktor Group level. The group companies also recorded positive equity at the end of the year.

With the conversion of Prvi faktor, Belgrade's cash and receivables into equity, the two owners each acquired a 5% direct interest in the company at the end of July 2017. The orderly wind-down procedure also began at Prvi faktor, Belgrade in August 2017.

8.3.3 Centre for International Cooperation and Development

EUR thousand	December 2017 and	December 2016 and	Index 2017/2016
Operating revenues	466	388	120.1
Gross profit/loss	27	8	337.5
Total assets	2,980	2,225	133.9

The Centre for International Cooperation and Development (CMSR) operated in line with the financial plan in 2017. The CMSR generated a surplus of income over expenses in 2017.

As in past years, the priority focus of CMSR's operations in 2017 was the implementation of international development cooperation (hereinafter: IDC). Multi-year programmes contributed significantly to the more effective implementation of projects in the area of IDC, given that the predictability of available funds is key for contractors and recipients of grants to be able to implement the procedures required to produce all the legal documents that enable the implementation of development projects. Project financing contracts concluded with Ministry of Finance, the Ministry of the Environment and Spatial Planning and the Ministry of Economic Development and Technology, for which the CMSR has become a key provider of bilateral international development cooperation programmes, are a major success in the area of IDC.

The CMSR maintained and expanded its network of contacts with countries receiving development assistance (primarily sectoral ministries and municipalities) and Slovenian contractors (both with corporates and selected institutes and experts) that are potential providers of development assistance. On the basis of the successful implementation of the programme and by establishing a comprehensive normative framework, the CMSR has strengthened its position as a crucial provider of development assistance, and thus justifiably obtains funds for the provision of all types of bilateral development assistance.

The CMSR continued its many years of solid cooperation with SID Bank, its co-founder and important business partner. In addition to preparing an analysis of country risks, cooperation continued in the conducting of surveys among Slovenian companies and in the area of drafting other types of analyses, such as country political and macroeconomic surveys, comparative country analyses, etc.

The CMSR continued its cooperation with SID-PKZ on the basis of an annual contract for the monitoring of countries in the form of forecasts of economic trends and sectoral analyses, and the forwarding of corporate information in these countries. CMSR has comparative advantages in this field in terms of providing soft information on account of its local sources.

In terms of journalism and law, the CMSR continued its releases of the journal International Business Law in 2017. Knowledge and information from this area are marketed by the CMSR in cooperation with the public agency SPIRIT Slovenia when performing legal analyses of countries worldwide.

The promotional business publication *Doing Business in Slovenia* was released in print form in the first half of 2016, while the online version is regularly updated on the Slovenian Business Portal.

8.4 Reflection of performance in the statement of financial position

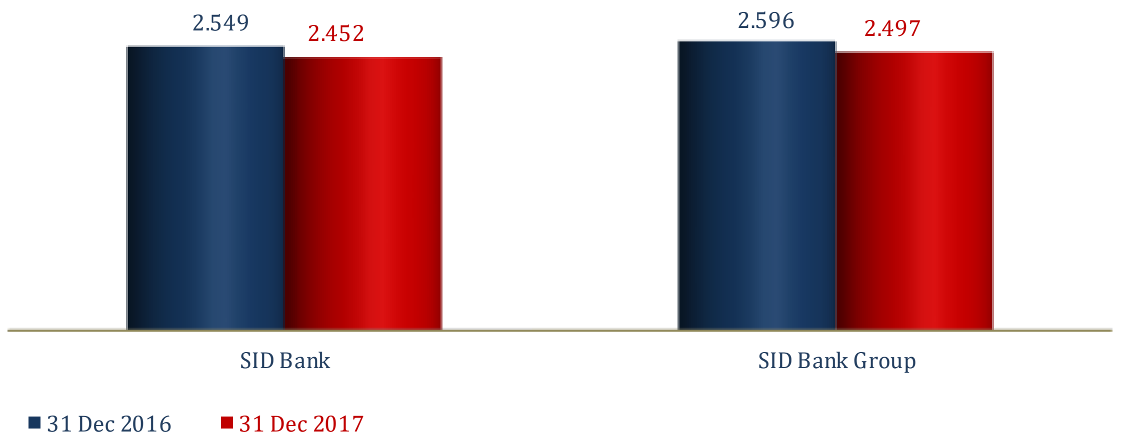
Total assets of SID Bank and of the SID Bank Group

SID Bank's total assets at the end of 2017 stood at EUR 2,451,641 thousand, accounting for 96.2% of its total assets in 2016. Total assets were down EUR 97,002 thousand on 2016. Cash and cash equivalents and investments in securities accounted for the largest decline on the assets side of the statement of financial position, while securities issued declined most on the liabilities side.

Given the controlling influence of SID Bank within the SID Bank Group, the specific nature of the Group and taking regard of the Group's mutual relations, the SID Bank Group's total assets were only EUR 45,661 thousand or 1.9% higher than SID Bank's total assets. As a result, the structure of the Group's assets and liabilities is thus very similar to those of the Bank.

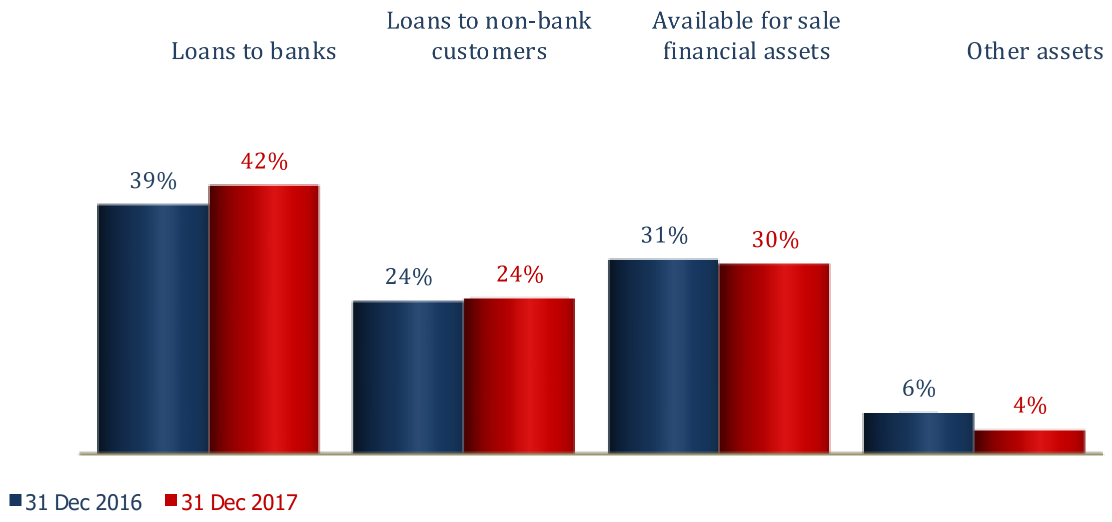
The SID Bank Group's total assets amounted to EUR 2,497,302 thousand at the end of 2017, down EUR 98,774 thousand or 3.8% on the end of 2016.

Total assets (EUR million)



Assets of SID Bank

Assets structure



Loans to banks accounted for the largest proportion (42.1%) of the Bank's assets in 2017 (2016: 39.1%). Loans to banks, including loans and deposits, totalled EUR 1,032,179 thousand at the end of 2017, up EUR 35,881 thousand or 3.6% on the end of 2016. Long-term loans to banks accounted for 66% of the total amount of loans to banks, while short-term deposits accounted for 34%.

Loans to non-banking customers were down EUR 12,823 thousand or 2.1% in 2017. The stock of these loans amounted to EUR 597,740 thousand at the end of the year. Loans and advances to non-bank customers accounted for 24.4% of SID Bank's total assets at the end of 2017 (2016: 24%).

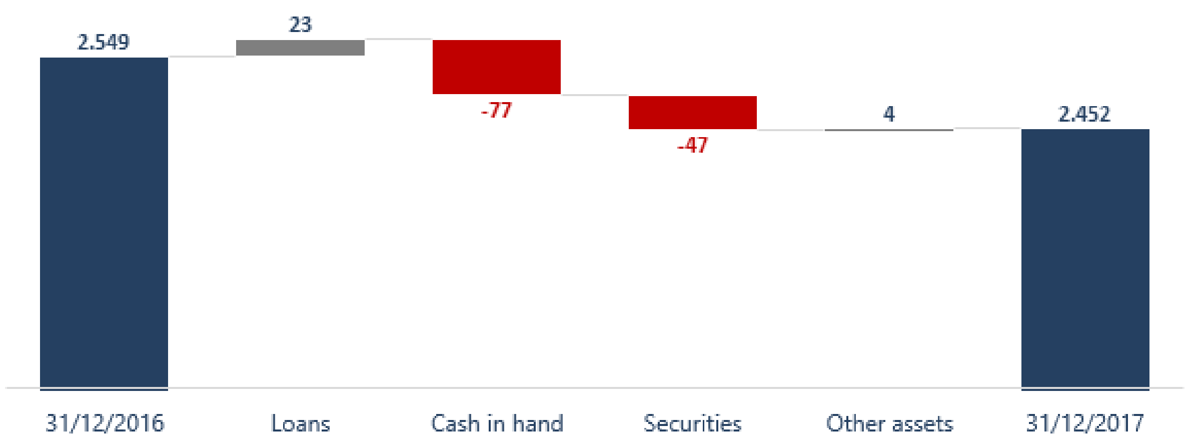
SID Bank had EUR 71,071 thousand in cash balances at the central bank and at commercial banks at the end of 2017, meaning that cash and cash equivalents were down EUR 76,597 thousand on the previous year, and their proportion of the Bank's total assets declined from 5.8% at the end of 2016 to 2.9% at the end of 2017.

Investments in securities amounted to EUR 730.521 thousand, down EUR 47,155 thousand or 6.1% on the end of 2016. Their proportion of the Bank's total assets was 29.8% at the end of 2017 (2016: 30.5%).

The remainder of assets in the amount of EUR 20,130 thousand comprised:

- investments in subsidiaries and joint ventures (EUR 8,413 thousand), remaining unchanged in 2017;
- property, plant and equipment and intangible assets in the amount of EUR 5,796 thousand, down EUR 296 thousand on the end of 2016;
- corporate income tax assets in the amount of EUR 4,086 thousand (2016: EUR 31 thousand);
- other financial assets in the amount of EUR 1,553 thousand (2016: EUR 1,527 thousand); and
- other assets in the amount of EUR 282 thousand (2016: EUR 305 thousand).

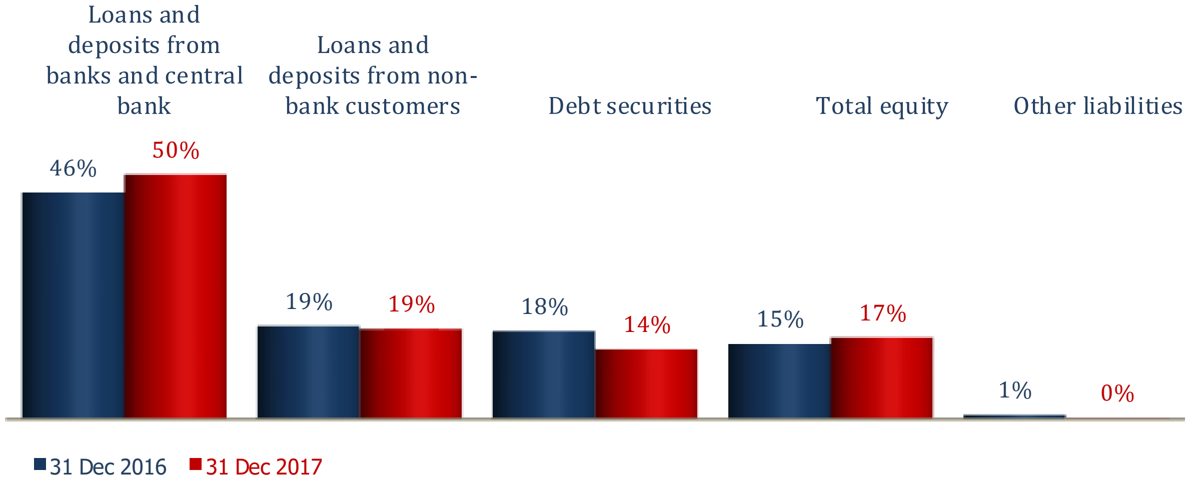
Movements in SID Bank's assets in 2017 (EUR million)



Liabilities and equity of SID Bank

SID Bank's liabilities and equity comprised liabilities in the amount of EUR 2,041,748 thousand and equity of EUR 409,893 thousand at the end of 2017. Liabilities accounted for 83.3% of total equity and liabilities (2016: 84.5%), with equity accounting for 16.7% (2016: 15.5%).

Liabilities structure



At 50.2% (2016: 46.5%), deposits and loans from banks and liabilities to the central bank also accounted for the largest proportion of total equity and liabilities at the end of 2017. Liabilities to banks and the central bank collectively amounted to EUR 1,230,807 thousand, up EUR 45,942 thousand or 3.9% on the previous year.

Liabilities to non-banking customers stood at EUR 454,828 thousand at the end of 2017, down EUR 32,599 thousand or 6.7% on the end of the year. Their proportion of total equities and liabilities declined from 19.1% in 2016 to 18.6% at the end of 2017.

Securities issued were down EUR 110,332 thousand or 24% in 2017, as a result of matured bonds in the nominal amount of EUR 96,832 thousand and the purchases of non-past-due bonds in the nominal amount of EUR 10,165 thousand. The proportion of liabilities from securities issued thus declined from 18.1% in 2016 to 14.3% in 2017. The stock of securities issued stood at EUR 350,320 thousand at the end of 2017.

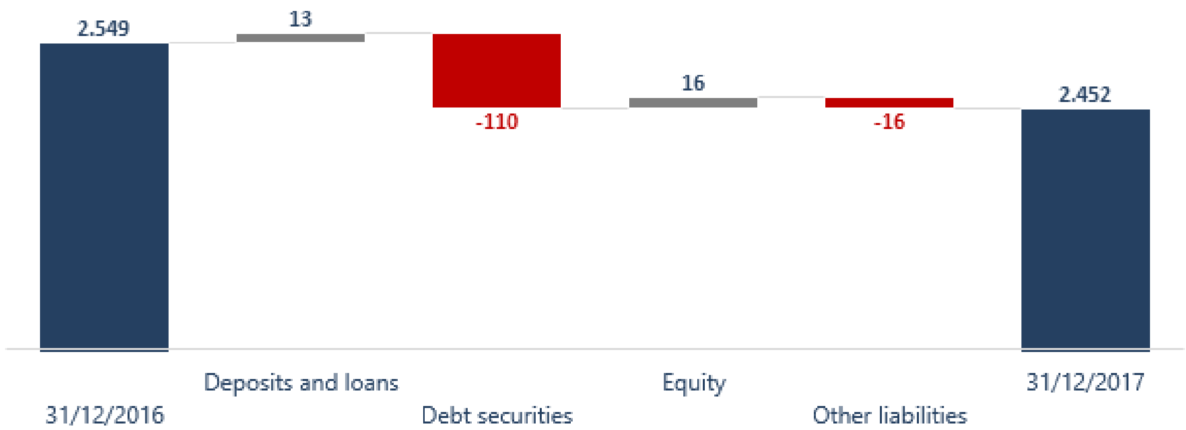
Provisions in the amount of EUR 2,946 thousand at the end of 2017 were down EUR 12,600 thousand on the end of 2016. Provisions for off-balance sheet liabilities declined in 2017 by EUR 12,707 thousand to EUR 2,370 thousand, while provisions for liabilities to employees amounted to EUR 576 thousand, up EUR 107 thousand on the end of 2016.

The remaining liabilities in the total amount of EUR 2,847 thousand comprised:

- other financial liabilities in the amount of EUR 2,191 thousand (2016: EUR 1,767 thousand);
- corporate income tax liabilities in the amount of EUR 447 thousand (2016: EUR 4,105 thousand);
- derivatives used for hedging in the amount of EUR 93 thousand; and
- other liabilities in the amount of EUR 116 thousand (2016: EUR 140 thousand).

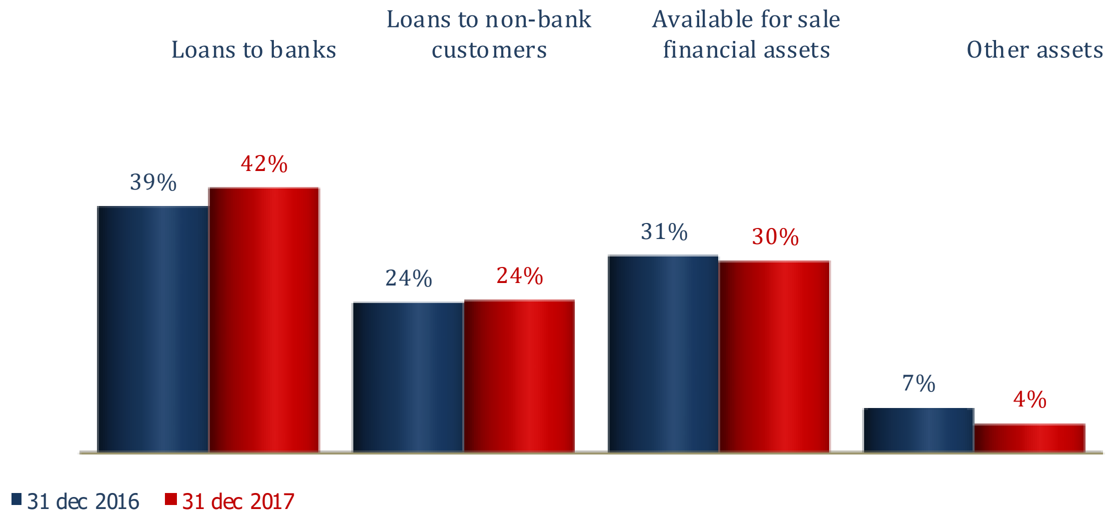
SID Bank's equity was up EUR 16,064 thousand or 4.1% in 2017, amounting to EUR 409,893 thousand at the end of the year. Profit reserves were up EUR 17,474 thousand, accumulated other comprehensive income in connection with available-for-sale financial assets was up EUR 2,109 thousand, while retained earnings, including net profit for the financial year, were down EUR 3,519 thousand on the previous year.

Movements in SID Bank's liabilities and equity in 2017 (EUR million)



Assets of the SID Bank Group

Assets structure



Loans to banks totalled EUR 1,037,431 thousand at the end of 2017, up EUR 34,929 thousand or 3.5% on the end of 2016. With 41.5% they maintained the largest proportion of the Group's assets also in 2017 (2016: 38.6%).

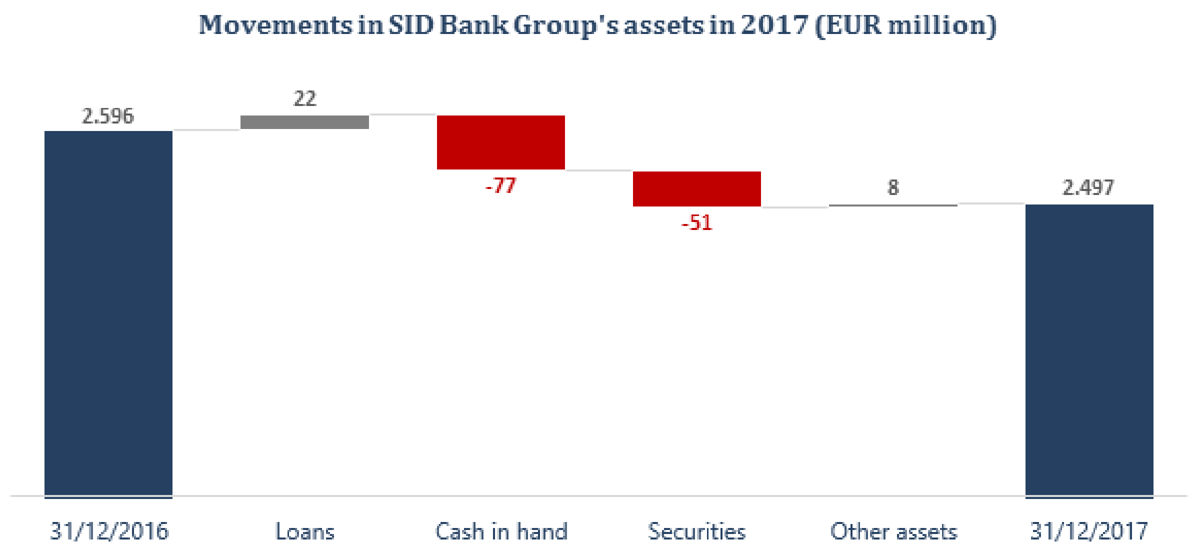
Loans to non-banking customers are equivalent in terms of value to the same item in SID Bank's statement of financial position (EUR 597,740 thousand), while their proportion of the Group's assets of 23.9% was slightly up on the previous year (2016: 23.5%).

SID Bank Group's cash in hand and cash balances at the central bank and commercial banks stood at EUR 75,950 thousand, accounting for 3% of the Group's entire assets (2016: 5.9%). These assets were down EUR 77,405 thousand on 2016.

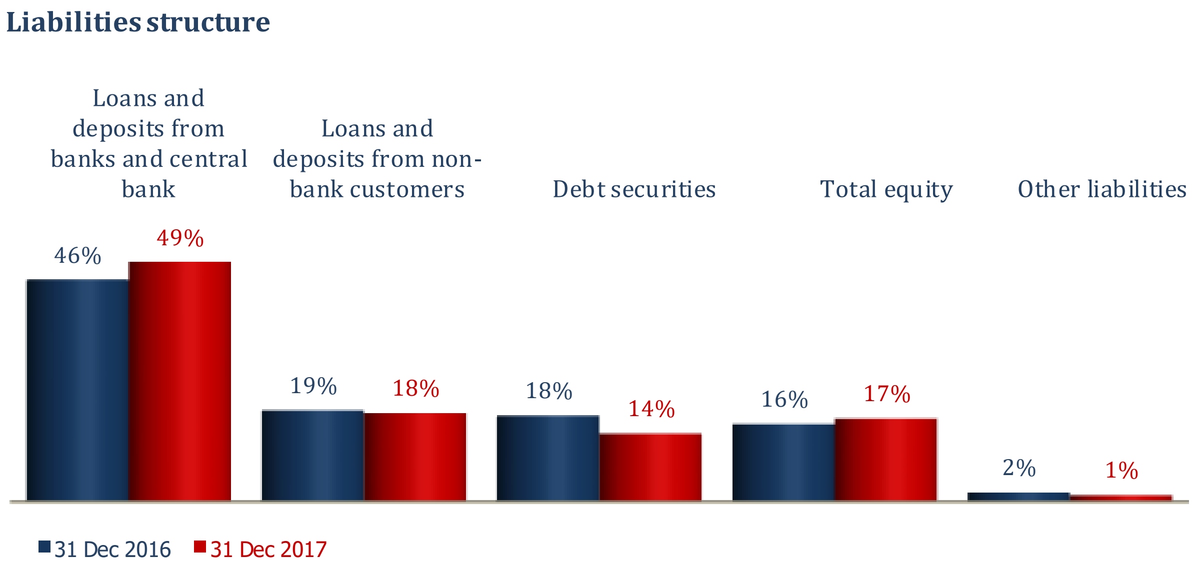
Investments in securities amounted to EUR 750,004 thousand at the end of 2017, down EUR 51,040 thousand on the end of 2016. Their proportion of the Group's assets stood at 30% (2016: 30.9%).

The remainder of assets in the amount of EUR 36,177 thousand comprised:
– assets of reinsurers and receivables from insurance business stood at EUR 20,921 thousand at the end of 2017, down EUR 3,114 thousand on the end of 2016;

- property, plant and equipment and intangible assets in the amount of EUR 8,757 thousand, down EUR 26 thousand on the end of 2016;
- corporate income tax assets in the amount of EUR 4,513 thousand (2016: EUR 31 thousand);
- other financial assets in the amount of EUR 1,554 thousand (2016: EUR 1,526 thousand);
- other assets in the amount of EUR 432 thousand (2016: EUR 465 thousand).

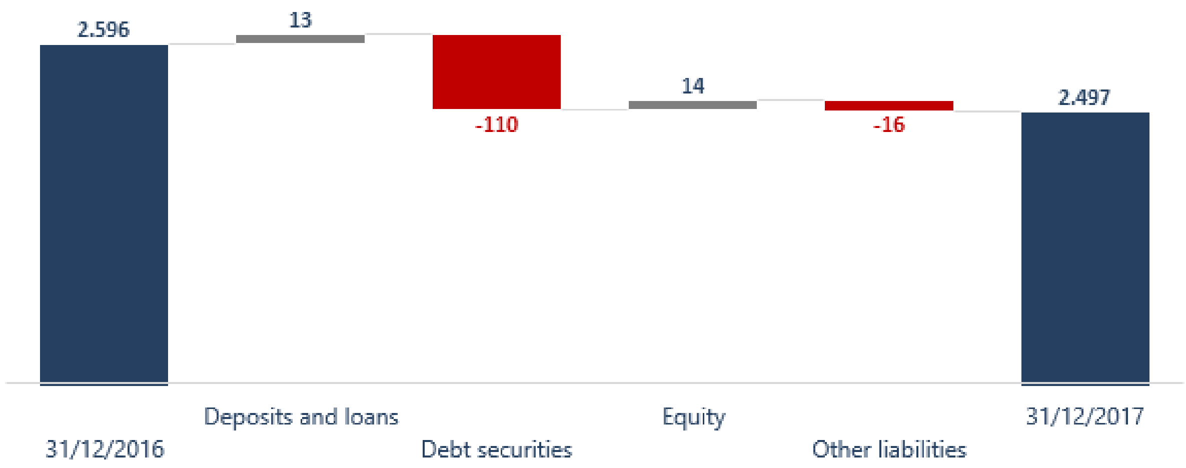


Liabilities and equity of the SID Bank Group



The structure of liabilities and equity of the SID Bank Group is similar to that of SID Bank. Liabilities totalled EUR 2,069,702 thousand and accounted for 82.9% of total equity and liabilities (2016: 84.1%), while equity in the amount of EUR 427,600 thousand accounted for 17.1% of liabilities and equity (2016: 15.9%).

Movements in SID Bank Group's liabilities and equity in 2017 (EUR million)



The Group's loans and deposits from banks and liabilities to the central bank are equal to this of SID Bank in that respect. They totalled EUR 1,230,807 thousand at the end of 2017, accounting for 49.3% of the Group's equity and liabilities (2016: 45.6%). Liabilities were up EUR 45,942 thousand on 2016.

The Group's liabilities to non-bank customers were also the same as those of SID Bank in that respect, totalling EUR 454.828 thousand at the end of 2017, down EUR 32,599 thousand or 6.7% on the end of 2016. Their proportion declined from 18.8% to 18.2% in 2017.

The proportion of liabilities from securities issued stood at 14% at the end of 2017 (2016: 17.7%). Liabilities in the amount of EUR 350,320 thousand were at the same level as the liabilities of SID Bank.

Provisions in the amount of EUR 27,137 thousand were down EUR 11,820 thousand on the end of 2016. Their largest portion, EUR 24,040 thousand, is derived from change in liabilities from insurance contracts. Provisions for off-balance sheet liabilities totalled EUR 2,370 thousand, the same as for the Bank, while provisions for liabilities to employees amounted to EUR 727 thousand.

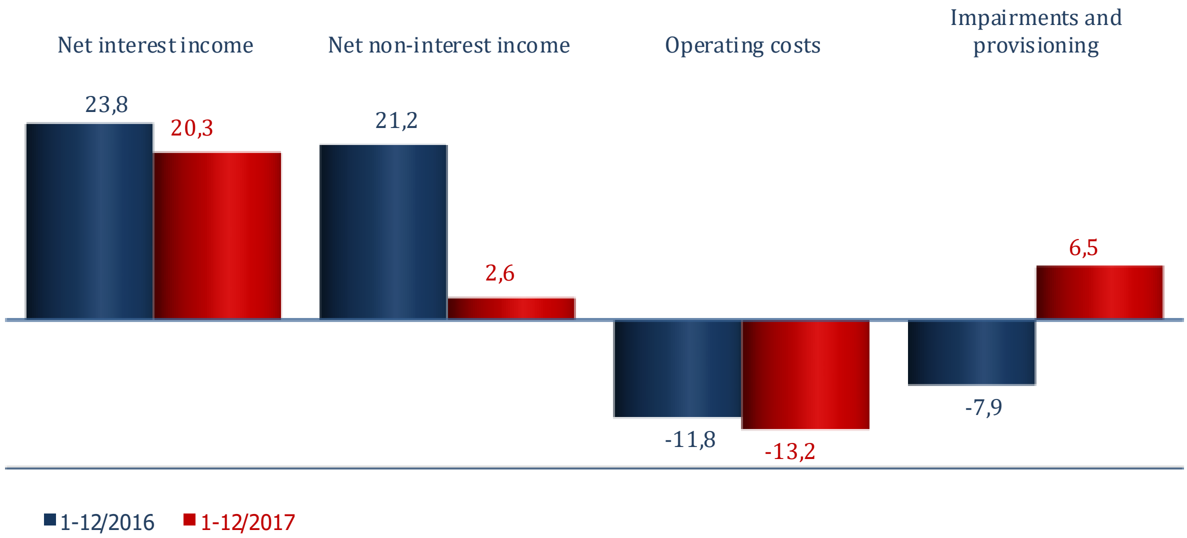
The remaining liabilities in the total amount of EUR 6,610 thousand comprised:
- other financial liabilities in the amount of EUR 3,062 thousand (2016: EUR 2,497 thousand);
- accrued reinsurance liabilities in the amount of EUR 2,401 thousand (2016: EUR 2,506 thousand);
- corporate income tax liabilities in the amount of EUR 569 thousand, down EUR 3,999 thousand on the end of 2016;
- derivatives used for hedging in the amount of EUR 93 thousand; and
- other liabilities in the amount of EUR 485 thousand, which is equivalent to the figure at the end of 2016.

SID Bank's equity stood at EUR 427,600 thousand at the end of the year, up 3.3% or 13,792 thousand in terms of value in 2017. Profit reserves were up EUR 24,671 thousand, accumulated other comprehensive income in connection with available-for-sale financial assets up EUR 2,029 thousand, while retained earnings, including net profit for the financial year were down EUR 12,908 thousand on the previous year.

8.5 Reflection of performance in the statement of profit or loss

Financial results of SID Bank

Main items of the income statement (EUR million)



SID Bank generated a pre-tax profit of EUR 16,224 thousand in 2017, which was reflected in a return on equity of 3.5% (2016: 5.6%). Gross profit was down EUR 9,093 thousand on 2016. Higher profit in the previous year was mainly attributed to one-off effects from the sale of non-performing investments in 2016, with no such effects in 2017.

Net profit stood at EUR 13,956 thousand, down EUR 7,407 thousand on the previous year.

Net interest

Net interest income amounted to EUR 20,294 thousand in 2017, down 14.9% on 2016 (2016: EUR 23,841 thousand). The Bank's interest income amounted to EUR 29,119 thousand in 2017, down 22.4% on the previous year (2016: EUR 37,501 thousand), while interest expenses totalled EUR 8,825 thousand or 64.6% of the interest expenses in 2016 (2016: EUR 13,660 thousand). Net interest income was down primarily due to lower interest rates and partially also due to lower average loan portfolio. The restructuring procedures completed in 2016, recognising EUR 3.6 million in interest in that regard, also impacted lower net interest and interest income relative to 2016. There were no similar one-off effects in 2017. The Bank generated a net interest margin of 0.8% in 2017 (2016: 0.9%). Net interest income accounted for 88.5% of total net revenue (2016: 52.9%).

Non-interest income

Net non-interest income totalled EUR 2,641 thousand in 2017, down EUR 18,572 thousand on the total net non-interest income result in 2016 (2016: EUR 21,213 thousand). Share of the profit of investments in subsidiaries, associates and joint ventures in the amount of EUR 3,353 thousand accounted for the largest proportion of non-interest income (2016: EUR 88 thousand), followed by profit from financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 3,316 thousand (2016: EUR 6,183 thousand). The Bank generated a net loss on financial assets and liabilities measured at fair value through profit or loss in the amount of EUR 4,839 thousand (2016: net profit of EUR 11,151 thousand). Net loss on financial assets and liabilities measured at fair value through profit or loss relates to revaluation expenses from the positive operations of loan funds, which was primarily attributed to net income from impairments and provisions for loans from loan funds in the amount of EUR 2,217 thousand (2016: net expenses of EUR 13,263 thousand). Under the contract each positive/negative financial result increase/decreases SID Bank's liabilities to the MEDT.

Other net non-interest income totalled EUR 811 thousand and relates to:

- income from business activities under the authorisation of the Republic of Slovenia in the amount of EUR 1,893 thousand (2016: EUR 1,811 thousand);
- exchange rate net loss in the amount of EUR 1,186 thousand (2016: net profit of EUR 689 thousand);
- net fee and commission expenses in the amount of EUR 227 thousand (2016: net income of EUR 1,171 thousand);
- other net income in the amount of EUR 331 thousand (2016: EUR 120 thousand).

The Bank's financial intermediation margin totalled 0.9% in 2017 (2016: 1.6%), down primarily due to lower non-interest income.

Operating costs

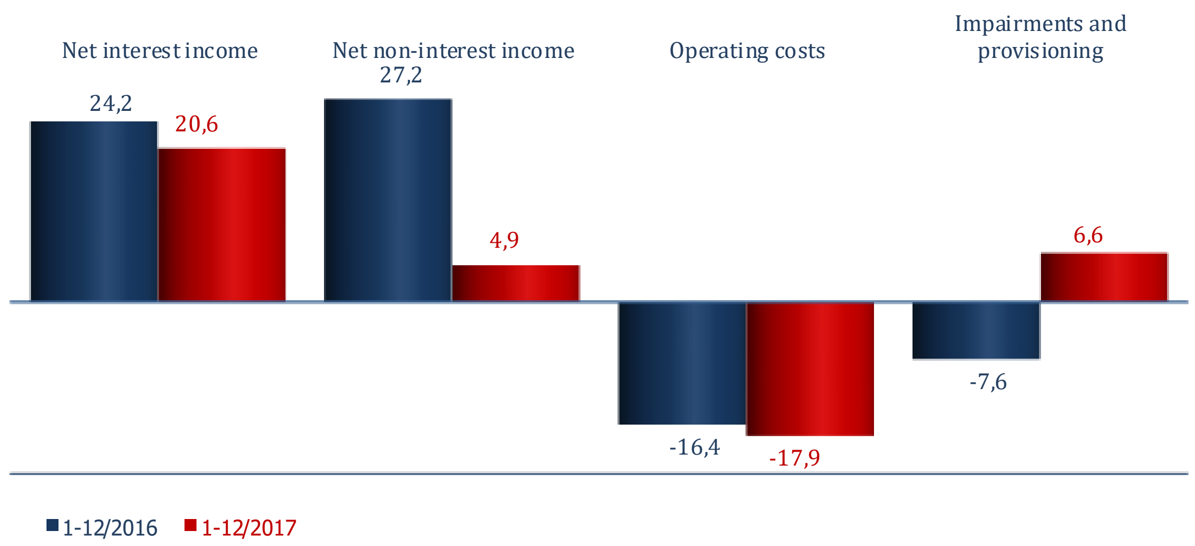
The Bank's operating costs totalled EUR 13,246 thousand in 2017, up 12% on 2016. Higher costs are primarily attributed to the Bank's development activity, particularly in connection with new product launches and the start-up costs to establish the Fund of Funds. Labour costs amounted to EUR 8,853 thousand, up 9.8% on 2016. Costs of materials and services totalled EUR 3,541 thousand, up EUR 585 thousand or 19.8% on the previous year. While the costs of materials were down on the previous year, the costs of services increased primarily on account of higher IT costs, one-off events (e.g. celebration of SID/SID Bank's 25th anniversary) and the costs of consultancy services associated with new product launches. Amortisation and depreciation were up 5.8% at EUR 852 thousand.

Impairments and provisions

The Bank generated net income from impairments and provisions in the amount of EUR 6,535 thousand in 2017 (2016: net expenses of EUR 7,914 thousand). Net income from impairments amounted to EUR 7,452 thousand, while net expenses for provisions stood at EUR 917 thousand.

Financial results of the SID Bank Group

Main items of the income statement (EUR million)



The SID Bank Group recorded a gross profit of EUR 14,168 thousand in 2017, down EUR 13,168 thousand on 2016, and a net profit of EUR 11,762 thousand (2016: EUR 22,965 thousand). Through its operations the Group generated a 2.8% return on equity in 2017 (2016: 5.7%).

Net interest

Interest income of EUR 29,424 thousand was down 22.2% in 2017 on the interest income in the previous year (2016: EUR 37,829 thousand), while interest expenses in the amount of EUR 8,828 thousand were down 35.4% (2016: EUR 13,663 thousand). Net interest income in the amount of EUR 20,596 thousand were down 14.8% on 2016 (2016: EUR 24,166 thousand). Similarly to the net interest income generated by the Bank, net interest income generated by the Group was also down primarily as a result of lower average interest rates, and in part due to lower average loan portfolio. Net interest income accounted for 80.7% of total net revenue (2016: 47.1%). The Group recorded an interest margin of 0.8% in 2017 (2016: 0.9%), calculated on average assets.

Non-interest income

Net non-interest income totalled EUR 4,932 thousand, down EUR 22,260 thousand on the end of 2016 (2016: EUR 27,192 thousand), broken down as follows:

- net income from insurance operations in the amount of EUR 6,400 thousand (2016: EUR 6,815 thousand);
- profit from financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 3,327 thousand (2016: EUR 6,183 thousand);
- income from business activities under the authorisation of the Republic of Slovenia in the amount of EUR 1,893 thousand (2016: EUR 1,811 thousand);
- net loss on financial assets and liabilities measured at fair value through profit or loss in the amount of EUR 4,839 thousand (2016: net profit of EUR 11,151 thousand);
- exchange rate net loss in the amount of EUR 1,185 thousand (2016: net profit of EUR 685 thousand);
- net fee and commission expenses in the amount of EUR 245 thousand (2016: net income of EUR 1,154 thousand);
- other net non-interest expenses in the amount of EUR 419 thousand.

SID Group's financial intermediation margin stood at 0.8% in 2017 (2016: 1.6%).

Operating costs

The Group's operating costs amounted to EUR 17,931 thousand in 2017 (2016: EUR 16,403 thousand), with administrative costs accounting for EUR 16,664 thousand of the aforementioned amount (2016: EUR 15,288 thousand), and amortisation costs for EUR 1,267 thousand (2016: EUR 1,115 thousand). Labour costs amounted to EUR 11,957 thousand (2016: EUR 11,121 thousand), and costs of material and services totalled EUR 4,706 thousand (2016: EUR 4,167 thousand).

Impairments and provisions

The SID Bank Group’s net income from impairments and provisions totalled EUR 6,571 thousand (2016: net expenses stood at EUR 7,619 thousand). While the Group's net income from impairments stood at EUR 7,361 thousand, net expenses for provisions amounted to EUR 790 thousand.

8.6 Significant events in 2017

Business events

In February SID Bank carried out a partial prepayment of the bond issued SEDABI 0.875 08/04/18 in the amount of EUR 9.2 million, and in March in the amount of EUR 1.1 million.

In March 2017 SID Bank borrowed long-term funds from the European Central Bank in the amount of EUR 173.1 million.

Within the scope of SID Bank's strategic guidelines, the procedure of verifying the possibility of selling tranches of shares of SID – Prva kreditna zavarovalnica, d. d., Ljubljana commenced in March 2017. SID Bank plans to carry out the sales procedure in cooperation with a financial advisor in accordance with the established international standards applying to the sale of companies.

Given the liquidation process and the resulting reduction in total assets of the Prvi faktor Group companies, SID Bank was no longer required, as at 31 March 2017, to fulfil requirements on a consolidated basis in accordance with the CRR, as the proportionate part of the total assets of the Prvi faktor Group accounted for by SID Bank no longer exceeded EUR 10 million.

The 3-year bond SEDABI 2.25% 04/24/17 matured in April 2017 in the nominal amount of EUR 96.8 million. In addition, SID Bank repaid a 10-year promissory note in a nominal amount of EUR 77 million, which fell due in May 2017.

In April the Bank launched a new financing programme via commercial banks in the amount of EUR 150 million for financing SMEs and mid-cap companies. SID Bank drew down a portion of these funds in the total amount of EUR 25 million in June and December 2017.

Within the scope its supervision of banking operations, the Bank of Slovenia conducted two reviews at the Bank in 2017, i.e. a review of the appropriateness of the pledged banking loans and a review of credit risk within the scope of two products that focus on financing SMEs, i.e. the financing of investments to strengthen their capital position and the financing of current operations to enhance their capital position (so-called patient capital or loans). Both reviews were concluded without imposing any supervisory measures or any sanctions resulting from minor offences.

In November 2017 the MEDT appointed SID Bank as manager of the Fund of Funds, into which EUR 253 million will be paid by 2023 from European cohesion funds.

Together with the EIF, the Bank set up a EUR 100 million Slovene Equity Growth Investment Programme in November 2017.

Management bodies

SID Bank's new management board (Sibil Svilan, president, and Goran Katušin, member) began its term of office on 1 January 2017.

The term of office of the deputy-chairman of the supervisory board Janez Tomšič and of members Štefan Grosar and Marjan Divjak expired on 5 April 2017. Pursuant to the Slovenian government's decision, Aleš Berk Skok, PhD, Zlatko Vili Hohnjec and Marjan Divjak were appointed as new members to the Bank's supervisory board.

Credit rating

Owing to an upgrade of Slovenia's sovereign rating, the Standard & Poor's Rating Services agency increased SID Bank's rating from A to A+ in June 2017. SID Bank's rating outlook remains stable. Its short-term rating was A-1.

8.7 Events after the balance-sheet date

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

FINANCIAL REPORT

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

On 6 March 2018 the management board hereby approves the financial statements of SID Bank and the SID Bank Group, and the annual report for the year ending 31 December 2017. The financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU.

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

The management's responsibilities are:

- to employ relevant accounting policies, and to ensure that they are consistently applied,
- to make use of reasonable and prudent accounting estimates and judgements,
- to ensure that the financial statements are compiled on a going-concern basis for SID Bank and the SID Bank Group.

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

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

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

Goran Katušin	Sibil Svilan, M.Sc.
Member	President

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

Deloitte.

Deloitte Revizija d.o.o.
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INDEPENDENT AUDITORS' REPORT
to the owners of SID banka d.d.

Opinion

We have audited the financial statements of the company SID banka d.d. (hereinafter the Company), which comprise the statement of financial position as at 31 December 2017, 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 2017, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards 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 current period. 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.

Key Audit Matters	Audit Procedures Regarding Key Audit Matters
Loan portfolio impairment	
The accounting policies are disclosed in Note 2.3.11, and information on exposures and impairments is elaborated on in Note 2.4.3. The bank management's decision as to when and to what extent loan portfolio impairment should be recognised requires a high level of judgement/assessment. Due to the importance of the said assessment and of the quantity of the loan portfolio and the respective impairments for the	Within our audit procedures, we reviewed the design and effectiveness of key controls in connection with the creation of impairments of the credit portfolio: - control over the classification of a client; - control over a timely assessment of the individual impairments; - control over the collateral valuation (with focus on having regularly updated valuations as the basis for determining the appropriate value of collateral). In line with the sampling methodology, we analysed a sample of clients from the loan portfolio to assess if

financial statements, this accounting estimate is considered a key audit matter. As at 31 December 2017, the gross exposure of the loan portfolio amounted to EUR 1,772,929 thousand, while the relevant impairment was recognised in the amount of EUR 143,010 thousand. The basis for impairment calculation and recognition is determined in the bank's accounting policies, i.e., financial assets arising from loans and guarantees are classified as individually or collectively impaired assets. Individually impaired items are: ☐ individually significant items where the total exposure for assigning to one client exceeds EUR 20 thousand, ☐ financial assets that the bank assesses to be impaired individually. If there is objective evidence of impairment in an individual assessment of a financial asset, the recoverable amount of such a financial asset must be assessed. Impairment is measured for each financial asset that is individually significant. Impairment of financial assets that are not individually significant is measured collectively. Exposures that are not individually impaired are classified in groups of exposures to debtors with comparable risks, which are mainly related to the debtor's activity, his geographical location and the characteristics of the financing products.	impairment occurred for those clients and if it was identified on time and in the right amounts. The adequacy of impairment methodology and policies was independently assessed for the individually impaired exposures included in the sample. We have prepared an independent assessment of impairment based on the information in respect of individual clients and on the applied impairment methodology (expected discounted cash flows from the operations or realisation of collateral). Where necessary, auditor's experts (certified appraisers) were engaged to assess the adequacy of provided collateral. During the procedures, we were focused also on any indicators of potential bias or errors on the side of management. For exposures subject to the group impairment, we examined if the methodology used to assess credit losses for the discussed portfolio was adequate. We examined internal policies, methodologies and work instructions. We analysed the sample to assess whether the bank exercises the group impairment policy consistently and if appropriate parameters are used for individual transactions. To estimate the appropriateness of the level of formed collective impairments, assumptions and comparative values (benchmarks) were used for the probability of default, cure rate and collateral hair cut. The benchmarks used were either obtained from the Bank of Slovenia announcements regarding system parameters, either from the reports of international credit rating agencies on historical default rates and loss rates by individual rating classes, and appropriately evaluated.

Other Information

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

Our opinion on the financial statements does not cover the other information.

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. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements.
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, Audit Committee and Supervisory Board 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, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing matters related to going concern and using the going concern bases of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process.

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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism 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 material 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 entity'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 entity 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 significant 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.

Among the matters we communicate Supervisory Board and Audit Committee, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations as required by EU Regulation No. 537/2014

In compliance with the Article 10(2) of EU Regulation No. 537/2014, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 3 July 2015. Our total uninterrupted engagement has lasted 3 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 26 March 2018 in accordance with the 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.

Besides the statutory audit, we have not performed any other services for the audited company or its subsidiaries that are not disclosed in the annual report.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified Auditor

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

For signature please refer to the original Slovenian version.

Ljubljana, 26 March 2018

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INDEPENDENT AUDITORS' REPORT
to the owners of SID banka d.d.

Opinion

We have audited the consolidated financial statements of the company Poslovni sistem SID banka d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and consolidated cash flow statement for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Audit Procedures Regarding Key Audit Matters
Loan portfolio impairment	
The accounting policies are disclosed in Note 2.3.11, and information on exposures and impairments is elaborated on in Note 2.4.3. The bank management's decision as to when and to what extent loan portfolio impairment should be recognised requires high level of judgement/assessment. Due to the importance of the said assessment and of the quantity of the loan portfolio	Within our audit procedures, we reviewed the design and effectiveness of key controls in connection with the creation of impairments of the credit portfolio: - control over the classification of a client; - control over timely assessment of the individual impairments; - control over the collateral valuation (with focus on having regularly updated valuations as the basis for determining the appropriate value of collateral).

and the respective impairments for the financial statements, this accounting estimate is considered a key audit matter. As at 31 December 2017, the gross exposure of the loan portfolio amounted to EUR 1,778,181 thousand, while the relevant impairment was recognised in the amount of EUR 143,010 thousand. The basis for impairment calculation and recognition is determined in the bank's accounting policies, i.e. financial assets arising from loans and guarantees are classified as individually or collectively impaired assets. Individually impaired items: ☐ individually significant items where the total exposure for assigning to one client exceeds EUR 20 thousand, ☐ financial assets that the bank assesses to be impaired individually. If there is objective evidence of impairment in an individual assessment of a financial asset, the recoverable amount of such a financial asset must be assessed. Impairment is measured for each financial asset that is individually significant. Impairment of financial assets that are not individually significant is measured collectively. Exposures that are not individually impaired are classified in groups of exposures to debtors with comparable risks, which are mainly related to the debtor's activity, his geographical location and the characteristics of the financing products.	In line with the sampling methodology, we analysed a sample of clients from the loan portfolio to assess if impairment occurred for those clients and if it was identified on time and in the right amounts. The adequacy of impairment methodology and policies was independently assessed for the individually impaired exposures included in the sample. We have prepared an independent assessment of impairment based on the information in respect of individual clients and on the applied impairment methodology (expected discounted cash flows from the operations or realisation of collateral). Where necessary, auditor's experts (certified appraisers) were engaged to assess the adequacy of provided collateral. During the procedures, we were focused also on any indicators of potential bias or errors on the side of management. For exposures subject to the group impairment, we examined if the methodology used to assess credit losses for the discussed portfolio was adequate. We examined internal policies, methodologies and work instructions. We analysed the sample to assess whether the bank exercises the group impairment policy consistently and if appropriate parameters are used for individual transactions. To estimate the appropriateness of the level of formed collective impairments, assumptions and comparative values (benchmarks) were used for the probability of default, cure rate and collateral hair cut. The benchmarks used were either obtained from the Bank of Slovenia announcements regarding system parameters, either from the reports of international credit rating agencies on historical default rates and loss rates by individual rating classes, and appropriately evaluated.
Technical provisions	
Technical provisions are explained in Note 2.3.17 (Accounting policies) and Note 2.4.10 (Value and assumptions). Through its subsidiary SID PKZ d.d., the Group recognizes the following types of technical provisions: unearned premiums, provisions for claims outstanding, provisions for bonuses and provisions for unexpired risks. Provisions are an accounting estimate and are therefore subject to a high degree of judgment/assessment, which is why we considered this accounting estimate as a key audit matter.	We have gained understanding and tested key controls and management of the process of analysing economic and non-economic assumptions. We also assessed the design, establishment and effectiveness of key controls in determining assumptions, including an analysis of experience. In performing the audit procedures, we included experts from the actuarial sector for the assessment of actuarial assumptions, including the treatment and assessment of the justification of management estimates and relying on industry information. Our assessment includes references to independent comparative data in each of the main domains of the assumptions.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements.
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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

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

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

The Supervisory Board and the Audit Committee are responsible for overseeing the Group's financial reporting process.

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

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

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

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

With Supervisory Board and Audit Committee, we communicate the planned scope and timing of the audit and significant findings from the audit, including significant 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.

Among the matters we communicate Supervisory Board and Audit Committee, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations as required by EU Regulation No. 537/2014 of the European Parliament and the Council

In compliance with the Article 10(2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

<u>Appointment of the Auditor and the Period of Engagement</u>

We were appointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 3 July 2015. Our total uninterrupted engagement has lasted 3 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 26 March 2018 in accordance with the 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.

Besides the statutory audit, we have not performed any other services for the audited company or its subsidiaries that are not disclosed in the annual report.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified Auditor

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

For signature please refer to the original Slovenian version.

Ljubljana, 26 March 2018

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1 Financial statements of SID Bank and the SID Bank Group

1.1 Statement of financial position

		SID Bank		SID Bank Group	
In EUR thousands	Note	**31 Dec 2017**	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
Cash, cash balances at central bank and demand deposits at banks	2.4.1	**71,071**	147,668	**75,950**	153,355
Available-for-sale financial assets	2.4.2	**730,521**	777,676	**750,004**	801,044
Loans and advances	2.4.3	**1,631,472**	1,608,458	**1,636,725**	1,614,591
Loans and advances to banks		**1,032,179**	996,368	**1,037,431**	1,002,502
Lending and advances to non-banking customers		**597,740**	610,563	**597,740**	610,563
Other financial assets		**1,553**	1,527	**1,554**	1,526
Property, plant and equipment	2.4.4	**4,992**	5,287	**7,476**	7,491
Intangible assets	2.4.4	**804**	805	**1,281**	1,292
Investments in subsidiaries, associates and joint ventures	2.4.5	**8,413**	8,413	**0**	0
Tax assets	2.4.6	**4,086**	31	**4,513**	31
Current tax assets		**4,086**	0	**4,513**	0
Deferred tax assets		**0**	31	**0**	31
Other assets	2.4.7	**282**	305	**21,353**	18,272
TOTAL ASSETS		**2,451,641**	**2,548,643**	**2,497,302**	**2,596,076**
Financial liabilities held for trading		**0**	312	**0**	312
Financial liabilities measured at amortised cost	2.4.8	**2,038,146**	2,134,711	**2,039,017**	2,135,441
Deposits from banks		**25,264**	31,740	**25,264**	31,740
Deposits from non-banking customers		**0**	30,000	**0**	30,000
Loans from banks and central banks		**1,205,543**	1,153,125	**1,205,543**	1,153,125
Loans from non-banking customers		**454,828**	457,427	**454,828**	457,427
Debt securities issued		**350,320**	460,652	**350,320**	460,652
Other financial liabilities		**2,191**	1,767	**3,062**	2,497
Derivatives used for hedging	2.4.9	**93**	0	**93**	0
Provisions	2.4.10	**2,946**	15,546	**27,137**	38,957
Tax liabilities	2.4.6	**447**	4,105	**569**	4,568
Current tax liabilities		**0**	4,105	**0**	4,430
Deferred tax liabilities		**447**	0	**569**	138
Other liabilities	2.4.11	**116**	140	**2,886**	2,990
TOTAL LIABILITIES		**2,041,748**	2,154,814	**2,069,702**	2,182,268
Share capital		**300,000**	300,000	**300,000**	300,000
Share premium		**1,139**	1,139	**1,139**	1,139
Accumulated other comprehensive income		**15,444**	13,335	**16,068**	14,039
Profit reserves		**88,005**	70,531	**107,859**	83,188
Treasury shares		**(1,324)**	(1,324)	**(1,324)**	(1,324)
Retained earnings (including net profit for the financial year)		**6,629**	10,148	**3,858**	16,766
Equity attributable to owners of the bank		**409,893**	393,829	**427,600**	413,808
TOTAL EQUITY	2.4.12	**409,893**	393,829	**427,600**	413,808
TOTAL LIABILITIES AND EQUITY		**2,451,641**	**2,548,643**	**2,497,302**	**2,596,076**

The notes are a constituent part of the financial statements.

1.2 Statement of profit or loss

		SID Bank		SID Bank Group	
In EUR thousands	Note	**2017**	2016	**2017**	2016
Interest income		**29,119**	37,501	**29,424**	37,829
Interest expense		**(8,825)**	(13,660)	**(8,828)**	(13,663)
Net interest	2.5.1	**20,294**	23,841	**20,596**	24,166
Dividend income	2.5.12	**87**	27	**87**	27
Fee and commission income		**232**	1,921	**232**	1,921
Fee and commission expenses		**(459)**	(750)	**(477)**	(767)
Net fees and commissions	2.5.2	**(227)**	1,171	**(245)**	1,154
Net gains realised on financial assets and liabilities not measured at fair value through profit or loss	2.5.3	**3,316**	6,183	**3,327**	6,183
Net gains/losses on financial assets and liabilities held for trading		**385**	(307)	**385**	(307)
Net gains/losses on financial assets and liabilities measured at fair value through profit or loss	2.5.4	**(4,839)**	11,151	**(4,839)**	11,151
Changes in fair value in hedge accounting	2.5.5	**21**	377	**21**	377
Net foreign exchange gains/losses	2.5.6	**(1,186)**	689	**(1,185)**	685
Net (losses) on derecognition of assets		**(5)**	0	**(5)**	0
Other net operating gains	2.5.7	**1,732**	1,670	**7,382**	7,758
Administrative expenses	2.5.8	**(12,394)**	(11,018)	**(16,664)**	(15,288)
Depreciation and amortisation	2.5.9	**(852)**	(805)	**(1,267)**	(1,115)
Provisions	2.5.10	**(917)**	1,660	**(790)**	2,361
Impairments	2.5.11	**7,452**	(9,574)	**7,361**	(9,980)
Share of the profit of investments in subsidiaries, associates and joint vantures	2.5.12	**3,353**	88	**0**	0
Net profit from non-current assets classified as held for sale		**4**	164	**4**	164
Profit before tax from continuing operations		**16,224**	**25,317**	**14,168**	**27,336**
Income tax on continuing operations	2.5.13	**(2,268)**	(3,954)	**(2,406)**	(4,371)
Net profit for the financial year		**13,956**	**21,363**	**11,762**	**22,965**
Attributable to owners of the bank		**13,956**	21,363	**11,762**	22,965
Basic earnings per share/Diluted earnings per share (in EUR)	2.5.14	**4.50**	**6.88**	**3.79**	**7.40**

The notes are a constituent part of the financial statements.

1.3 Statement of other comprehensive income

		SID Bank		SID Bank Group	
In EUR thousands	Note	**2017**	2016	**2017**	2016
Net profit for the financial year after tax		**13,956**	21,363	**11,762**	22,965
Other comprehensive income after tax		**2,108**	8,302	**2,030**	8,447
Items that will not be reclassified to profit or loss		**0**	0	**7**	(7)
Actuarial gains/losses on Defined benefit pension plans		**0**	0	**8**	(10)
Income tax relating to items that will not be reclassified to profit or loss	2.4.6	**0**	0	**(1)**	3
Items that may be reclassified subsequently to profit or loss		**2,108**	8,302	**2,023**	8,454
Available-for-sale financial assets	2.4.2	**2,603**	10,399	**2,498**	10,604
Valuation gains taken to equity		**5,787**	16,629	**5,671**	16,835
Transfer (of gains) to profit or loss		**(3,184)**	(6,230)	**(3,173)**	(6,231)
Income tax relating to items that may be subsequently reclassified to profit or loss	2.4.6	**(495)**	(2,097)	**(475)**	(2,150)
Total comprehensive income for the financial year after tax		**16,064**	**29,665**	**13,792**	**31,412**
Attributable to owners of the bank		**16,064**	29,665	**13,792**	31,412

The notes are a constituent part of the financial statements.

1.4 Statement of changes in equity

SID Bank

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

The notes are a constituent part of the financial statements.

2016 In EUR thousands	Share equity	Share premium	Accumulated other comprehensive income	Profit re-serves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE as at 1 Jan 2016	300,000	1,139	5,034	54,328	4,987	(1,324)	364,164
Net profit for the financial year	0	0	0	0	21,363	0	21,363
Other comprehensive income	0	0	8,301	0	0	0	8,301
Total comprehensive income for the financial year after tax	0	0	8,301	0	21,363	0	29,665
Allocation of net profit to profit reserves	0	0	0	16,203	(16,203)	0	0
CLOSING BALANCE as at 31 Dec 2016	**300,000**	**1,139**	**13,335**	**70,531**	**10,148**	**(1,324)**	**393,829**

The notes are a constituent part of the financial statements.

SID Bank Group

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

* transfer of actuarial gains to retained earnings

The notes are a constituent part of the financial statements.

2016 In EUR thousands	Share equity	Share premium	Accumulated other comprehensive income	Profit re-serves	Retained earnings (including net profit for the financial year)	Treasury shares	Equity of the owners of the controlling bank	Total equity
OPENING BALANCE (before an adjustment) as at 1 Jan 2016	300,000	1,139	5,597	71,319	5,794	(1,324)	382,525	382,525
Effects of changing accounting policies*	0	0	0	(5,232)	5,102	0	(130)	(130)
OPENING BALANCE as at 1 Jan 2016	300,000	1,139	5,597	66,087	10,896	(1,324)	382,395	382,395
Net profit for the financial year	0	0	0	0	22,965	0	22,965	22,965
Other comprehensive income	0	0	8,447	0	0	0	8,447	8,447
Total comprehensive income for the financial year after tax	0	0	8,447	0	22,965	0	31,412	31,412
Allocation of net profit to profit reserves	0	0	0	17,100	(17,100)	0	0	0
Other	0	0	(5)	0	5	0	0	0
CLOSING BALANCE as at 31 Dec 2016	**300,000**	**1,139**	**14,039**	**83,187**	**16,766**	**(1,324)**	**413,807**	**413,807**

* adjustment resulting from the abolition of the equalisation reserve (ZZavar-1)

The notes are a constituent part of the financial statements.

1.5 Cash flow statement

		SID Bank		SID Bank Group	
In EUR thousands	Note	**2017**	2016	**2017**	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES					
a) Net profit or loss before tax		**16,224**	25,317	**14,168**	27,336
Depreciation/amortisation	2.5.9	**852**	805	**1,267**	1,115
(Reversal of impairment) of loans	2.5.11	**(7,731)**	(2,676)	**(7,731)**	(2,676)
Impairments of property, plant and equipment, investment property, intangible assets and other assets	2.5.11	**0**	0	**91**	406
Impairments of investments in subsidiaries, associates and joint ventures	2.5.11	**279**	12,250	**279**	12,250
Net gains on investments in subsidiaries, associates and joint ventures	2.5.12	**(3,353)**	(88)	**0**	0
Net foreign exchange (gains)/losses		**1,186**	(689)	**1,185**	(685)
Net losses from the sale of property, plant and equipment and investment property		**5**	0	**5**	0
Other (gains) from investing activities		**(87)**	(27)	**(87)**	(27)
Net unrealised (gains) on non-current assets held for sale and discontinued operations and associated liabilities		**(4)**	(164)	**(4)**	(164)
Other adjustments in pre-tax profit		**447**	(1,725)	**329**	(2,433)
Cash flows from operating activities before changes in operating assets and liabilities		**7,818**	33,003	**9,502**	35,122
b) Decrease in operating assets		**30,389**	793,908	**31,874**	794,024
Net decrease in financial assets held for trading		**73**	0	**73**	0
Net decrease in available-for-sale financial assets		**48,503**	169,670	**52,303**	169,504
Net (increase)/decrease in loans		**(18,210)**	607,095	**(17,330)**	605,222
Net decrease in derivatives held for hedging		**0**	16,708	**0**	16,708
Net decrease in available-for-sale non-current assets		**0**	361	**0**	361
Net (increase)/decrease in other assets		**23**	74	**(3,172)**	2,229
c) (Decrease in) operating liabilities		**(107,300)**	(685,265)	**(106,331)**	(687,513)
Net increase/(decrease) in financial liabilities held for trading		**(4)**	1	**(4)**	1
Net increase/(decrease) in deposits and loans measured at amortised cost		**16,372**	(402,638)	**16,513**	(402,520)
Net (decrease) in issued debt securities measured at amortised cost		**(110,280)**	(264,894)	**(110,280)**	(264,894)
Net increase in derivatives held for hedging		**143**	0	**143**	0
Net (decrease) in other liabilities		**(13,531)**	(17,734)	**(12,703)**	(20,100)
d) Cash flows from operating activities (a+b+c)		**(69,093)**	141,646	**(64,955)**	141,633
e) (Paid)/refunded corporate income tax		**(9,981)**	4,861	**(10,887)**	4,644
f) Net cash flow from operating activities (d+e)		**(79,074)**	146,507	**(75,842)**	146,277
B. CASH FLOWS FROM INVESTING ACTIVITIES					
a) Inflows from investing activities		**3,442**	115	**89**	27
Proceeds from disposal of property, plant and equipment and investment property		**2**	0	**2**	0
Other inflows from investing activities	2.5.12	**3,440**	115	**87**	27
b) Outflows from investing activities		**(840)**	(12,745)	**(1,527)**	(12,785)
(Acquisitions of property, plant and equipment and investment property)		**(279)**	(181)	**(829)**	(199)
(Acquisitions of intangible assets)		**(282)**	(314)	**(419)**	(336)
(Acquisition of investments in associates, joint ventures and subsidiaries)		**(279)**	(12,250)	**(279)**	(12,250)
c) Net cash flow from investing activities (a-b)		**2,602**	(12,630)	**(1,438)**	(12,758)
D. Effect of foreign exchange differences on cash and cash equivalents		**(125)**	5	**(125)**	5
E. Net increase/(decrease) in cash and cash equivalents (Af+Bc)		**(76,472)**	133,877	**(77,280)**	133,519
F. Opening balance of cash and cash equivalents	2.4.1	**147,668**	13,786	**153,355**	19,831
G. Closing balance of cash and cash equivalents (D+E+F)	2.4.1	**71,071**	147,668	**75,950**	153,355

The notes are a constituent part of the financial statements.

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

Net profit or loss before tax served as the basis for the preparation of the cash flow of SID Bank and the SID Bank Group.

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

Cash flows from investing activities are determined using the direct method, and include dividends received under inflows from investing activities and proceeds from disposal of property, plant and equipment, while outflows from investing activities include expenditures for the purchase of property, plant and equipment, expenditures for the purchase of intangible assets, expenditures for the purchase of investments in joint ventures.

Cash flows from interest and dividends

	SID Bank		SID Bank Group	
In EUR thousands	**2017**	2016	**2017**	2016
Cash flows from interest and dividends				
Interest received	**45,166**	70,919	**45,749**	71,458
Interest paid	**(11,418)**	(18,567)	**(11,418)**	(18,567)
Dividends received	**3,440**	115	**87**	27
Total	**37,188**	**52,467**	**34,418**	**52,918**

2 Notes to the financial statements

Points 1.1 to 1.5 of the financial report present the statement of financial position as at 31 December 2017, statement of profit or loss for the 2017 financial year, the statement of comprehensive income for the 2017 financial year, the statement of changes in equity for the 2017 financial year and the statement of cash flows for the 2017 financial year for SID Bank (separate statements) and for the SID Bank Group (consolidated statements). Figures for the position as at 31 December 2016 and for the 2016 financial year are disclosed in the aforementioned financial statements for purposes of comparison.

From here on where the figures for the Bank and the Group are identical, they are only presented once.

2.1 Basic data

The SID Bank Group (hereinafter: the SID Group or the Group) comprises SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana (hereinafter: SID Bank or the Bank) as the controlling company, and subsidiaries, joint ventures and an associate. A detailed presentation of the Group is given in point 2.4.5.

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

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

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

2.2 Statement of compliance

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

2.3 Significant accounting policies

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

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

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

2.3.1 Basis for compiling the financial statements

The financial statements of SID Bank and the SID Bank Group have been compiled on a going-concern basis, on a original cost basis, with the exception of financial assets held for trading, derivatives and available-for-sale financial assets, and investment properties measured at fair value.

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

2.3.2 Use of estimates and judgements and material uncertainties

The compilation of the financial statements in accordance with the IFRS at SID Bank and the SID Bank Group requires the use of estimates and judgements that affect the carrying amounts of reported assets and liabilities, the disclosure of contingent assets and liabilities as at the reporting date, and the amount of revenue and expenses in the reporting period. Financial instruments are assigned to a category upon initial recognition with regard to the policy of SID Bank and the SID Bank Group. Estimates and judgments were used in the following:
– impairments of loans and receivables, provisions for potential liabilities, and impairments of available-for-sale financial assets (notes in point 2.3.11 – Impairments of financial assets),
– assessment of the fair value of financial assets and liabilities (notes in point 2.3.11 – Principles applied in valuation at fair value),
– valuation of derivatives (notes in point 2.3.12 – Derivatives and hedge accounting),
– depreciation and amortisationperiod of property, plant and equipment and intangible assets (notes in point 2.3.14 – Property, plant and equipment and intangible assets),
– potential tax items (notes in point 2.3.22 – Taxes), and
– provisions for commitments to employees (notes in point 2.3.23 – Employee benefits).

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

2.3.3 Consolidation

Undertakings included in consolidation

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

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

All mutual receivables and liabilities between undertakings in the Group are excluded in the consolidation process, under the full consolidation method, as are all revenues and expenses generated within the SID Bank Group. There are no unrealised gains or losses from mutual transactions. There are no minority interests.

A joint venture is a company jointly controlled by the SID Bank Group on the basis of a contractual agreement. In consolidated financial statements, investments in joint ventures are calculated according to the equity method. The pertaining profit or loss is recognised in consolidated statement of profit or loss. The pertaining effects included in other comprehensive income of a joint venture are recognised in other comprehensive income. Investments in joint ventures are adjusted to the recognised effects. When the loss exceeds the investment value in the consolidated statement of financial position, the loss is no longer recognised, unless a liability derives from it that would have to be settled by the SID Bank Group. The SID Group resumes recognising its share of the profits from the investment in a joint venture only after its share of the profits equals the share of losses not recognised.

Undertakings excluded from consolidation

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

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

The total assets of the CMSR amount to less than 1% of SID Bank's total assets. On the basis of the aforementioned indicator, the CMSR is not of material significance to the SID Bank Group, and is therefore excluded from consolidation.

Assessments concerning control decisions

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

2.3.4 Functional and reporting currency

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

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

2.3.5 Translation of transactions and items in foreign currency

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

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

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

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

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

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

2.3.6 Cash equivalents

Cash equivalents in the statement of cash flows include cash-in-hand and balance in settlement accounts and business accounts at banks, and deposits and loans to banks, and securities available-for-sale, with an original maturity of no more than three months.

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

2.3.7 Interest income and expenses

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

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

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

For available-for-sale financial assets, 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 commissions received and granted

Fee and commission income primarily comprises fees and commissions on loans and guarantees granted, while expenses for fees and commissions primarily comprise fees and commissions on loans raised. Fees and commissions are recognised in profit or loss when a service has been rendered.

2.3.9 Dividend income

Dividend income is recognised in profit or loss when the right to receive dividends is acquired.

The dividends of subsidiaries are included in the financial statements of the SID Bank and the SID Bank Group under the item net gains/losses on investments in subsidiaries, associates and joint ventures. Other dividends are included in the financial statements of the SID Bank and the SID Bank Group under the item dividend income.

2.3.10 Other net operating gains/losses

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

Revenues for non-banking services include revenues for credit assessment information, fees for services provided under authorisation and other services. They are recognised in profit or loss when a service is rendered and a liability recognised.

2.3.11 Financial instruments

Classification

Financial assets

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

- loans and receivables are non-derivative financial assets with fixed or determinable payments not traded on an active market;
- financial assets held to maturity are listed non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity;
- available-for-sale financial assets are non-derivative assets not purchased for the purpose of trading. The item includes equities and debt securities. Debt securities are classified in this category for the purpose of being held indefinitely, having been purchased for the management of current liquidity;
- financial instruments measured at fair value through profit or loss, which are further divided into financial assets held for trading, derivatives held for hedging and financial assets at fair value through profit or loss. The Group classifies derivatives not used to hedge against risk as financial assets held for trading. Derivatives held for hedging primarily comprise interest rate swaps, and serve to hedge against the interest rate risk that the Bank faces in its daily operations on the financial markets.

Financial liabilities

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

Financial liabilities at fair value through profit or loss are:

- financial liabilities held for trading, where the Group classifies derivatives not used to hedge against risk, and
- derivatives held for hedging, including those 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 non-banking customers, issued debt securities and other financial liabilities.

Measurement, recognition and derecognition

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

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

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

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

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

Gains and losses from changes in fair value for financial assets measured at fair value through profit or loss are recognised in full in profit or loss.

The differences between the market price and the amortised cost (unrealised gains) of debt instruments and the differences between the fair value and the historical value of equity instruments are disclosed in a special equity component – accumulated other comprehensive income.

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

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

Financial liabilities measured at amortised cost and hedged against interest rate risk with interest rate swaps are recognised the fair value adjustment arising from fair value hedges.

Fee and commission income charged on loan approvals and fee and commission expenses on loans are allocated on a straight-line basis over the loan repayment term.

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

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

Principles applied in valuation at fair value

Fair value of financial instruments measured at fair value that are traded on the observed market is based on the published market price on the date of measurement. When the price of the same asset or liability cannot be observed on the market, fair value is measured using a valuation technique.

The fair value of financial instruments recognised and measured at amortised cost is determined based on a model that calculates the net present value of cash flows by using interest rates applied to new contracts regarding the same products.

Valuation methods and the assumptions applied are additionally disclosed in chapter 3.7. This note also describes and discloses the fair value hierarchy.

Gains and losses

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

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

Impairments of financial assets

Loans and receivables

The SID Bank Group regularly examines, by no later than at the end of each reporting period, whether there is impartial evidence of any impairment of loans and other financial assets.

Loans and receivables are impaired if loss events have occurred that reduce expected future cash flows, and the reduction can be reliably measured. Impartial evidence of the impairment of financial assets includes material information in connection with a debtor's financial difficulties, breaches of contract such as a failure to perform obligations or breaches in the payment of interest and principal, the forbearance of financial assets on economic or legal grounds relating to a debtor's financial difficulties, the likelihood of a customer's bankruptcy or financial reorganisation, and an adverse economic situation in the local environment.

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

Assessment of credit risk losses is described in detail in the section 3.1 Credit risk.

Impairments and provisioning of loans and guarantees

Financial assets deriving from loans and guarantees are allocated to impairment on an individual or collective basis. Items that are subjected to impairment on an individual basis comprise:

– individually significant items where the total exposure to a single customer exceeds EUR 20 thousand for classification purposes,
– financial assets which the Bank assesses are to be impaired individually.

If during the individual assessment of a financial asset there exists impartial evidence of impairment, the recoverable amount of the financial asset must be estimated. Impairment is measured for each financial asset that is individually significant. Impairment of financial assets that are not individually significant is measured on a collective basis.

Total exposures not subject to individual impairment are assigned to groups of debtors with comparable risks, which are primarily related to the debtor's business activities, the debtor's geographical location and the attributes of the financing products.

The estimated loss for collective impairment is based on the three-year average of estimated losses from financial assets in the group in question, which is adjusted to the current economic situation. The estimated loss from the debtors' geographical location takes account of sovereign debt (government or government-guaranteed debt), whereby credit insurance premium rates of risk ratings of 2 to 7 under the minimum export insurance premium (MEIP) listing determined in accordance with the OECD methodology are taken into account. SID Bank has a separate methodology for calculating collective impairments and provisions for special programmes of financing provided by SID Bank.

Where there is objective evidence of impairment, individual impairments and provisions are measured on the basis of estimated repayment of the financial asset from cash flow from the debtor's operations and the sale of financially unnecessary assets and from cash flows from the redemption of collateral where appropriate haircuts for a specific type of insurance/collateral are taken into account. The assessment of repayment from the cash flow of the debtor's operations and disposal of financially unviable assets is calculated, taking into account various quantitative and qualitative indicators. Whether or not individual types of repayment are taken into account in the calculation of individual impairments and provisions depends on the identification of a debtor as a going or gone concern.

The calculation of the credit risk losses of an individually significant asset takes account of primary collateral and other loan collateral that fully satisfies the conditions specified in point 12 of the Regulation on the assessment of credit risk losses of banks and savings banks.

When financial assets are assessed individually but impairment is not necessary and consequently not recognised, the assets are fully re-included in collective assessment.

Provisions for contingent liabilities are created, following the same procedure as in the impairment of loans. When unused loans are drawn down or guarantees are called, the provisions created are cancelled.

Forborne loans

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

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

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

(a) an extension of the deadline or a deferral of the repayment of the claims,
(b) a reduction in the interest rate and/or other charges,
(c) a reduction in the amount of the claims as a result of contractually agreed debt forgiveness and/or ownership restructuring,
(d) conversion of the claims into an equity investment in a debtor,
(e) acceptance of other assets (including the redemption of loan collateral) for the partial or full repayment of the claims; and
(f) 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 redemption of collateral, the sale of financial assets, the termination of an agreement, 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, the effects on a change in the value of loans, including the effects from 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 a potential change in the performance status of the forborne loans.

Available-for-sale financial assets

Equity instruments are impaired if there is objective evidence of impairment as a result of a loss event or events occurring after initial recognition. Objective evidence of impairment is assumed to have arisen when the fair value declines significantly below the original cost over a longer period. When none of the impairment assessment criteria has been met, but in the opinion of the Bank's credit committee there is sufficient information providing solid, impartial evidence of the impairment of equity instruments, impairment is applied after individual assessment of the financial asset in question.

Individual assessment of impairment on the basis of solid and impartial evidence also applies to debt instruments.

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

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

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

2.3.12 Derivatives and hedge accounting

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

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

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

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

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

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

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

2.3.13 Non-current assets held for sale

Non-current assets held for sale are assets whose carrying amount will be settled primarily through sale and not through further use. This condition is satisfied only when a sale is highly likely and the asset is available for immediate sale in its current condition. Non-current assets are allocated to the aforementioned category when the owner has expressed in writing the intention to sell the asset, and a timetable of the sale process is enclosed. The sale must be made within one year of the asset being classified in this category.

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

2.3.14 Property, plant and equipment and intangible assets

Property, plant and equipment

Property, plant and equipment comprise real estate, equipment and small inventory.

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 tangible fixed assets that increase the future economic benefits increase the value of those assets.

After initial recognition a cost model is applied, which means that items of property, plant and equipment are disclosed 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 when the asset is available for use. Depreciation is charged on a straight-line basis.

Depreciation and amortisation rates in 2017 and 2016:

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

Property, plant and equipment are impaired when their carrying amount exceeds the recoverable amount. The impairment loss is recognised as an expense in profit or loss. The existence of indications of impairment is assessed at the end of each financial year, on the balance sheet cut-off date. If such indications exist, the recoverable amount of the asset is estimated as follows:
- the fair value less cost to sell, or
- the value in use, whichever is the larger.

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

Intangible assets with determinable useful life

This item includes investments in software and other property rights. In 2017 and 2016, software was subject to amortisation at a rate of 20% to 25%, and other property rights at a rate of 12% to 20%. Depreciation is charged on a straight-line basis.

Intangible assets with determinable useful life are impaired when their carrying amount exceeds the recoverable amount. The impairment loss is recognised as an expense in profit or loss. The existence of indications of impairment is assessed at the end of each financial year, on the balance sheet cut-off date. If such indications exist, the recoverable amount of the asset is estimated as follows:
– the fair value less cost to sell, or
– the value in use, whichever is the larger.

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

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

Goodwill

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

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

2.3.15 Long-term investments in subsidiaries and joint ventures

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

When there is evidence of the need for the impairment of an interest in a subsidiary or joint venture, the Bank assesses the recoverable amount for each investment separately. In the event 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. With investments in a joint venture an impairment test is carried out on the basis of a goodwill impairment test of cash-generating units that include goodwill. In the case of consolidated financial statements, a goodwill impairment test is carried out at each reporting date for cash-generating units.

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

2.3.16 Other assets

Claims arising from insurance contracts, prepayments, deferred costs, tax assets and advances are included in other assets.

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

2.3.17 Provisions for liabilities and costs

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

Provisions for liabilities and costs are recognised when there is a present commitment (legal or indirect) as a result of a past event, and it is likely that in the settlement of the commitment there will be an outflow of resources yielding economic benefits, and a reliable estimate can be made of the commitment. Provisions are reversed when excessive provisions are established or when contingent losses in connection with risks are reduced.

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

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

2.3.18 Other liabilities

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

2.3.19 Shareholder equity

Shareholder equity consists of share capital, share premium, profit reserves, the revaluation surplus in connection with financial assets, 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 decision of the competent body, and are used in accordance with the articles of association and the law. Reserves under articles of association may be used to cover net loss during the financial year, to cover net losses brought forward, to increase the share capital, to create reserves for treasury shares and to cover major damage incurred during operations or extraordinary business events. Other profit reserves are intended to strengthen capital adequacy.

Accumulated other comprehensive income includes revaluations relating to available-for-sale financial assets.

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

2.3.20 Contingent liabilities and assumed financial commitments

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

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

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

2.3.21 Operations for the account of the Republic of Slovenia

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

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

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

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

Explanations regarding the operations under Republic of Slovenia authorisation are given in point 8.2.3 of the business report.

2.3.22 Taxes

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

Deferred taxes are accounted using the statement of financial position liability method for all temporary differences arising between the tax values of assets and liabilities and their carrying amounts. Deferred taxes are calculated using the tax rates that are applicable as at the statement of financial position 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 measurement of available-for-sale financial instruments at fair value are disclosed directly under other comprehensive income.

2.3.23 Employee benefits

Employee benefits include current and non-current employee benefits.

Current employee benefit obligations are recognised at an undiscounted amount, and are disclosed as expenses as the service of the employee is provided in respect of the specific current benefit.

Non-current employee benefits include provisions for severance benefits at retirement and loyalty bonuses.

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

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

2.3.24 Calculation of net earnings per share

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

2.3.25 Reporting by operating segment

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

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

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

Entry into force of the latest amendments to existing standards and interpretations that apply from 1 January 2017 and were issued by the International Accounting Standards Board (IASB) and adopted by the EU:

– Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative, adopted by the EU on 6 November 2017 (applicable to annual periods beginning on or after 1 January 2017),
– Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses, adopted by the EU on 6 November 2017 (applicable to annual periods beginning on or after 1 January 2017),
– Amendments to various standards (Improvements to IFRS, 2014–2016 cycle) proceeding from the project of annual improvements to the IFRS (IFRS 1, IFRS 12 and IAS 28), primarily to eliminate discrepancies and to provide interpretations – adopted by the EU on 8 February 2018 (the amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017).

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

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

– IFRS 9 Financial Instruments, adopted by the EU on 22 November 2016 and applicable to annual periods beginning on or after 1 January 2018.

Introduction of IFRS 9 in the SID Bank Group

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

SID Bank first applied IFRS 9 on 1 January 2018 and did not make use of the possibility of the early application of the amendments to IFRS 9. Due to possible subsequent application of IFRS 9, the subsidiary SID PKZ did not change over to IFRS 9, and only provides balance sheet data in accordance with the standard for the purposes of consolidation. Given that the effects of the changeover in the subsidiary are immaterial (approximately EUR 17 thousand), the effects of the changeover presented below only include SID Bank.

The estimated cumulative effect of the introduction of IFRS 9 on retained earnings from the changeover to IFRS 9 for SID Bank as at 1 January 2018 amounts to EUR 9,577 thousand, and comprises:

- EUR -5,595 thousand from the effect of classification and measurement,
- EUR 50,495 thousand from the effect of impairments,
- EUR -2,239 thousand from the effect of current and deferred taxes,

- EUR -33,104 thousand of decrease in total positive effects resulting from the transfer of the effect to liabilities to the MEDT arising from loan funds (exposures of SID Bank from loan funds are classified as SID Bank's balance sheet items. Nevertheless, profit or loss of loan funds is established separately, and potential negative result of loan funds is covered from the MEDT funds invested as a decline of liabilities to the MEDT. On this basis, the subsequent positive result is also first allocated to the MEDT as an increase in liabilities to the MEDT so that the previously reduced liability resulting from the negative result of the loan fund increases again.

Regulatory capital (taking into account the effects as if audited) increases by EUR 9,525 thousand. With the increase in risk-weighted assets by approximately EUR 35,975 thousand and the calculation according to the provisions of the CRR as applicable on 31 December 2017, the capital adequacy ratio decreases by approximately by 0.3 percentage points.

1. Classification and measurement

In accordance with IFRS 9, classification and measurement of financial instruments in the financial statements is determined by the selected business model within which financial assets are managed, and the characteristics of their contractual cash flows. Upon the initial recognition, each financial asset is classified by SID Bank into one of the following business models:

1. a model whose purpose is the collection of contractual cash flows (measured at amortised cost),
2. a model whose purpose is the collection of contractual cash flows and sale (measurement at fair value through other comprehensive income),
3. other models (measurement at fair value through profit or loss and through other comprehensive income).

SID Bank assesses the purpose of the business model under which the financial asset is classified on a portfolio basis, as this constitutes the method of 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 the one of the first two business models.

SID Bank's basic business activity involves lending transactions performed either via commercial banks or in cooperation with them, or by lending directly to final beneficiaries. The aim of lending activities is to collect contractual cash flows, which is why these transactions are classified under business model 1.

The purpose of treasury transactions is to manage liquidity, interest rate and currency risks and to provide funding to SID Bank. The purpose of deposit and credit operations is the collection of contractual cash flows and they are therefore classified under business model 1. Transactions in debt securities may only be concluded to collect contractual cash flows or with the eventual aim of selling, and on this basis they can be classified under business model 1 or 2. During the changeover to IFRS 9, all debt securities are classified under business model 2.

SID Bank acquires equities in three different ways:

- by investing in collective investment undertakings within equity and quasi-equity financing carried out within the EIF NPI Private Equity Platform for equity financing,
- by purchasing participating interests or shares of strategic partners (e.g. EIF shares),
- by converting non-performing loans into equity or capital within the forbearance process.

According to the requirements of the standard, all equities may only be classified under business model 3. Given that these financial instruments are not traded by the Bank, it decides, upon initial recognition of an individual equity or a group of equities, whether it will use an alternative option to measure other comprehensive income.

During the changeover to IFRS 9, SID Bank chose the option of the measurement at fair value through other comprehensive income with regard to all equity instruments.

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

SID Bank carries out an SSPI test for debt instruments assigned to the model whose objective is to collect contractual cash flows and the model whose objective is to collect contractual cash flows and sell financial assets. 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 fee for time value of money, the credit risk associated with the unpaid principal and other lending risks and costs (liquidity risk and administrative costs) and profit margin.

The Group assesses the condition of 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 estimate also involves the assessment whether the financial asset contains contractual provisions that may change the time and amount of the contractual cash flows so that this condition would no longer be met. In so doing, the Bank takes account of:

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

Upon the introduction of IFRS 9, SID Bank only identified a few cases where contractual cash flows did not solely represent payment of principal and interest.

Assessment of the effect

The effect of classification and measurement during the changeover to IFRS 9 was negative and amounted to EUR 5,595 thousand. The majority of this effect refers to the changes in the exclusion of interest, and smaller part to the effect of the measurement of loans that failed the SPPI test and are mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

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 has applied 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 other cash flows prior to the modification, it is recognised as a significant change that results in derecognition;
- notwithstanding the 10% criterion, the bank may derecognise an asset in the event 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, in accordance with IFRS 9, for the purpose of creating value

adjustments and/or provisions for credit losses, prior to the change in repayment terms;
- when in accordance with IFRS 9 the change results in the reclassification of an on-balance sheet exposure and a changeover 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 shall not apply if the new debtor is part of a group of connected clients that includes the original debtor;
- consolidation of several financial assets into a single or modified structure of new financial assets with a new cash flow scheme;
- a change in contractual currency;
- partial conversion of debt to equity.

Upon derecognition, all costs and fees are included in profit or loss upon derecognition of the original financial asset, and the new financial asset is recognised at fair value or is accordingly lowered by expected credit losses.

2. Impairments of financial assets and provisions

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

The new impairment model applies to the following financial instruments:
- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income,
- lease receivables,
- off-balance sheet exposures from loan commitments given and financial guarantee contracts.

Impairment losses are not recognised under IFRS 9 in the case of equities.

IFRS 9 differentiates between recognition of a loss taking into account all potential losses expected within 12 months, and taking into account all potential losses expected over the entire lifetime of a financial asset. In this connection, SID Bank classifies financial assets subject to impairment under IFRS 9 into the following stages:
- financial assets where there has not yet been a significant increase in credit risk, and for which impairments and/or provisions for credit losses are measured on the basis of expected credit losses over a 12-month period are classified to Stage 1. Interest income from these financial assets are calculated on the basis of the gross carrying amount;
- financial assets where there has been a significant increase in credit risk in the period between initial recognition and the reporting date, and for which impairments and/or provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime of the financial assets are classified to Stage 2. Interest income from these financial assets are calculated on the basis of the gross carrying amount;
- financial assets where there is objective evidence of impairment or there has been an event of default of a debtor, including a financial asset impaired when incurred or at the time of purchase, are classified to Stage 3. Impairments and provisions are calculated, taking into account all potential losses expected in the entire lifetime of a financial asset. Interest income from these financial assets are calculated on the basis of the net carrying amount.

The bank classifies a financial asset as Stage 1 upon initial recognition, except when a financial asset is impaired when incurred or at the time of purchase. Upon subsequent measurement, the Bank assesses whether there has been a significant increase in credit risk of the financial asset in the period between initial recognition and the assessment date. If the credit risk has not increased significantly or if a financial asset with low credit risk is involved, the financial asset remains classified as Stage 1. If there has been a significant increase in credit risk and the financial asset in question has not been defined as defaulted, the Bank classifies the financial asset as Stage 2.

The requirements of IFRS 9 with regard to impairments are complex and require significant judgements by the management, and estimates and assumptions primarily in the following areas described in detail below:

- assessment of a significant increase in credit risk since initial recognition;
- inclusion of forward-looking information in the measurement of expected credit losses.

Measurement of expected loss from credit risk

The bank must measure expected credit losses of a financial asset in a manner that takes into account:

– 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.

Expected credit losses are a probability-weighted estimate of credit losses, and for individual financial assets are measured as follows:

– a financial asset where there has been no debtor default event: the present value of the difference between the contractual cash flows that are due to the Bank in accordance with the contract, and the cash flows that the Bank expects to receive;
– a financial asset where there has been an event of default of a debtor, but that is not impaired when incurred or at the time of purchase: the difference between the financial asset's gross carrying amount and the present value of estimated future cash flows;
– an undrawn loan commitment: the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the loan commitment draws down the loan, and the cash flows that the Bank expects to receive if the loan is drawn down;
– a financial guarantee contract: the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

Definition of default

In determining the default of an obligor, SID Bank applies the definition of a default of an obligor set out in Article 178 of the CRR, namely:

– the obligor is past due more than 90 days on any material credit obligation to SID bank or any of its subsidiaries, and/or
– it is unlikely that the obligor will settle its credit obligations to SID Bank or any of its subsidiaries in full, without recourse by the Bank to actions such as redemption of collateral or other procedures.

Material increase in credit risk

SID Bank assesses on each reporting date whether the credit risk on the financial asset has increased materially since initial recognition. The bank assesses material increases in credit risk using reasonable and supportable information at the level of the individual financial asset, 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,
– number of days in arrears at the level of the financial asset is more than 30 days,
– the financial asset becomes a performing forborne financial asset,
– the fair value is lower (by a specified percentage) than the amortised cost of a marketable debt security throughout a specified period.

Inputs used to calculate expected credit losses

SID Bank calculates expected credit losses on the basis of the following methodologies:

– methodology for Stages 1 and 2,
– methodology for Stage 3 - estimate of cash flows,
– methodology for Stage 3 - estimate of collateral.

Inputs used to calculate expected credit losses on the basis of the methodologies for Stages 1 and 2 are the following:
- probability of default (PD),
- loss given default (LGD),
- exposure at default (EAD),
- discount factor.

SID Bank defines the probability-of-default curve and loss-given-default 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, using the regression method of the symmetrical cells of transition matrices, and uses the Bank of Slovenia's transition matrices as inputs for the model. For the purposes of determining the probability of default for other main homogeneous PD groups, SID Bank uses the data of the credit rating agency FitchRatings, which is microdata to which SID Bank applies regression methods under the survival analysis in modelling.

In the determination of loss given default, SID Bank applies adjusted parameters contained in the Guidelines for calculating default rate and loss rate issued by the Bank of Slovenia.

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

The effective interest rate determined at initial recognition or an approximation thereof is used as a discount factor. The credit-adjusted effective interest rate determined at initial recognition is used to discount financial assets impaired when incurred or at the time of purchase. In connection with financial guarantee contracts and loan commitments for which the effective interest rate cannot be determined, SID Bank takes into account the weighted interest rate of performing exposures of its credit portfolio.

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

When a financial asset is impaired when incurred or at the time of purchase and defined as a non-performing exposure, SID Bank calculates the lifetime expected credit losses on the basis of the Stage 3 methodologies. When a financial asset becomes a performing exposure, SID Bank calculates the lifetime expected credit losses on the basis of the Stage 2 methodology.

Forward-looking information

In determining the probability of default, SID Bank takes into account forward-looking information on the basis of the link between the default rate and the macroeconomic indicator derived from the gross domestic product growth.

When determining loss given default, SID Bank takes into account forward-looking information concerning the parameter Recovery rate for unsecured exposure and the parameter Haircut in the form of the factors of macroeconomic forecasts.

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

In order to calculate the factors of macroeconomic forecasts for the parameter Haircut, SID Bank divided collateral into two groups:
- real estate collateral (commercial and residential real estate),
- other types of collateral (securities, other physical collateral and collaterals based on receivables).

In order to identify the dependence of the real estate value on the state of economy, SID Bank took into account a connection between the index of the Surveying and Mapping Authority of the Republic of Slovenia and the macroeconomic indicator derived from the gross domestic product growth, and the connection between the collateral values from the Bank's portfolio and the macroeconomic indicator derived from the gross domestic product growth with regard to other types of collateral.

SID Bank takes into account 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 loss-given-defaults curve for the exposures classified in stages 1 and 2, and in the calculation of estimated repayments for the exposures in stage 3.

When calculating expected credit losses, SID Bank takes into account three scenarios of macroeconomic forecasts, or even more in the event of expected major shocks. Generally, the scenarios comprise the basic, favourable and unfavourable projections of the major macroeconomic factors. The gap between the favourable and unfavourable scenarios reflects the internally evaluated risk in domestic macro-financial environment.

Assessment of the effect

The effect of impairment during the changeover to IFRS 9 was positive and amounted to EUR 50,495 thousand. The majority of the effect relates to the credit portfolio where considerable release of primarily impairments of loans granted to loan funds, non-bank customers resulted from the change in methodology (note in the overall impact assessment).

3. Hedge accounting

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

Appropriate hedging instruments are:
- derivatives measured at fair value through profit or loss;
- non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss, and
- contracts with parties external to the Group and/or the Bank.

Companies can 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.

4. Disclosures

IFRS 9 requires extensive new disclosures, in particular with regard to credit risk and the expected credit losses that will be compiled for the annual report for the period ending 31 December 2018.

5. Transition to IFRS 9

SID Bank carried out the following activities during the changeover to IFRS 9:
- SPPI test was carried out for the entire debt portfolio as at 31 December 2017;
- individual debt instruments were classified to stages on the basis of criteria determined by the Bank for the classification into stages;
- all loan agreements with the gross carrying amount of exposure of more than EUR 1 million were checked, and potential conditions for derecognition were identified on the basis of changes made since initial recognition;
- when it was established that a financial asset under the previous indent was credit

impaired upon initial recognition, it was recognised as a financial asset impaired upon issuance.

In the transition to IFRS 9, the Bank used the following simplifications in particular:
- the Bank did not identify the effects of profit or loss upon the modification of the financial asset for loan agreements with the gross carrying amount of exposure below EUR 1 million when the conditions for derecognition were not met when the financial asset was modified;
- during the changeover and in the future, the Bank did not and will not apply appropriate software support to calculate interest income for the Stage 3 assets and POCI assets on the basis of net carrying amount, but will rely on the simplification, using the system of 100-percent interest exclusion; thus, interest income for the Stage 3 and POCI assets is recognised when interest payments are made.

The bank conducted the changeover in full, but since the solutions have not been fully verified or validated, the Bank assesses that amounts indicated in this report as the effects of the changeover to IFRS 9 may change.

(continued) On the day these financial statements were approved, the following new standards and amendments to existing standards had been issued by the IASB and adopted by the EU, but were not yet in force:
- IFRS 15 Revenues from Contracts with Customers and amendments to IFRS 15 Effective Date of IFRS 15, as adopted by the EU on 22 September 2016 (applicable to annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 15 Revenue from Contracts with Customers – Clarifications to IFRS 15, adopted by the EU on 31 October 2017 (applicable to annual periods beginning on or after 1 January 2018),
- IFRS 16 Leases, approved by the EU on 31 October 2017 (applies to annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, adopted by the EU on 3 November 2017 (applicable to annual periods beginning on or after 1 January 2018 or when IFRS 9 Financial Instruments is applied for the first time).
- Amendments to various standards (Improvements to IFRS, 2014–2016 cycle) proceeding from the project of annual improvements to the IFRS (IFRS 1, IFRS 12 and IAS 28), primarily to eliminate discrepancies and to provide interpretations – adopted by the EU on 8 February 2018 (the amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018).

New standards and amendments to existing standards issued by the IASB but not yet adopted by the EU:
- IFRS 14 Regulatory Deferral Accounts (applicable to 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.
- IFRS 17 Insurance Contracts (applicable to annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 2 Share-Based Payments – Classification and Measurement of Share-Based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation (applies to annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture, and subsequent amendments (the date of application has been postponed indefinitely until the completion of the research project in connection with the equity method).
- Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment or Settlements (apply to annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures

(applies to annual periods beginning on or after 1 January 2019).
- Amendments to IAS 40 Investment Property – Transfers of Investment Property (applicable to annual periods beginning on or after 1 January 2018).
- Amendments to various standards (Improvements to IFRS, 2015–2017 cycle) proceeding from the project of annual improvements to the IFRS (IFRS 3, IFRS 11, IFRS 12 and IAS 23), primarily to eliminate discrepancies and to provide interpretations (the amendments apply to annual periods beginning on or after 1 January 2019).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable to annual periods beginning on or after 1 January 2018).
- IFRIC 23 Uncertainty over Income Tax Treatments (applies to annual periods beginning on or after 1 January 2019).

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

2.4 Notes to the statement of financial position

2.4.1 Cash

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

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Settlement account	70,778	145,393	70,778	145,393
Demand deposits at banks	293	2,275	5,172	7,962
Total	**71,071**	**147,668**	**75,950**	**153,355**

Cash equivalents

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Cash and balance in settlement account at central bank	70,778	145,393	70,778	145,393
Demand deposits at banks	293	2,275	5,172	7,962
Total	**71,071**	**147,668**	**75,950**	**153,355**

The decrease in SID Bank's cash equivalents from EUR 147,668 thousand at the end of 2016 to EUR 71,071 thousand as at 31 December 2017 is reflected in the cash flow statement.

2.4.2 Available-for-sale financial assets

Breakdown by type of available-for-sale financial assets

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Bonds	665,763	699,196	685,246	722,563
Governments	460,733	508,475	471,715	521,755
Republic of Slovenia	224,588	295,565	229,754	304,255
Other countries	236,145	212,910	241,961	217,500
Banks	103,390	113,523	107,663	117,852
Non-financial corporations	68,403	62,105	70,484	63,675
Financial organisations	33,237	15,093	35,384	19,281
Treasury bills	38,523	56,242	38,523	56,242
Certificates of deposit	10,001	10,002	10,001	10,002
Shares and participating interests at fair value	16,234	12,236	16,234	12,236
Total	**730,521**	**777,676**	**750,004**	**801,043**
Quoted	675,805	742,400	695,288	765,767
Unquoted	54,716	35,276	54,716	35,276
Total	**730,521**	**777,676**	**750,004**	**801,043**

The table shows the carrying amount of available-for-sale financial assets by type of the instrument for SID Bank and the SID Bank Group. As regards its securities portfolio management, the SID Bank Group follows the principles of safety, liquidity and profitability in order to ensure liquidity and ALM. To this end, the securities portfolio contains a large proportion of marketable government and other highly liquid debt securities.

At the end of 2017, marketable quoted securities account for 92.5% at SID Bank (SID Bank Group: 92.7%) of all available-for-sale financial assets. Debt securities, however, account for 97.8%, while shares and participating interests account for less than 3% of the portfolio of available-for-sale securities of SID Bank and the SID Bank Group. At the end of 2017, government debt securities (bonds and treasury bills) account for 68.3% at SID Bank (SID Bank Group: 68.0%) of available-for-sale financial assets. The Standard Institutional Sector Classification (SCIS) of the bond issuer applies to the breakdown of bond portfolio structure by the issuer type in the above table.

Movement in available-for-sale financial assets

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Balance as at 1 Jan	777,676	938,604	801,043	961,653
Recognition of new financial assets	372,671	314,129	374,510	317,001
Accrued interest	6,048	8,006	6,340	8,313
Interest paid	(25,285)	(28,225)	(25,852)	(28,745)
Net revaluation through equity	2,603	10,398	2,498	10,604
Effect of change in fair value of hedged financial instruments	51	0	51	0
Net exchange differences	(770)	429	(770)	429
Derecognition of financial assets	(402,473)	(465,665)	(407,816)	(468,210)
Balance as at 31 Dec	**730,521**	**777,676**	**750,004**	**801,044**

2.4.3 Loans and advances

Loans and advances to banks

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Loans	682,607	810,914	682,607	810,914
Deposits	357,160	192,786	362,412	198,920
Gross exposure	1,039,767	1,003,700	1,045,019	1,009,834
Allowances for loans and deposits	(7,588)	(7,332)	(7,588)	(7,332)
Net exposure	**1,032,179**	**996,368**	**1,037,431**	**1,002,502**

Movement in allowances for loans and advances to banks

	SID Bank and SID Bank Group		
	Loans	Deposits	Total
Balance as at 1 Jan 2017	5,925	1,407	7,332
Allowances for loans and advances	821	2,962	3,783
Reversal of allowances for loans and advances	(1,758)	(1,761)	(3,519)
Foreign exchange differences	(8)	0	(8)
Balance as at 31 Dec 2017	**4,980**	**2,608**	**7,588**
Balance as at 1 Jan 2016	4,017	2,459	6,476
Allowances for loans and advances	4,256	1,600	5,856
Reversal of allowances for loans and advances	(2,333)	(2,652)	(4,985)
Foreign exchange differences	1	0	1
Other	(16)	0	(16)
Balance as at 31 Dec 2016	**5,925**	**1,407**	**7,332**

Loans and advances to non-bank customers

	SID Bank and SID Bank Group	
	31 Dec 2017	31 Dec 2016
Loans	731,707	782,456
Government	69,967	58,554
Companies	658,732	690,837
Financial organisations	2,988	33,065
Loans and advances to non-profit institutions serving households	20	0
Called guarantees	1,455	5,405
Gross exposure	733,162	787,861
Allowances	(135,422)	(177,298)
Net exposure	**597,740**	**610,563**

Movement in allowances for loans and advances to non-bank customers

	SID Bank and SID Bank Group		
	Loans	Receivables from guarantees granted	Total
Balance as at 1 Jan 2017	172,809	4,489	177,298
Allowances	44,011	82	44,093
Reversal of allowances	(52,049)	(3)	(52,052)
Write-offs	(30,796)	(16,613)	(47,409)
Foreign exchange differences	(8)	0	(8)
Other	0	13,500	13,500
Balance as at 31 Dec 2017	**133,967**	**1,455**	**135,422**
Balance as at 1 Jan 2016	194,576	4,329	198,905
Allowances	63,328	0	63,328
Reversal of allowances	(66,675)	(231)	(66,906)
Write-offs	(18,438)	(17,257)	(35,695)
Foreign exchange differences	2	0	2
Other	16	17,648	17,664
Balance as at 31 Dec 2016	**172,809**	**4,489**	**177,298**

Under receivables from guarantees granted, SID Bank and the SID Bank Group report any allowances with no impact on the statement of profit or loss under "Other". In past years, provision expenses were recorded and recognised in the statement of profit or loss for such guarantees. In the current year, the guarantees have been called on, the receivable from the guarantees granted has been recognised and these receivables written off. The table in section 2.4.10 shows the use of provisions.

Other financial assets

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Gross exposure	1,553	1,564	1,554	1,563
Allowances	0	(37)	0	(37)
Total	**1,553**	**1,527**	**1,554**	**1,526**

Movement in allowances for other financial assets

	SID Bank and SID Bank Group	
	2017	2016
Balance as at 1 Jan	37	26
Allowances	59	75
Reversal of allowances	(96)	(44)
Write-offs	0	(20)
Balance as at 31 Dec	**0**	**37**

2.4.4 Property, plant and equipment and intangible assets

Movements in property, plant and equipment and intangible assets – SID Bank

2017	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Original cost					
Balance as at 1 Jan	9,951	877	825	11,653	2,505
Addition	0	334	215	549	282
Disposal	0	(179)	(217)	(396)	(1)
Balance as at 31 Dec	9,951	1,032	823	11,806	2,787
Accumulated depreciation					
Balance as at 1 Jan	(4,936)	(741)	(689)	(6,366)	(1,700)
Depreciation and amortisation	(395)	(131)	(44)	(570)	(282)
Disposal	0	30	91	121	0
Balance as at 31 Dec	(5,331)	(842)	(641)	(6,814)	(1,982)
Carrying amount as at 31 Dec	**4,620**	**190**	**182**	**4,992**	**804**

2016	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Original cost					
Balance as at 1 Jan	9,951	774	860	11,585	2,205
Addition	0	351	14	365	316
Disposal	0	(248)	(49)	(297)	(16)
Balance as at 31 Dec	9,951	877	825	11,653	2,505
Accumulated depreciation					
Balance as at 1 Jan	(4,511)	(724)	(685)	(5,920)	(1,469)
Depreciation and amortisation	(425)	(89)	(45)	(559)	(246)
Disposal	0	72	41	113	15
Balance as at 31 Dec	(4,936)	(741)	(689)	(6,366)	(1,700)
Carrying amount as at 31 Dec	**5,015**	**136**	**136**	**5,287**	**805**

Movements in property, plant and equipment and intangible assets – SID Bank Group

2017	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Original cost					
Balance as at 1 Jan	13,048	1,523	1,222	15,793	3,479
Addition	0	870	229	1,098	418
Disposal	0	(342)	(242)	(584)	(1)
Balance as at 31 Dec	13,048	2,051	1,208	16,307	3,897
Accumulated depreciation					
Balance as at 1 Jan	(6,003)	(1,349)	(950)	(8,302)	(2,187)
Depreciation and amortisation	(497)	(253)	(87)	(838)	(429)
Disposal	0	192	116	308	0
Balance as at 31 Dec	(6,500)	(1,410)	(921)	(8,831)	(2,616)
Carrying amount as at 31 Dec	**6,548**	**641**	**287**	**7,476**	**1,281**

2016	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Original cost					
Balance as at 1 Jan	13,048	1,393	1,309	15,750	3,177
Addition	0	392	15	406	337
Disposal	0	(262)	(102)	(363)	(34)
Balance as at 31 Dec	13,048	1,523	1,222	15,793	3,479
Accumulated depreciation					
Balance as at 1 Jan	(5,475)	(1,314)	(932)	(7,721)	(1,844)
Depreciation and amortisation	(527)	(121)	(90)	(738)	(376)
Disposal	0	85	72	158	33
Balance as at 31 Dec	(6,003)	(1,349)	(950)	(8,302)	(2,187)
Carrying amount as at 31 Dec	**7,045**	**174**	**272**	**7,491**	**1,292**

As at 31 December 2017, SID Bank and the SID Bank Group record no pledged assets and assets acquired through finance lease under property, plant and equipment.

2.4.5 Long-term investments in subsidiaries and joint ventures

Long-term investments in subsidiaries and joint ventures - SID Bank

2017	SID - PKZ Ljubljana	Prvi faktor, Ljubljana – in liquidation	Prvi faktor, Belgrade – in liquidation	Total
Equity investments	8,413	15,337	279	24,029
Allowances for equity investments	0	(15,337)	(279)	(15,616)
Total	**8,413**	**0**	**0**	**8,413**

2016	SID – PKZ Ljubljana	Prvi faktor, Ljubljana – in liquidation	Total
Equity investments	8,413	15,337	23,750
Allowances for equity investments	0	(15,337)	(15,337)
Total	**8,413**	**0**	**8,413**

In 2017, SID Bank recapitalised Prvi faktor, Belgrade – in liquidation in the amount of EUR 279 thousand. At the same time, it made 100% allowances for that investment.

Data on subsidiaries

	SID Bank's equity stake (in %)	Voting rights (in %)	Nominal amount of equity stakes	Company equity	Profit/loss
31 Dec 2017					
SID – PKZ Ljubljana	100	100	8,413	26,119	1,159
31 Dec 2016					
SID – PKZ Ljubljana	100	100	8,413	28,392	1,690

Data on joint ventures

	Voting rights (in %)	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Company equity	Profit/loss	Total revenues
31 Dec 2017								
Prvi faktor Group	50	14,508	0	8,248	0	6,260	5,898	2,354
31 Dec 2016								
Prvi faktor Group	50	38,537	6,986	912	38,224	6,386	(11,045)	3,251

2.4.6 Tax assets and liabilities

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Current tax assets	4,086	0	4,513	0
Deferred tax assets	0	31	0	31
Total tax assets	**4,086**	**31**	**4,513**	**31**
Current tax liabilities	0	4,105	0	4,430
Deferred tax liabilities	447	0	569	138
Total tax liabilities	**447**	**4,105**	**569**	**4,568**

Deferred taxes

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Deferred tax assets				
Impairment of equity investments	2,967	2,914	2,967	2,914
Impairment of available-for-sale financial assets	103	163	103	163
Provisions for pensions and loyalty bonuses	66	56	95	88
Valuation of available-for-sale financial assets	24	247	24	247
Depreciation and amortisation	40	26	40	26
Total	**3,200**	**3,406**	**3,229**	**3,438**
Deferred tax liabilities				
Valuation of available-for-sale financial assets	3,647	3,375	3,798	3,546
Total	**3,647**	**3,375**	**3,798**	**3,546**
Net deferred taxes	**(447)**	**31**	**(569)**	**(107)**
Included in statement of profit or loss	17	2,248	14	2,250
Available-for-sale financial assets	(60)	(130)	(60)	(130)
Equity investments	53	2,347	53	2,347
Provisions for pensions and loyalty bonuses	10	16	7	18
Depreciation and amortisation	14	15	14	15
Included in statement of comprehensive income	(495)	(2,097)	(476)	(2,147)

As at 31 December 2017, SID Bank and the SID Bank Group have no unrecognised deferred taxes.

2.4.7 Other assets

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Other assets	282	305	432	465
Reinsurers' assets	0	0	13,478	12,542
Receivables from insurance operations	0	0	12,562	15,788
Gross exposure	282	305	26,471	28,795
Allowances for insurance operations	0	0	(5,118)	(10,523)
Net exposure	**282**	**305**	**21,353**	**18,272**

The largest items under the SID Bank Group's other assets are reinsurers' assets from technical provisions and receivables from insurance operations. Under receivables from insurance operations, receivables with recourse account for the largest part and amount to EUR 8,308 thousand as at 31 December 2017 (2016: EUR 13,132 thousand) as well as allowances for such assets, totalling EUR 4,775 thousand (2016: EUR 10,194 thousand).

Movements in allowances for insurance operations

	SID Bank Group	
	2017	2016
Balance as at 1 Jan	(10,523)	(9,923)
Allowances	(596)	(987)
Reversal of allowances	459	196
Write-off	5,542	191
Balance as at 31 Dec	**(5,118)**	**(10,523)**

2.4.8 Financial liabilities measured at amortised cost

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Loans from banks and central banks	1,230,807	1,184,865	1,230,807	1,184,865
Loans	1,205,543	1,153,125	1,205,543	1,153,125
Deposits	25,264	31,740	25,264	31,740
Loans from non-bank customers	454,828	487,427	454,828	487,427
Loans	454,828	457,427	454,828	457,427
Deposits	0	30,000	0	30,000
Debt securities issued	350,320	460,652	350,320	460,652
Other financial liabilities	2,191	1,767	3,062	2,497
Total	**2,038,146**	**2,134,711**	**2,039,017**	**2,135,441**

In 2017, SID Bank repaid the bond with the ticker symbol SEDABI 2.25 04/24/17 in the amount of EUR 96,832 thousand and executed a partial repurchase of bonds with the ticker symbols SEDABI 0.875 08/04/18 and SEDABI 0.875 08/04/18 in the total amount of EUR 10,295 thousand.

2.4.9 Derivatives held for hedging

	SID Bank and SID Bank Group	
	31 Dec 2017	31 Dec 2016
Fair value	30	0
Net liabilities for interest	63	0
Total	**93**	**0**

SID Bank also manages its interest rate risk exposure by means of interest rate derivatives. If the derivatives meet the conditions, they are dealt with by applying hedge accounting. As at 31 December 2017, the Bank held two interest rate swaps (IRS) as a hedging instrument in a fair value hedge of active items, in the total contract value of EUR 15,000 thousand.

2.4.10 Provisions

Movements in provisions of SID Bank

	Provisions for off-balance sheet liabilities - guarantees	Provisions for off-balance sheet liabilities - undrawn loans	Provisions for retirement benefits and loyalty bonuses	Total
Balance as at 1 Jan 2017	14,750	327	469	15,546
Additions	246	18,810	113	19,169
Disposals	(1,385)	(16,868)	0	(18,253)
Utilised	(13,500)	0	(6)	(13,506)
Foreign exchange differences	(10)	0	0	(10)
Balance as at 31 Dec 2017	**101**	**2,269**	**576**	**2,946**
Balance as at 1 Jan 2016	31,459	3,111	351	34,921
Additions	1,260	19,483	264	21,007
Disposals	(321)	(22,241)	(104)	(22,666)
Utilised	(17,648)	0	(42)	(17,690)
Foreign exchange differences	0	(26)	0	(26)
Balance as at 31 Dec 2016	**14,750**	**327**	**469**	**15,546**

Movements in provisions of SID Bank Group

	Provisions for off-balance sheet liabilities - guarantees	Provisions for off-balance sheet liabilities - undrawn loans	Provisions for retirement benefits and loyalty bonuses	Movements in liabilities from insurance contracts	Total
Balance as at 1 Jan 2017	14,750	327	639	23,241	38,957
Additions	246	18,810	130	16,889	36,075
Disposals	(1,385)	(16,868)	(13)	10,254	(8,012)
Utilised	(13,500)	0	(30)	(26,343)	(39,873)
Foreign exchange differences	(10)	0	0	0	(10)
Balance as at 31 Dec 2017	**101**	**2,269**	**727**	**24,040**	**27,137**
Balance as at 1 Jan 2016	31,459	3,111	511	25,591	60,672
Additions	1,260	19,483	283	15,492	36,518
Disposals	(321)	(22,241)	(109)	(6,218)	(28,889)
Utilised	(17,648)	0	(45)	(11,625)	(29,317)
Foreign exchange differences	0	(26)	0	0	(26)
Balance as at 31 Dec 2016	**14,750**	**327**	**639**	**23,241**	**38,957**

In 2017, SID Bank used the provisions for off-balance sheet liabilities – guarantees totalling EUR 13,500 thousand as a result of the calling the guarantees by the Prvi faktor Group companies.

As at 31 December 2017, the provisions for retirement benefits and loyalty bonuses were made by SID Bank on the basis of its own calculation. The calculation is based on the assumption that all 170 staff members employed at SID Bank on 31 December 2017 (31 December 2016: 162) will remain at the bank until the payment of all relevant loyalty bonuses or until their retirement. The calculated amounts are discounted as at 31 December 2017 using a discount rate of 1.0142 (31 December 2016: 1.0216).

The liabilities under insurance contracts are gross technical provisions.

2.4.11 Other liabilities

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Current deferred income	63	85	275	284
Deferred income	2	6	2	6
Accrued reinsurance liabilities	0	0	2,401	2,506
Tax liabilities	51	49	174	167
Other liabilities	0	0	34	27
Total	**116**	**140**	**2,886**	**2,990**

2.4.12 Equity

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Share capital	300,000	300,000	300,000	300,000
Profit reserves	88,005	70,530	107,859	83,188
Regulatory reserves	11,702	11,005	12,558	11,861
Reserves for treasury shares	1,324	1,324	1,324	1,324
Statutory reserves	43,313	36,684	47,519	40,890
Other profit reserves	31,666	21,518	46,458	29,111
Share premium	1,139	1,139	1,139	1,139
Accumulated other comprehensive income in association with available-for-sale financial assets	15,444	13,336	16,068	14,039
Treasury shares	(1,324)	(1,324)	(1,324)	(1,324)
Retained earnings (including net profit for the financial year)	6,629	10,148	3,858	16,766
Total	**409,893**	**393,829**	**427,600**	**413,808**

In 2017, there were no changes to the treasury shares reserve. As at 31 December 2017, SID Bank held 18,445 shares of SID Bank, ticker symbol SIDR, in a total amount of EUR 1,324 thousand.

In accordance with a decision of the General Meeting of Shareholders, the undistributed profit for 2016 in the amount of EUR 10,148 thousand was allocated to other profit reserves.

The movements are indicated in the statement of changes in equity.

2.4.13 Distributable profit

	SID Bank	
	31 Dec 2017	31 Dec 2016
Net profit for the financial year	13,956	21,363
Portion of net profit allocated to regulatory reserves	(698)	(1,068)
Portion of net profit allocated to statutory reserves	(6,629)	(10,148)
Distributable profit	**6,629**	**10,148**

In accordance with the Articles of Association, the management board used SID Bank's net profit totalling EUR 13,956 thousand for 2017 (2016: EUR 21,363 thousand) for regulatory reserves amounting to EUR 698 thousand (2016: EUR 1,068 thousand) and statutory reserves amounting to EUR 6,629 thousand (2016: EUR 10,148 thousand).

Under the Slovenian Export and Development Bank Act (ZSIRB), SID Bank's distributable profit should not be distributed to shareholders, but should be allocated to other profit reserves in accordance with a decision of the General Meeting of Shareholders.

2.5 Notes to the statement of profit or loss

2.5.1 Net interest

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Interest income				
Loans and deposits	22,462	28,267	22,475	28,288
Banks	6,505	9,589	6,518	9,610
Non-bank customers	15,957	18,678	15,957	18,678
Derivatives used for hedging	0	1,211	0	1,211
Available-for-sale financial assets	6,111	8,018	6,403	8,325
From liabilities	546	6	546	6
Total	29,119	37,502	29,424	37,830
Interest expense				
Securities issued	(3,744)	(8,000)	(3,744)	(8,000)
Loans and deposits	(4,428)	(5,222)	(4,428)	(5,222)
Banks	(922)	(1,587)	(922)	(1,587)
Non-bank customers	(3,506)	(3,634)	(3,506)	(3,634)
Derivatives used for hedging	(95)	(127)	(95)	(127)
Financial liabilities held for trading, other	0	(3)	(3)	(6)
From assets	(558)	(308)	(558)	(308)
Total	(8,825)	(13,660)	(8,828)	(13,663)
Net interest	**20,294**	**23,841**	**20,596**	**24,166**

In 2017, SID Bank generated net interest income of EUR 20,294 thousand or 14.9% less than in 2016. The reason for higher net interest income in the previous year lies in one-off effects amounting to EUR 3,664 thousand after completing the forbearance procedures, when, following the repayment of NPLs, all interest paid was recognised in profit or loss. No such one-off effects occurred in 2017. The decrease in net interest income in 2017 was somewhat alleviated by the change in the method of recognising the loan approval fees, still being recorded in 2016 as fee and commission income and expenses, whereas in 2017 it was recognised under interest income and expenses in view of the fact that it forms the effective interest rate. As a result, net interest income is higher in 2017 by EUR 1,183 thousand, and consequently net fee and commission income is lower by the same amount.

In accordance with the note to section 2.3.7, any interest relating to non-performing loans is excluded from income. The amount of calculated and excluded interest income totalled EUR 9,343 thousand as at 31 December 2017 (2016: EUR 10,603 thousand). As at 31 December 2017, the effect of calculated and excluded interest income relating to D- and E-rated customers amounted to EUR 9,200 thousand (2016: EUR 10,471 thousand).

2.5.2 Net fee and commission

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Fee and commission income				
Fee and commission income from loan operations	127	1,800	127	1,800
Fee and commission income from guarantees given	105	121	105	121
Total	232	1,921	232	1,921
Fee and commission expenses				
Fees and commissions for loan operations	(207)	(376)	(207)	(376)
Other fees and commissions (stock exchange transactions, other)	(252)	(374)	(270)	(391)
Total	(459)	(750)	(477)	(767)
Net fee and commission	**(227)**	**1,171**	**(245)**	**1,154**

The difference in the amount of fee and commission income between 2017 and 2016 is due primarily to the change in the approach to the recognition of fees and commission for loan approval as explained in the note to section 2.5.1.

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

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Net realised gains from available-for-sale financial assets	3,184	6,230	3,195	6,230
Gains	3,419	6,238	3,430	6,238
Losses	(235)	(8)	(235)	(8)
Net realised gains/(losses) on loans	282	(127)	282	(127)
Gains	282	18	282	18
Losses	0	(145)	0	(145)
Realised net gains/(losses) on financial liabilities measured at amortised cost	(150)	80	(150)	80
Gains	0	80	0	80
Losses	(150)	0	(150)	0
Net realised gains on financial assets and liabilities not measured at fair value through profit or loss	**3,316**	**6,183**	**3,327**	**6,183**

In 2017, net gains on available-for-sale financial assets realised by SID Bank amounted to EUR 3,184 thousand (2016: EUR 6,230 thousand). In addition to the gains from the sale of available-for-sale debt securities, SID Bank generated profits of EUR 3,074 thousand last year when selling company shares acquired in loan forbearance procedures through conversion into the equity of those companies. In 2017, the gains generated in the same manner by SID Bank amounted only to EUR 0.6 thousand.

2.5.4 Gains/losses on financial assets and liabilities measured at fair value through profit or loss

	SID Bank and SID Bank Group	
	2017	2016
Realised gains	7,830	15,048
Realised (losses)	(12,669)	(3,897)
(Losses)/gains on financial assets and liabilities measured at fair value through profit or loss	**(4,839)**	**11,151**

Funds that SID Bank manages for its own account include three loan funds set up together with the Ministry of Economic Development and Technology. A first loss clause has been contractually agreed upon with the Ministry for all three funds, i.e. that any negative financial result of the funds shall be covered primarily by the priority participation of the Ministry in loan fund risks by reducing the liabilities owed to the Ministry and recognising any gains on financial assets and liabilities measured at fair value through profit or loss. If the result of the loan funds is positive in the upcoming periods, the liability owed to the Ministry will increase and the losses will be recognised under financial assets and liabilities measured at fair value through profit or loss.

Considering the relatively high risk of investments from the loan funds and the consequently high percentages of collective impairments on such loans, lending activity has a substantial impact on the financial result of the loan funds. In periods of high rates of lending, provisions and impairments are high, leading to a high negative result of the fund, whereas in periods when loans are repaid and impairments are reversed, this is reflected in relatively high positive results of the loan funds.

In 2017, the volume of lending from the loan funds was considerably smaller than in 2016; moreover, at the end of 2017, the percentages of collective impairments on such loans were also lowered, which was reflected in the positive financial result of the loan funds in the previous year totalling EUR 4,839 thousand, and consequently in recognised losses in the same amount arising from financial assets and liabilities measured at fair value through profit or loss. In 2016, the loan funds recorded a negative financial result of EUR 11,151 thousand and recognised profits in the same amount.

2.5.5 Changes in fair value in hedge accounting

	SID Bank and SID Bank Group	
	2017	2016
Net gains/(losses) on derivatives held for hedging	(30)	2,396
Net gains/(losses) on hedged items (bonds, loan)	51	(2,019)
Total	**21**	**377**

2.5.6 Net foreign exchange gains/losses

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Income from exchange rate differences	6,461	5,653	6,463	5,657
Expenses from exchange rate differences	(7,647)	(4,964)	(7,648)	(4,972)
Net gains/(losses)	**(1,186)**	**689**	**(1,185)**	**685**

2.5.7 Other net operating gains/losses

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Gains				
Income from activities under the authorisation of the Republic of Slovenia	1,893	1,811	1,893	1,811
Insurance premium income	0	0	15,060	14,434
Income from reinsurance commissions	0	0	2,950	3,029
Reinsurance share in compensation, recourse and bonuses	0	0	19,809	3,325
Recourse income	0	0	2,283	2,196
Other operating revenues	78	130	986	930
Total	1,971	1,941	42,982	25,725
Losses				
Expenses for reinsurance premiums	0	0	(9,083)	(8,564)
Expenses for gross claims	0	0	(24,620)	(7,605)
Other operating expenses	(239)	(270)	(1,898)	(1,797)
Total	(239)	(270)	(35,600)	(17,966)
Net operating gains	**1,732**	**1,671**	**7,382**	**7,759**

In 2017, the Bank realised gains of EUR 1,893 thousand (2016: EUR 1,811 thousand) arising from the provision of services under authorisation. Gains realised from managing security reserve assets amounted to EUR 1,740 thousand (2016: EUR 1,740 thousand), from managing the Fund of Funds EUR 126 thousand, from guarantee schemes EUR 15 thousand (2016: EUR 39 thousand) and from other services under authorisation EUR 12 thousand (2016: EUR 32 thousand).

In 2017, the SID Bank Group recorded a higher number of loss events, as evident from the higher amount of gross claims incurred in comparison with 2016. One major loss event was recorded which accounted for more than 60% of the overall gross claims incurred. As the above loss event comprised a very large proportion of reinsurance, the share of reinsurance in damages, recourses and bonuses increased in 2017 relative to 2016.

2.5.8 Administrative expenses

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Labour costs	(8,853)	(8,062)	(11,957)	(11,121)
Gross salaries	(6,678)	(6,105)	(8,914)	(8,298)
Pension insurance costs	(595)	(545)	(807)	(756)
Social security costs	(495)	(452)	(671)	(630)
Other labour costs	(1,085)	(960)	(1,565)	(1,437)
General and administrative costs	(3,541)	(2,956)	(4,706)	(4,167)
Costs of materials	(120)	(142)	(175)	(201)
Costs of services	(3,421)	(2,814)	(4,531)	(3,966)
Total	**(12,394)**	**(11,018)**	**(16,664)**	**(15,288)**

2.5.9 Depreciation and amortisation

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Depreciation of property, plant and equipment	(570)	(559)	(838)	(738)
Amortisation of intangible assets	(282)	(246)	(429)	(376)
Total	**(852)**	**(805)**	**(1,267)**	**(1,115)**

2.5.10 Provisions

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Provisions for off-balance sheet liabilities - guarantees	1,138	(939)	1,138	(939)
Provisions for off-balance sheet liabilities - undrawn loans	(1,942)	2,758	(1,942)	2,758
Provisions for liabilities from insurance contracts	0	0	127	702
Other provisions	(113)	(159)	(113)	(159)
Total	**(917)**	**1,660**	**(790)**	**2,361**

In 2017, SID Bank generated revenues of EUR 804 thousand from provisions for off-balance sheet liabilities (2016: EUR 1,819 thousand). The table in section 2.6.1. shows the balances of off-balance sheet liabilities for which the provisions were made.

Other provisions include provisions for retirement benefits and loyalty bonuses.

2.5.11 Impairments

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Impairments of loans and receivables measured at amortised cost	7,731	2,676	7,731	2,676
Loans and advances to banks	(264)	(871)	(264)	(871)
Loans and advances to non-bank customers	7,958	3,578	7,958	3,578
Other financial assets	37	(31)	37	(31)
Impairments of investments in subsidiaries, associates and joint ventures	(279)	(12,250)	(279)	(12,250)
Impairments of other assets	0	0	(91)	(406)
Total	**7,452**	**(9,574)**	**7,361**	**(9,980)**

In 2017, the impairments of EUR 279 thousand were recorded regarding the investment in equity of Prvi factor, Belgrade – in liquidation, referring to immediate impairment of the company's recapitalisation (2016: EUR 12,250 thousand of impairments relating to the recapitalisation of Prvi factor, Ljubljana – in liquidation).

2.5.12 Gains on investments in subsidiaries, associates and joint ventures and dividend income

A dividend of EUR 3,353 thousand was paid to SID Bank by its subsidiary, SID – Prva kreditna zavarovalnica, d. d. (2016: EUR 88 thousand).

SID Bank received dividends from EIF amounting to EUR 87 thousand, reported under dividend income (2016: EUR 27 thousand).

2.5.13 Income tax from continuing operations

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Current income tax	(2,285)	(6,202)	(2,420)	(6,622)
Deferred taxes	17	2,248	14	2,250
Total	**(2,268)**	**(3,954)**	**(2,406)**	**(4,371)**

In Slovenia, the corporate income tax rate for 2017 was 19% (2016: 17%).

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

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Profit from continuing operations	16,224	25,317	14,168	27,336
Corporate income tax (at rates applicable in relevant countries)	(3,083)	(4,304)	(3,329)	(4,662)
Revenues deducted from the tax base	896	15	923	28
Non-deductible expenses	(231)	(2,194)	(312)	(2,306)
Expenses recognised for tax purposes	60	193	164	210
Increase in tax base	(32)	(1)	(32)	(131)
Tax reliefs	104	88	166	111
Tax	**(2,285)**	**(6,202)**	**(2,420)**	**(6,750)**
Of which tax in profit or loss	(2,285)	(6,202)	(2,420)	(6,622)
Of which tax in equity	0	0	0	(129)
Effective tax rate (in %)	14.1	24.5	17.1	24.7

Most of the revenues deducted from the tax base relate to dividend income. SID Bank excluded EUR 3,353 thousand in dividend income from its tax base in 2017 (2016: EUR 88 thousand).

In 2017, SID Bank recorded under non-deductible expenses in its corporate income tax calculation the impairment of Prvi faktor, Belgrade – in liquidation amounting to EUR 279 thousand (2016: impairment of Prvi faktor, Ljubljana – in liquidation of EUR 12,250 thousand).

2.5.14 Net earnings per share

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Number of ordinary registered no-par value shares	3,121,741	3,121,741	3,121,741	3,121,741
Treasury shares	18,445	18,445	18,445	18,445
Number of ordinary shares (excluding treasury shares)	3,103,296	3,103,296	3,103,296	3,103,296
Net profit in period (in EUR thousand)	13,956	21,363	11,762	22,965
Basic earnings per share (in EUR)	**4.50**	**6.88**	**3.79**	**7.40**

Diluted earnings per share equals basic earnings per share for SID Bank and the SID Bank Group.

2.6 Other notes to the financial statements

2.6.1 Contingent liabilities and assumed commitments

Contractual liabilities for off-balance sheet financial instruments arising from assumed commitments

	SID Bank and SID Bank Group	
	31 Dec 2017	31 Dec 2016
Guarantees	13,863	32,871
Other off-balance sheet liabilities	60,409	23,570
Total assumed commitments	**74,272**	**56,441**
Provisions for off-balance sheet risks - guarantees	(101)	(14,750)
Provisions for off-balance sheet risks - undrawn loans	(2,269)	(327)
Total provisions for assumed commitments	**(2,370)**	**(15,077)**

SID Bank or SID Bank Group discloses under assumed commitments the value guarantees given and the value of other off-balance sheet liabilities, including the value of undrawn loans and the value of uncalled unpaid capital. In 2017, the value of guarantees given decreased as a result of their expiry and calling. The amount of loans to non-bank customers, undrawn as at 31 December 2017, totals EUR 24,743 thousand (2016: EUR 11,070 thousand), and the amount of loans approved to banks EUR 23,665 thousand (2016: EUR 500 thousand). The value of uncalled unpaid capital amounts to EUR 12,000 thousand (2016: EUR 12,000 thousand).

Contractual value of derivatives

	SID Bank and SID Bank Group	
	31 Dec 2017	31 Dec 2016
Derivatives held for trading		
Foreign exchange swaps	0	7,812
Derivatives used for hedging		
Interest rate swaps	15,000	0
Total	**15,000**	**7,812**

The contractual values of derivatives held for hedging amount 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 2.4.9 and 2.5.5.

2.6.2 Related party disclosures

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

Major transactions between SID Bank and the SID Bank Group members are disclosed below. Their mutual relations are excluded from the consolidated financial statements.

Significant relations of SID Bank with subsidiaries and joint ventures

	2017			2016		
	Subsidiary companies	Joint ventures	Total	Subsidiary companies	Joint ventures	Total
Receivables						
Loans	0	2,988	2,988	0	17,934	17,934
Other financial assets	5	0	5	7	0	7
Gross exposure	5	2,988	2,993	7	17,934	17,941
Allowances	0	(1,590)	(1,590)	0	(2,527)	(2,527)
Net exposure	5	1,398	1,403	7	15,407	15,414
Provisions	0	0	0	0	14,618	14,618
Total liabilities	0	0	0	0	14,618	14,618

	2017			2016		
	Subsidiary companies	Joint ventures	Total	Subsidiary companies	Joint ventures	Total
Interest income	0	46	46	0	754	754
Revenues from other services	53	0	53	67	0	67
Fee and commission expenses	0	(43)	(43)	0	0	0
Provisions	0	1,118	1,118	0	(892)	(892)
Impairments	0	658	658	0	14,909	14,909
Net gains on investments in subsidiaries, associates and joint ventures	3,353	0	3,353	88	0	88
Total	3,406	1,779	5,185	155	14,771	14,926

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

The Bank and the SID Bank Group have business relationships with the government and with government-related companies or companies with a significant government influence.

	SID Bank		SID Bank Group	
Exposure to:	2017	2016	2017	2016
Bank of Slovenia				
Balance as at 31 December				
ASSETS				
Cash, cash balances at central bank and demand deposits at banks	70,778	145,393	70,778	145,393
LIABILITIES				
Loans from banks and central banks	172,605	15,000	172,605	15,000
Other financial liabilities	108	120	108	120
For period				
Interest expense	(890)	(328)	(890)	(328)
Republic of Slovenia				
Balance as at 31 December				
ASSETS				
Available-for-sale financial assets	224,587	335,444	229,753	344,134
Loans and advances to non-bank customers	58,718	48,898	58,718	48,898
Other financial assets	370	377	370	377
Corporate income tax assets	4,086	31	4,086	31
Other assets	47	52	47	52
LIABILITIES				
Loans from non-bank customers	173,805	128,095	173,805	128,095
Other financial liabilities	310	300	310	300
Provisions	35	0	35	0
Corporate income tax liabilities	0	4,105	0	4,105
Other liabilities	51	49	51	49
CONTINGENT LIABILITIES AND ASSUMED COMMITMENTS	1,568	0	1,568	0
For period				
Interest income	2,854	3,659	2,996	3,814
Interest expense	0	(84)	0	(84)
Fee and commission income	0	20	0	20
Fee and commission expenses	(10)	0	(10)	0
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss	1,675	983	1,675	983
Changes in fair value in hedge accounting	51	0	51	0
Net foreign exchange gains/losses	(304)	106	(304)	106
Other net operating gains	1,785	1,694	1,785	1,694
Administrative expenses	(57)	(60)	(57)	(60)
Impairments and provisions	4	1,146	4	1,146

	SID Bank		SID Bank Group	
Exposure to:	2017	2016	2017	2016
Government-owned undertakings				
Balance as at 31 December				
ASSETS				
Cash, cash balances at central bank and demand deposits at banks	48	2,230	48	2,230
Available-for-sale financial assets	63,306	145,400	64,324	146,412
Loans and advances to banks	318,810	352,223	318,810	352,223
Loans and advances to non-bank customers	209,231	231,246	209,231	231,246
Other financial assets	131	8	126	1
Long-term investments in subsidiaries, associates and joint ventures	8,413	8,413	0	0
Other assets	6	7	7	8
LIABILITIES				
Deposits from banks	15,264	14,608	15,264	14,608
Deposits from non-bank customers	0	30,000	0	30,000
Loans from non-bank customers	20,755	20,751	20,755	20,751
Other financial liabilities	126	305	126	305
Provisions	211	1,749	211	1,749
Other liabilities	0	75	0	75
CONTINGENT LIABILITIES AND ASSUMED COMMITMENTS	28,863	29,601	28,863	29,601
For period				
Interest income	8,442	12,461	8,488	12,510
Interest expense	1,307	(1,206)	1,307	(1,206)
Fee and commission income	138	711	138	711
Fee and commission expenses	(192)	(1)	(192)	(1)
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss	167	2,938	167	2,938
Changes in fair value in hedge accounting	0	1,771	0	1,771
Other net operating gains	179	72	(11,540)	136
Administrative expenses	(163)	(137)	(163)	(137)
Impairments and provisions	(6,109)	9,860	(6,263)	9,438
Net gains on investments in subsidiaries, associates and joint ventures	3,353	88	0	0

2.6.3 Remuneration system

(Article 450(1)(a)(b)(c)(d)(e)(f) of the CRR)

SID Bank’s remuneration policy is consistently aimed at fulfilling the objectives of the Bank's business strategy, and aligned with its risk profile and risk absorption capacity.

SID Bank’s support units (risk management, compliance, internal audit, accounting and general affairs and HR), the management board of SID Bank, the supervisory board committees (risk committee, appointments and remuneration committee) are involved in the process of putting in place, implementation and control of the remuneration policy as well as the supervisory board, which adopts the remuneration policy.

In 2017, the appointments and remuneration committee held seven sessions and discussed the remuneration policy and practice at three sessions, including a proposal concerning the amendments to the remuneration policy, adopted by the supervisory board on 30 August 2017. The amendments related to a more detailed description of the duties of SID Bank’s support units, harmonisation of definitions and terms concerning variable remuneration with the EBA guidelines and to changes in SID Bank’s organisational structure, having an impact on the identification of those members of staff whose professional activities have a material impact on the Bank’s risk profile.

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

The remuneration policy is used at the SID Bank Group level (in addition to SID Bank also SID-Prva kreditna zavarovalnica d. d.). The supervision of the consistent application of the policy at the level of the subsidiary is the responsibility of the members of the supervisory bodies of the subsidiary, employees of SID Bank, in accordance with the policy of managing the SID Ban’s organisational unit.

The size and organisational structure of the Bank as well as the nature, scale and complexity of the activities performed by SID Bank are taken into account in the remuneration policy. In accordance with the ZSIRB, SID Bank’s objective is not maximum profit generation, but primarily conservation of capital, whereby all SID Bank’s transactions are subject to the assessment of the 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 (funding provided to companies and banks), i.e. that it does not provide the majority of services performed by other banks (e.g. SID Bank does not receive deposits from the public i.e. it does not provide any retail services, it does not hold customer transaction accounts i.e. does not provide payment services for customers, it does not provide investment services for customers, etc.), and that due to the specific business model typical for 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 or 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 shall be formulated in such a way that it does not encourage employees whose professional activities have a material impact on the Bank’s risk profile to irresponsibly take disproportionately excessive risks in the course of their work, or risks that exceed the Bank's risk absorption capacity.

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. severance payments above the amount in accordance with labour law regulations).

The requirements from points 7 and 8 of paragraph one of Article 170 of the ZBan-2 concerning creation and payment of variable remuneration shall not apply where 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).

In the light of the provisions of the ZSIRB, specifying that SID Bank may have only one shareholder and that the Republic of Slovenia is held liable for the commitments of the Bank, SID Bank cannot and may not pay the variable component of remuneration in the form of shares. This means that in cases where 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 point 7 of paragraph one of Article 170 of the Banking Act (ZBan-2), requiring that at least 50% of the variable remuneration of every individual must be provided in the form of ordinary and preference shares of the bank, or share-linked instruments or equivalent non-cash instruments, whenever the bank’s shares are not listed on a regulated market. If the total variable remuneration of an employee whose professional activities have a material impact on the Bank’s risk profile exceeds the gross amount of EUR 50,000.00 in a given year, the amount above that figure is indexed to the growth of 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).

Remuneration of employees in the independent control functions is determined in such a way that their independence and objectivity in the performance of duties are not compromised. Employees who perform independent control functions are independent from the organisational units that they control, and have the appropriate authority and receive remuneration with respect to the achievement of objectives linked to their functions, regardless of the performance of the business areas that they control. Employees who perform independent control functions receive performance bonuses irrespective of the policy in accordance with the company-level collective agreement.

In the event of insufficient business 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 sectoral collective agreement), 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 or the sectoral collective agreement.

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 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.

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 Slovenia's Banking Sector and the company-level collective agreement is paid as a payment for performance over the percentage from the Collective Agreement for Slovenia's Banking Sector, performance bonuses, other bonuses (e.g. for project work) or severance pay above the amount in accordance with labour law regulations. Employee performance is monitored and assessed once annually by their immediate superiors on the basis of the execution of their duties specified in respective annual development interviews based on the 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 allocated for the payment of salaries account for 10% of funds allocated for the payment of employees' basic monthly salaries under the collective agreement.

The payment of performance bonuses depends on the results of the implementation of the annual operational plan at the level of the Bank and individual organisational units in terms of achieving key performance indicators in the implementation of the strategy for each year (financial aspect, e.g.: ROE, CIR; market aspect, e.g.: volume of new business, lending volume; internal aspect, e.g.: share of realised projects/tasks; aspect of learning and development, e.g.: conducing development interviews, internal transfer of knowledge) and the achievement of key performance indicators as well as the performance of the tasks of individual organisational units (duties defined by bylaws, annual operational plans according to various aspects such as the above-mentioned criteria at the level of the Bank, through individual decisions of the management board, and annual interviews with the managers). The maximum performance bonus may not exceed one monthly salary of an employee. The total variable remuneration of employees may not exceed 33% of the fixed remuneration.

2. Employees with individual employment contracts are paid variable remuneration once a year in the form of performance bonuses based on the achievement of goals, tasks and obligations determined by a decision adopted by the management board every year and/or business policy of the department/departments and/or 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 criteria also applying to the management board of SID Bank. The provisions of the individual contracts the generally limit performance bonuses to 25% of the basic 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 basic salary of any member of the management board, is determined by the supervisory board on a proposal from the appointments and remuneration committee, following the approval of SID Bank's annual report, depending on the fulfilment of the annual operational plan of SID Bank and other performance measurement criteria. The fulfilment of the annual operational plan (AOP) provides a basis for the payment of the entire variable remuneration, while in the event of a) partial fulfilment of the annual operational plan (AOP) or b) if certain objectives have been exceeded and other have not been met, the supervisory board adopts 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 annual operational plan (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 different circumstances in which the company operated in the previous year.

Performance bonuses for all categories of employees are paid after the approval of the annual report by the Bank's 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 Bank 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 equals the calendar year. The deferral period for the variable remuneration begins after the end of the accounting period and, in accordance with the remuneration policy, for employees whose professional activities have a material impact on the Bank's risk profile and if total variable remuneration in a single year exceeds the gross amount of EUR 50,000.00, 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 the member of the management board, the provisions of the ZPPOGD and the remuneration policy apply, which specify that the deferral period shall be three years and the deferred proportion of the variable remuneration shall amount to 50%.

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 they are charged a bonus by SID Bank.

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

Quantitative information on remuneration in 2017

	Supervisory function of manage-ment board	Manage-ment function of management board	Financing and insurance	Invest-ment banking	Retail banking	Asset manage-ment	Corpo-rate functions	Indepen-dent internal control functions	Other
Members (number of employees)	8	2	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Number of identified FTE employees	n.r.	n.r.	6.9	0	0	5.3	9.8	3.7	3.0
Number of identified employees in senior management posts	n.r.	n.r.	0	0	0	0	3.8	0	0
Total fixed remuneration (in EUR)	191,032	376,985	433,894	0	0	268,510	808,658	230,920	191,022
Of which: fixed remuneration in cash	191,032	376,985	433,894	0	0	268,510	808,658	230,920	191,022
Of which: fixed remuneration in ordinary shares and related instruments	0	0	0	0	0	0	0	0	0
Of which: fixed remuneration in other types of instruments	0	0	0	0	0	0	0	0	0
Total variable remuneration (in EUR)	0	86,598	63,544	0	0	25,855	147,110	23,549	15,181
Of which: variable remuneration in cash	0	86,598	63,544	0	0	25,855	147,110	23,549	15,181
Of which: variable remuneration in ordinary shares and related instruments	0	0	0	0	0	0	0	0	0
Of which: variable remuneration in other types of instruments	0	0	0	0	0	0	0	0	0
Total amount of variable remuneration awarded in 2017 and deferred (in EUR)	0	47,905	0	0	0	0	0	0	0
Of which: deferred variable remuneration in cash in 2017	0	47,905	0	0	0	0	0	0	0
Of which: deferred variable remuneration in ordinary shares and related instruments in 2017	0	0	0	0	0	0	0	0	0
Of which: deferred variable remuneration in other types of instruments	0	0	0	0	0	0	0	0	0
Additional information concerning the amount of total variable remuneration									
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in 2017 (in EUR); Article 450(1)(h)(iii) of the CRR	0	85,266	3,955	0	0	0	33,903	0	0
Total actual adjustment of awarded and deferred remuneration from previous years in 2017 according to past performance (in EUR); Article 450(1)(h)(iv) of the CRR	0	0	0	0	0	0	0	0	0
Number of beneficiaries of guaranteed variable remuneration (new contractual variable remuneration agreed in advance)	0	0	0	0	0	0	0	0	0
Total guaranteed variable remuneration (new contractual variable remuneration agreed in advance) (in EUR)	0	0	0	0	0	0	0	0	0
Number of severance payment beneficiaries	0	0	0	0	0	0	0	0	0
Total amount of severance payments in 2017 (in EUR); Article 450(1)(h)(vi) of the CRR	0	0	0	0	0	0	0	0	0
Highest severance payment awarded to a single person (in EUR); Article 450(1)(h)(vi) of the CRR	0	0	0	0	0	0	0	0	0
Number of beneficiaries of contributions to special pension benefit schemes in 2017	0	0	0	0	0	0	0	0	0
Total contributions to special pension benefit schemes in 2017	0	0	0	0	0	0	0	0	0
Total amount of variable remuneration awarded for a multi-year period within the framework of programmes that are not implemented at an annual level (in EUR)	0	0	0	0	0	0	0	0	0

n.r.=not relevant

All variable remuneration was paid in cash, with no other types of variable remuneration existing.

All amounts of outstanding deferred remuneration from previous years are split into vested portions.

No single person was remunerated more than EUR 1 million.

Remuneration of members of the supervisory bodies in 2017

in EUR Person	Function	Gross payment for the performance of function	Gross meeting attendance fees	Gross, total	Net, total	Gross cost reimbursement	Net cost reimbursement	Other benefits (liability insurance)
Monika Pintar Mesarič	Chair of the Supervisory Board Chair of the Appointments and Remuneration Committee	31,000	5,555	36,555	26,550	0	0	134
Janez Tomšič	Deputy Chairman of the Supervisory Board until 5 April 2017 Deputy Chairman of the Appointments and Remuneration Committee until 5 April 2017	5,522	2,145	7,667	5,540	0	0	134
Marjan Divjak	Member of the Supervisory Board until 5 April 2017 and since 18 May 2017 Chairman of the Audit Committee until 5 April 2017 Deputy Chairman of the Risk Committee until 5 April 2017 and since 25 May 2017	19,116	5,610	24,726	17,947	0	0	134
Štefan Grosar	Member of the Supervisory Board until 5 April 2017 Member of the Audit Committee until 5 April 2017	5,113	1,705	6,818	4,922	0	0	134
Leo Knez	Member of the Supervisory Board Chairman of the Risk Committee Deputy Chairman of the Audit Committee	27,125	8,140	35,265	25,612	0	0	134
Marko Tišma	Member of the Supervisory Board Deputy Chairman of the Supervisory Board since 14 July 2017 Member of the Risk Committee Member of the Appointments and Remuneration Committee until 13 July 2017 Deputy Chairman of the Appointments and Remuneration Committee since 14 July 2017	23,971	8,525	32,496	23,598	2,410	1,752	134
Aleš Berk Skok, PhD	Member of the Supervisory Board since 13 April 2017 Chairman of the Audit Committee since 20 April 2017 Member of the Risk Committee since 20 April 2017	19,214	5,775	24,989	18,175	105	76	0
Zlatko Vili Hohnjec	Member of the Supervisory Board since 18 May 2017 Member of the Audit Committee since 14 July 2017 Member of the Appointments and Remuneration Committee since 14 July 2017	13,229	4,785	18,014	13,102	1,183	860	0
		144,290	42,240	186,530	135,446	3,698	2,688	804

The representatives of SID Bank on the supervisory bodies of subsidiaries did not receive any meeting attendance fees or other remuneration for supervisory duties in the SID Bank Group companies in 2017.

Remuneration of members of the management board in 2017

In 2017, SID Bank's management board was paid EUR 487,939, of which EUR 376,984 as fixed, EUR 72,040 as current variable and EUR 38,915 as deferred variable remuneration from previous years.

In 2017, President of the Management Board Sibil Svilan received total remuneration of EUR 251,177, of which EUR 205,941 as fixed and EUR 45,236 EUR as variable remuneration. Fixed remuneration consists of gross salary which totalled EUR 195,589 (net salary amounted to EUR 86,445), voluntary supplementary pension insurance payments of EUR 2,819, meal allowances of EUR 404 and additional non-cash benefits (company car use, voluntary health insurance, life insurance, accident insurance and liability insurance), of which the bonus charged totalled EUR 7,129. Variable remuneration consists of variable remuneration awarded and paid in 2017 in the amount of EUR 24,995 and deferred variable remuneration from previous years, paid in 2017 in the amount of EUR 20,241.

Goran Katušin, member of the management board since 1 January 2017, received in 2017 total remuneration of EUR 195,400, of which EUR 171,043 fixed and EUR 24,357 variable. Fixed remuneration consists of gross salary which totalled EUR 164,578 (net salary amounted to EUR 77,883), pay for annual leave of EUR 1,265, voluntary supplementary pension insurance payments of EUR 2,819, transportation and meal allowances of EUR 1,755 and additional non-cash benefits (voluntary health insurance, accident insurance and liability insurance), of which the bonus charged totalled EUR 626. All variable remuneration totalling EUR 24,357 was awarded and paid in 2017 and also relates to his executive director function performed until 31 December 2016. In 2017, no deferred variable remuneration was paid.

In 2017, Jožef Bradeško, member of the management board until 31 December 2016, received variable remuneration of EUR 41,362. Variable remuneration consists of variable remuneration awarded and paid in 2017 in the amount of EUR 22,688 and deferred variable remuneration from previous years, paid in 2017 in the amount of EUR 18,674.

2.6.4 Total amount spent on auditors

	SID Bank		SID Bank Group	
	2017	2016	2017	2016
Auditing of the annual report	44	44	69	69
Other assurance provision services	14	3	23	8
Other non-audit services	69	126	69	126
Total	127	173	161	203

In 2017, SID Bank and the SID Bank Group disclosed under other non-audit services the costs for the auditor to make an analysis of the management of the Fund of Funds, an analysis of market gaps in financing, IFRS 9 impact assessment as at 31 December 2016 and training.

2.6.5 Events after the balance-sheet date

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

3 Risk management

The SID Bank Group's risk management system is based on an effective risk management process that includes identifying, measuring or assessing, managing and monitoring risks, and internal and external risk reporting. To this end, SID Bank has put in place its risk management strategy defining the basic risk principles of taking up and managing risk mainly for SID Bank, and where appropriate also for the SID Bank Group, and has established a formal framework and a basis for drawing up the documents that define in detail the processes of taking up and managing specific types of risks, including the organisational rules of the risk management process, internal control mechanisms and ensuring compliance and public disclosure of information regarding the Bank. On the basis of the risk management strategy, the strategies of managing specific types of risks have been developed as well as other bylaws regulating business processes in the context of which the Bank takes up risks. The policies define the procedures, methods and methodologies used by the Bank in the risk identification, assessment or measurement as well as management and reporting processes for any type of risk.

The strategy aims to put in place effective risk management processes for identifying, measuring or assessing, managing and monitoring risks, including reporting of the risks to which the Bank is or could be exposed in its operations, by providing:
- (internal) definitions of specific types of risks;
- risk absorption capacity;
- risk appetite;
- 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.

Risk absorption capacity is the largest overall risk level that SID Bank is able to assume, taking into account its available capital, liquidity, risk management and control measures, stress test results and other risk limits.

When assessing its risk absorption capacity, SID Bank takes into account:
- the assessment of the risk profile of SID Bank and the SID Bank Group in the context of which the overall level of risk is identified in a comprehensive manner at least once a year, as well as the individual types of material risks;
- the result of the internal capital adequacy assessment process (ICAAP), including the internal assessment of capital requirements and the internal assessment of capital to cover losses in the event of materialisation of risks taken up, that covers both ordinary and extraordinary operations of the SID Bank Group;
- the Bank of Slovenia's expectations after each completed supervisory review and evaluation process (SREP) in terms of maintaining the total capital ratio and proportion of common equity Tier 1 capital to cover the recognised assessment of risk-based capital requirements, which are both prescribed by the Bank of Slovenia;
- leverage ratio;
- the result of the internal liquidity adequacy assessment process (ILAAP) or liquidity of the Bank with regard to its risk profile;
- the plan of activities for risk management, which, *inter alia*, sets out the available measures for managing the identified, measured and assessed risks;
- other restrictions, including any restrictions arising from SID Bank's bylaws, regulations and standards, or the requirements of the Bank of Slovenia and other competent or supervisory authorities.

SID Bank carries out a comprehensive internal capital adequacy assessment process at least once a year, tailored to the risks taken up, and reports to the management bodies, thus 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 drafting the business strategy and defining the business objectives and risk appetite.

In accordance with its business strategy, business objectives, risk absorption capacity and risk management strategy, SID Bank takes on risks in its operations within the 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 the users of SID Bank's services and other stakeholders.

SID Bank's risk appetite is defined in the applicable SID Bank action 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.

The internal controls mechanisms, the operation of which is put in place for all SID Bank's business activities, in proportion to the materiality and risk of individual activities, include:

– internal controls of the implementation of the Bank's organisational procedures, business procedures and work procedures;
– internal control functions and services (internal audit department; compliance function, including the function of ensuring the security of information, 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 the review and assessment of the adequacy of risk strategies and policies, the Bank's risk management processes, procedures and methodologies, and reporting on risks.

SID Bank's organisational structure and work processes are such as to allow the achievement of business objectives while 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 existing risk management structure includes an active role of the supervisory board and the management board. Within the Bank's organisational structure, the risk management framework or function is separated 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 Bank's management board. Regular participation in meetings of the supervisory board is ensured when issues relating to 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 risk committee for the notification of important circumstances that affect or could affect the Bank's risk profile.

In the scope of their powers and duties on the basis of the ZBan-2, the Bank's management board and supervisory board are responsible for defining, adopting and regularly reviewing the strategy and policies for taking on 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 business cycle. The risk management strategy and policies include guidelines for taking on 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, after consultation with the supervisory board risk committee.

Regular quarterly reports on performance, risk management and the reports on movements on financial markets are provided to inform the management board and the supervisory board in a comprehensive manner of the 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 credit portfolio as well as credit portfolio structure by geographical area, credit rating etc., currency, liquidity, 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 liquidity adequacy assessment process (ILAAP) and the Bank's capital adequacy and liquidity with regard to its risk profile on an annual basis. Moreover, the management board is briefed on risk management in the context of the discussion and adoption of the SID Bank Group's annual report. In addition, the Bank's management board is briefed on and discusses the operational risk report on a regular basis, and the managing 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 situations 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, providing advice regarding the Bank's general risk appetite and risk management strategy, assisting in the implementation of supervision of senior management regarding the risk management strategy, verifying 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 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, credit committee and distressed investment management committee. The committees typically hold weekly meetings.

The asset-liability and liquidity management committee provides guidance, supervision and monitoring of risk management at the Bank, including risk management at the aggregate level of the Bank, balance sheet structure and capital adequacy. In order to manage credit, interest rate, market, operational, capital and profitability risk as well as any other potential risks at the level of SID Bank and the SID Bank Group, it is responsible, in particular, for monitoring, analysing and assessing:

- the results of the Bank's performance in terms of the achievement of business objectives;
- structure of the Bank's balance sheet;
- developments, changes and trends regarding the Bank's balance sheet;
- capital adequacy reports;
- reports on the Bank's exposure to interest rate, market, capital, profitability, credit and operational risk;
- the Bank's investments by taking into consideration profitability and risk as regards the realisation of the planned objectives;
- the structure and performance of the Bank's products;
- the draft business plans and their amendments under materially changed operating conditions in individual areas of the Bank's operations;
- the Bank's accounting policies and principles;
- the consolidated financial statements of the SID Bank Group;
- relationships with related parties;
- trading volumes and fulfilment of related capital requirements;
- meeting performance criteria in line with regulations and the Bank's business policy;
- reports on open transactions and their impact on liquidity ratios and information on transactions which failed to achieve average or target interest margin;
- utilising and/or exceeding the limits and implementation of general authorisations of treasury department staff members;
- reports on the amount of allocated funds with regard to funding contracts with international financial development institutions and the Republic of Slovenia,
- reports on equity and quasi-equity financing.

The criteria taken into consideration by the asset-liability and liquidity management committee in asset and liability management include capital adequacy, profitability of operations and performance of products/services.

The credit committee is responsible for the management of credit risk for operations on behalf of and for the account of SID Bank. It makes decisions on proposals (regarding specific loans) having an impact on credit risk exposure of SID Bank and the SID Bank Group and discusses the reports on the findings of the periodic and in-depth monitoring, (non)fulfilment of commitments, sending out reminders and recovery, collateral monitoring and impairment and provisioning rates for the existing and new loans.

The distressed investment management committee is responsible for the management of problem loans handled by the distressed investment management department and loans requiring restructuring due to financial problems, as well as cancellations and terminations of loans not managed by the distressed investment management department. Moreover, it is responsible for dealing with the EWS and reports on recovery, collateral and fulfilment of financial and other contractual commitments of forborne loans.

The general framework of risk management is described under Section 6 of the business part of the Annual Report where other bodies and organisational units responsible for direct implementation of risk management are specified.

3.1 Credit risk

Credit risk is the risk of a loss as a result of the failure of an obligor to discharge its liabilities, irrespective of the reason of this failure.

The umbrella document covering the management of credit risk in SID Bank's operations is the Credit Risk Management Policy. The policy defines the attitude to taking on credit risk in relation to SID Bank's business objectives and strategies, risk appetite, mechanisms and procedures for monitoring, controlling and managing credit risk in operations, and powers and responsibilities in credit risk management.

The integral documents covering comprehensive credit risk management at SID Bank include all the applicable regulations and bylaws used by SID Bank in the approval of loans, in loan security, in the monitoring and managing the credit portfolio, in the determination of the credit ratings of obligors and their countries, in the classification of exposures, in the calculation of interest, in the recovery of bad loans etc.

The level of taking on credit risk is determined in accordance with the adopted risk appetite, which is reflected through the limitation of exposure to credit risk. As regards the limits on exposure to credit risk, they first of all include the regulatory limits under the applicable banking legislation concerning the exposure to individual customers, groups of connected clients or persons in a special relationship with SID Bank. In addition, taking on credit risk is limited by SID Bank's Articles of Association and internal limits.

In credit and guarantee transactions, credit risk entails the risk of default with regard to the obligor's financial position and also the risk related to the geographical location of the obligor's country. 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 and the type of instrument, and the monitoring of market values of securities. The system of limits in this area is designed so as to ensure the investment primarily in debt securities of higher credit quality and in general 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 in the settlement of transactions in securities and in relation to derivatives is also taken into account. 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. Exposure is managed within the framework of limits on exposure to credit risk, which are approved by the credit committee.

In addition to the basic exposure to individual customers and groups of connected clients, SID Bank also calculates and monitors credit risk concentration across individual sectors, countries and groups of countries. SID Bank's basic mission entails increased concentration, which is accepted with full awareness for the following:

– groups of customers 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 foreign direct investments,
– banks involved in the operations specified in the previous two indents, and
– exposures to banks established in the Republic of Slovenia, where the banks transfer the funds obtained in accordance with the ZSIRB or any other law to final beneficiaries.

The management of credit risk begins before a contractual relationship is concluded with the determination of the customer’s creditworthiness and the establishment of eligible collateral. 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 according to the investment value and the existing exposure. Throughout the lifetime of an investment transaction, credit risk is managed by means of the monitoring and management of the credit portfolio, the limitation of concentrations of credit risk in relation to individual obligors and the related parties, sectors and countries, the rating process and the creation of impairments and provisioning for expected losses, and the provision of adequate capital for cases when losses exceed expectations.

Credit risk monitoring

SID Bank carries out regular and in-depth monitoring of credit risk. Regular monitoring of credit risk includes monitoring, on a daily basis, of the adequacy of the obligor’ ratings, monitoring of financial and contractual commitments, verification of adequacy and amount of additional collateral as well as monitoring and updating of groups of connected clients. Monitoring is based on the documentation received from the obligor and the documentation which is available to SID Bank, including databases which SID Bank can access directly or indirectly, mass media, contacts with the obligor and its business partners, representations of Slovenian companies abroad, credit ratings made by international credit rating agencies, information on non-compliance with the contractual obligations, audit reports, annual reports, annual and interim accounts, data on indebtedness of business entities, notices of diplomatic and consular missions of the Republic of Slovenia, etc. SID Bank carries out in-depth monitoring when it detects a serious breach of contractual obligations, deterioration of financial and economic situation of the obligor or other circumstances which affect or may affect the business of the obligor and the successful conclusion of the credit 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 a loan are taken into account as well as the obligor's credit rating and other criteria due to which a customer is placed on the watch list, and which have an impact on the credit risk. The in-depth monitoring includes an overview of the obligor’s performance in terms of credit risk (inspection of accounts, records and other documents concerning the obligor’s performance) as well as the intended use of the loan funds, inspection of operations at the customer’s premises and if necessary at the place of the implementation of the credit transaction or the place where the object of the credit transaction and the collateral are located. When conducting in-depth monitoring, SID Bank obtains soft information on the obligor and its performance as well as other circumstances that are relevant to the successful conclusion of the credit transaction. The responsibilities of individual organisational units and the duty of mutual communication and cooperation of individual organisational units are defined in the internal rulebook.

Early warning system

SID Bank has put in place an early warning system (EWS) within the framework of credit risk management, allowing early detection of increased credit risk for any exposure and of potential defaulters. The early warning system is based on selected criteria allowing SID Bank to identify any potential difficulties in debt repayment at an early stage and to try to prevent any further deterioration of credit quality of the exposure by taking timely corrective actions and monitoring the implementation of actions so that the customer does not become defaulted. SID Bank classifies customers appropriately on the basis of the early warning system. SID Bank monitors any exposures with an increased credit risk on the watch list and the transitional list of defaulters dealt with by the credit committee on a weekly basis. The indicators for placing any exposures with an increased credit risk on the watch list are defined in the internal rulebook. If the customers no longer meet any of the criteria for being placed on the watch list after successfully carrying out the measures, they are subject to normal treatment again or are classified as non-performing if meeting the NPL indicators.

Non-performing exposure management

The criteria for categorising exposures as non-performing are defined in the internal rulebook and aligned with Basel and EBA guidelines. In the event that the exposure associated with increased risk obtains the status of a non-performing exposure based on a decision of the credit committee, the exposures will be assigned to a specific organisational unit, the distressed investment management department, which carries out an economic and legal review of the exposure if necessary, but in all cases draws up an internal plan on potential solutions for that exposure, and on the basis of an appropriate analysis it begins either with the process of forbearance of the exposure or its recovery. SID Bank monitors exposures on watch lists after the classification of transactions under non-performing exposures, namely the transitional list, the list of forborne exposures or the insolvency list, which are dealt with on a weekly basis by the distressed investment management committee.

In the field of the management of non-performing exposures, SID Bank has adopted a strategy for managing non-performing exposures. In addition, SID Bank has drawn up a plan of reducing non-performing exposures for a period of three years, which shows a reduction in non-performing exposures as a result of active management of its non-performing exposures. When preparing the plan for reducing non-performing exposures, SID Bank, *inter alia*, took into account the expectations regarding write-offs, repayments from collateral, disposal of the exposure, repayments from continuing operations etc. In the segmentation of the portfolio of non-performing exposures, SID Bank considers, *inter alia*, the assessment of the sustainability of the business model of the obligor and the type of the collateral. SID Bank identifies as obligors with a sustainable business model those that have the ability to generate cash flow from the core activity, while at the same time being capable of servicing the financial debt, and further classifies non-performing exposures as forborne or as not (yet) forborne. SID Bank classifies as obligors with unsustainable business models those that do not have the ability to generate cash flow from the core activity, and further classifies them based on the expected or current status of the obligor, i.e. whether bankruptcy proceedings, removal from the commercial register or a regular or compulsory liquidation procedure have been initiated against the obligor.

Recovery procedure

SID Bank has defined the procedures of recovery or liquidation of claims in its internal rules. The recovery process is carried out in accordance with internal procedures, and may vary from one case to another. It is divided into extrajudicial and judicial recovery. The type of recovery mainly depends on the type of collateral, the duration of the delay, cooperation of the obligor and the amount of any past due and outstanding exposures of SID Bank to the obligor.

Each recovery begins with a verbal and written reminder to the debtor, irrespective of the recovery method and the recovery contractor. Reminders are given by telephone and/or email, automatic written reminders, offsetting and any other activities that could contribute to the faster, more efficient and more effective repayment of past due exposures. The reminders call on the debtor to perform the obligations, and set a deadline by which the obligations are to be fulfilled. The decision on which reminder methods to employ is based on the experience of transactions with the obligor and other circumstances of the case, with the aim of ensuring that the obligations are fulfilled.

In the event of an unsuccessful procedure of sending out the reminders or if the exposure could not be forborne, the procedures are initiated to ensure the repayment of past due exposures in default from collateral instruments.

If extra-judicial recovery is not successful, judicial recovery is initiated and headed by the distressed investment management department. It starts by establishing the available assets of the obligor, followed by filing of claims, presenting proposals for the enforcement and performing other activities in the judicial recovery procedure as well as registration of receivables from the obligor in compulsory settlement procedure, bankruptcy, liquidation or any other appropriate procedure.

Loan collateral

The types of loan collateral normally used by SID Bank are defined in the internal rulebook. The rulebook defines the general approach and principles of loan collateral, the criteria for individual types of collateral, minimum ratios between the value of collateral and exposure, operational procedures for establishing, recording, monitoring, evaluating and liquidating collateral or termination of collateral as well as the duties and responsibilities of organisational units in connection with loan collateral.

SID Bank accepts different forms of funded and unfunded loan collateral. All collateral must meet minimum legal certainty requirements laid down in the CRR and the Bank of Slovenia regulations. The Bank treats the collateral obtained as a secondary source of loan repayment not substituting for the primary creditworthiness assessment of the obligor.

SID Bank values collateral at fair (market) value. Financial assets listed on a stock exchange are valued using the closing rate. Assets not quoted on a stock exchange are valued on the basis of comparable transactions or internal models. Real estate is valued by an independent certified valuer by applying the international valuation standards (IVS). Market or liquidation value is used for valuation of real estate. In addition, transaction prices not older than one year obtained in transactions with unrelated parties may be used. Throughout the lifetime of an exposure, SID Bank regularly monitors the value of the assets pledged and assesses the value of business and residential real estate at least twice annually using statistical methods. In the case of exposures in excess of EUR 3 million collateralised with real estate or when the value of real estate pledged as collateral exceeds EUR 3 million, SID Bank obtains the evaluation of an independent external valuer at least every three years. Moreover, the Bank obtains the evaluation of an independent external valuer when there is a significant drop in the price of the real estate compared with the general level of prices on the market.

The quality of collateral and the required ratio between the loan and its collateral depend on the borrower's credit rating and the loan maturity. In obtaining collateral, SID Bank complies with its internal rules providing for the minimum ratios between the amount of collateral and exposure. As regards collateral, the Bank tries to follow principles such as amount of collateral exceeding the loan amount, maturity of collateral longer than loan maturity, and same currency of collateral and loan. In the event of discrepancies, the Bank has required higher ratios in place between the amount of collateral and the loan amount. Loan collateral reduces credit risk losses and improves recoverability of past due claims and decreases capital requirements if it meets the minimum adequacy requirement in accordance with the CRR.

Throughout the lifetime of the exposure, SID Bank monitors the obligor's credit rating and the coverage of the exposure by collateral. Should the collateral value decline, the SID Bank Group takes action to establish additional collateral as appropriate. If the ratio between the value of overall collateral arising from specific loans and the current exposure declines by more than 50%, the obligor is placed on the watch list.

The collateral for exposures of other SID Bank Group companies is recorded in the analytical accounts of each company. For the purpose of reporting to external institutions on a consolidated basis, the required data is collected directly from the SID Bank Group companies.

Classification of financial assets and commitments into categories

SID Bank classifies financial assets and commitments under off-balance sheet items according to the classification of the Bank of Slovenia in grades from A to E, whereby the customers of the highest quality are A-rated and the lowest are E-rated on the basis of the assessment of the financial position of each obligor, its ability to ensure sufficient cash flow for the regular fulfilment of obligations to SID Bank in the future, the type and extent of the protection of a financial asset or commitment under off-balance sheet items to any obligor and the obligor's track record of fulfilment of obligations to SID Bank. The basis for the classification is provided by internal credit scores based on the assessment of quantitative and qualitative elements and criteria of the Bank of Slovenia for the assignment of financial assets and commitments under the off-balance sheet items to specific credit rating categories. SID Bank has developed specific methodologies for the assessment of credit risk for companies and sole traders, banks and savings banks, municipalities, and investment projects. The methodology for the credit risk assessment of banks and savings banks is validated by S&P Capital IQ, London. SID Bank has created 21 internal ratings, of which three for non-performing customers or obligors. Each rating defines, *inter alia*, the financial situation of any obligor, efficiency and profitability of their performance and future trends. All obligors are assigned an appropriate rating prior to any loan approval. Throughout the lifetime of a credit transaction, the Bank monitors the debtor's performance and reviews the rating on a daily basis.

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

Assessment of credit risk losses

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

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

As regards impairments and provisions, the Bank will implement the internal models for the calculation of expected credit losses in accordance with the new international financial reporting standard, IFRS 9, as of 1 January 2018. Additional notes are given in section 2.3.26.

Largest exposure to credit risk

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Gross on-balance sheet exposures	**2,559,840**	**2,706,232**	**2,589,455**	**2,741,419**
Cash balances at central bank and demand deposits at banks	71,071	147,668	75,950	153,355
Available-for-sale financial assets	714,287	765,440	733,770	788,807
Debt securities	714,287	765,440	733,770	788,807
Gross exposure	714,287	765,440	733,770	788,807
Impairments (individual)	0	0	0	0
Loans	1,631,472	1,608,458	1,636,725	1,614,591
Loans and advances to banks	1,032,179	996,368	1,037,431	1,002,502
Gross exposure	1,039,767	1,003,700	1,045,019	1,009,834
Impairments (individual)	0	0	0	0
Impairments (collective)	(7,588)	(7,332)	(7,588)	(7,332)
Loans and advances to non-bank customers	597,740	610,562	597,740	610,562
Gross exposure	733,162	787,860	733,162	787,860
Impairments (individual)	(87,949)	(125,110)	(87,949)	(125,110)
Impairments (collective)	(47,473)	(52,188)	(47,473)	(52,188)
Other financial assets	1,553	1,528	1,554	1,527
Gross exposure	1,553	1,564	1,554	1,563
Impairments (individual)	0	(5)	0	(5)
Impairments (collective)	0	(31)	0	(31)
Derivatives used for hedging	0	0	0	0
Gross off-balance sheet exposures	**74,271**	**56,441**	**74,271**	**56,441**
Guarantees	13,762	18,121	13,762	18,121
Gross exposure	13,863	32,871	13,863	32,871
Provisions (individual)	0	(14,618)	0	(14,618)
Provisions (collective)	(101)	(132)	(101)	(132)
Other off-balance sheet liabilities	58,139	23,244	58,139	23,244
Gross exposure	60,408	23,570	60,408	23,570
Provisions (individual)	0	0	0	0
Provisions (collective)	(2,269)	(326)	(2,269)	(326)
Total gross credit risk exposure	**2,634,111**	**2,762,673**	**2,663,726**	**2,797,860**
Total net credit risk exposure	**2,488,731**	**2,562,931**	**2,518,346**	**2,598,118**

The table shows the maximum exposure to credit risk of SID Bank and the SID Bank Group arising from balances at the central bank, loans, investments in financial instruments and off-balance sheet liabilities, without taking into consideration collateral or credit quality. SID Bank's exposure to credit risk as at 31 December 2017 decreased in comparison with 31 December 2016 as a result of balances at central bank and available-for-sale debt securities and loans to non-bank customers, while the exposure arising from loans and advances to banks and off-balance sheet liabilities was up slightly.

At SID-PKZ insurance company, a member of the SID Bank Group, exposure to credit risk mainly arises from available-for-sale financial assets, financial investments in loans and deposits as well as technical provisions transferred to reinsurers, totalling EUR 38,212 thousand at the end of 2017 or a 76% exposure to credit risk.

The technical provisions ceded to reinsurers are neither past-due nor impaired. All the reinsurers on the current private reinsurance contract and all the reinsurers no longer on the contract but to which related the amounts ceded to reinsurers (provisions for previous years) from the technical provisions have a credit rating between A- and AA (according to S&P) or A3 and Aa3 (according to Moody's), whereas the rating of SID Bank which is also acting as a reinsurer, is A+ (according to S&P).

Due to the specific nature of the business operations of SID-PKZ and negligible credit risk exposure, certain disclosures below are only reported for SID Bank.

Credit exposure by type of collateral

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Carrying amount of secured loans	**321,283**	**346,132**	**321,283**	**346,132**
Secured by Slovenian government guarantee	17,557	5,640	17,557	5,640
Secured by guarantee of insurance corporations and banks	0	0	0	0
Securities collateral	41,650	52,092	41,650	52,092
Commercial real estate collateral	88,536	91,925	88,536	91,925
Residential real estate collateral	2,013	1,275	2,013	1,275
Movable property collateral	49,219	53,277	49,219	53,277
Assigned receivables as collateral	45,033	60,075	45,033	60,075
Inventories pledged as collateral	23,241	58,137	23,241	58,137
Other types of collateral	54,034	23,711	54,034	23,711
Carrying amount of unsecured loans	**1,310,189**	**1,262,326**	**1,315,442**	**1,268,459**
Carrying amount of loans	**1,631,472**	**1,608,458**	**1,636,725**	**1,614,591**

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

The majority of SID Bank's credit portfolio comprises loans to banks established in the Republic of Slovenia, transferring the funds obtained this way to the final beneficiaries in accordance with the ZSIRB. The above loans are generally unsecured.

The total value of SID Bank's collateral for exposures from loans amounted to EUR 714,211 thousand as at 31 December 2017, compared to EUR 824,016 thousand as at 31 December 2016.

The breakdown by type of loan collateral shows that the largest share is made up of commercial and residential real estate collateral, followed by assignment of claims to be used as collateral, pledging of inventories and movable property, pledging of a participating interest in a company, limited subsidiary guarantee of the Republic of Slovenia and SID Bank insurance policy for the account of the Republic of Slovenia, as well as other types of collateral.

On 31 December 2017, SID Bank undertook a revaluation, using a statistical method, of real estate collateral that was appraised before 1 July 2017.

Breakdown of loan and off-balance sheet liability exposure by credit rating

SID Bank	31 Dec 2017				31 Dec 2016			
	Loans and off-balance sheet liabilities		Impairments and provisions		Loans and off-balance sheet liabilities		Impairments and provisions	
Total	**1,848,753**	**100.0%**	**(145,380)**	**100.0%**	**1,849,565**	**100.0%**	**(199,743)**	**100.0%**
A-rated	498,512	27.0%	(8,566)	5.9%	314,008	17.0%	(9,353)	4.7%
B-rated	1,132,201	61.2%	(37,786)	26.0%	1,178,019	63.7%	(40,370)	20.2%
C-rated	91,825	5.0%	(11,079)	7.6%	122,046	6.6%	(10,287)	5.2%
D-rated	101,235	5.5%	(64,954)	44.7%	195,826	10.6%	(101,654)	50.9%
E-rated	24,980	1.4%	(22,995)	15.8%	39,666	2.1%	(38,079)	19.1%

As at 31 December 2017, SID Bank disclosed gross loan and off-balance sheet liability exposure of EUR 1,848,753 thousand and remains at a level similar to that as at 31 December 2016. As at 31 December 2017, 88.2% of total loans and off-balance sheet liabilities were rated A or B or up 9.3% on 31 December 2016.

Moreover, the proportion of A-rated loans and off-balance sheet liabilities increased to 27% as at 31 December 2017 (31 December 2016: 17%). There were improvements in the credit portfolio structure in all credit rating categories, resulting primarily from upgrading of obligors following the improvement of their financial position and the increase in SID Bank's exposure to foreign-based banks. A decrease in the exposure to B-rated customers also resulted from regular and early repayments of loans from banks established in the Republic of Slovenia.

Non-performing exposures meet at least one of the criteria of default below are D- and E-rated:

- the obligor is past due more than 90 days on any material credit obligation to the SID Bank Group;
- the customer is unlikely to pay its credit obligations to the SID Bank Group in full, without recourse by the latter to actions such as redemption of collateral or any other procedures.

At the end of 2017, the portion of non-performing loans and off-balance sheet liabilities decreased and accounted for 6.8%[8] (end of 2016: 12.7%) of all loans and off-balance sheet liabilities. The reason for the decrease in non-performing exposures lies in successful forbearance procedures, resulting in the reclassification of non-performing exposures to performing exposures and the reduction of exposures following the repayment received. The coverage of exposure to D- and E-rated customers by impairments and provisioning stood at 69.7% as at 31 December 2017 (31 December 2016: 59.3%). The coverage of exposure to credit risk by impairments and provisioning for non-bank customers stood at 18.5% at the end of 2017 (end of 2016: 22.5%).

[8] The above proportion is calculated on the basis of the accounting data, which includes only gross values of loans and off-balance sheet liabilities, and it differs from the value of the proportion indicated among the selected indicators in Section 1 of the business report.

Breakdown of loan exposures by maturity and impairment

SID Bank	31 Dec 2017 Loans and advances to banks	31 Dec 2017 Loans and advances to non-bank customers	31 Dec 2017 Other financial assets	31 Dec 2017 Loans Total	31 Dec 2016 Loans and advances to banks	31 Dec 2016 Loans and advances to non-bank customers	31 Dec 2016 Other financial assets	31 Dec 2016 Loans Total
Gross loans	**1,039,767**	**733,162**	**1,553**	**1,774,482**	**1,003,700**	**787,860**	**1,564**	**1,793,124**
Non-past-due and individually non-impaired loans	1,039,767	606,948	1,552	1,648,267	1,003,700	565,325	1,557	1,570,582
Past-due and individually non-impaired loans	0	0	1	1	0	1,793	0	1,793
Individually impaired loans	0	126,214	0	126,214	0	220,742	7	220,749
of which D- and E-rated loans	0	126,214	0	126,214	0	220,742	7	220,749
Impairments	**(7,588)**	**(135,422)**	**0**	**(143,010)**	**(7,332)**	**(177,298)**	**(36)**	**(184,666)**
Individual impairments	0	(87,949)	0	(87,949)	0	(125,110)	(5)	(125,115)
of which impairments of D- and E-	0	(87,949)	0	(87,949)	0	(125,110)	(6)	(125,116)
Collective impairments	(7,588)	(47,473)	0	(55,061)	(7,332)	(52,188)	(31)	(59,551)
Net loans	**1,032,179**	**597,740**	**1,553**	**1,631,472**	**996,368**	**610,562**	**1,528**	**1,608,458**
Fair value of collateral	**2,543**	**711,668**	**0**	**714,211**	**3,640**	**820,376**	**0**	**824,016**

As at 31 December 2017, SID Bank had total impairments and provisioning of EUR 145,380 thousand, up EUR 54,363 thousand on 31 December 2016. Impairments for loans granted and other financial assets amounted to EUR 143,010 thousand, and provisions for off-balance sheet liabilities to EUR 2,370 thousand. The impairments and provisioning derive from collective and individual loss assessments, where losses on D- and E-rated exposures are assessed on an individual basis.

Relative to 31 December 2016, individual impairments decreased at the end of 2017 by EUR 37,166 thousand as a result of the reclassification of non-performing exposures to performing exposures and partial repayments of non-performing exposures. The coverage of D- and E-rated exposures by impairments and provisions increased by 13 percentage points.

As a result of the decrease in percentage of collective impairments for non-bank customers and the changes in the credit portfolio structure, the collective impairments decreased by EUR 4,490 thousand at the end of 2017 in comparison with the end of 2016.

Individually non-impaired loans are divided into past-due and non-past due loans. At the end of 2017, non-past due and individually non-impaired loans constituted the largest item of EUR 1,648,267 thousand or 92.9% of all gross loans (31 December 2016: 87.6%). A large proportion of non-past due and individually non-impaired loans is connected with the provisions of loans to banks established in the Republic of Slovenia, on the basis of the ZSIRB, which transfer the funds obtained this way to the final beneficiaries. As a result, more than half of SID Bank's credit portfolio is classified into the group of banks from countries that have a risk rating of 0 or 1 under the minimum export insurance premium (MEIP) listing.

SID Bank Group	31 Dec 2017 Loans and advances to banks	31 Dec 2017 Loans and advances to non-bank customers	31 Dec 2017 Other financial assets	31 Dec 2017 Loans Total	31 Dec 2016 Loans and advances to banks	31 Dec 2016 Loans and advances to non-bank customers	31 Dec 2016 Other financial assets	31 Dec 2016 Loans Total
Gross loans	**1,045,019**	**733,162**	**1,554**	**1,779,735**	**1,009,834**	**787,860**	**1,563**	**1,799,257**
Non-past-due and individually non-impaired loans	1,045,019	606,948	1,553	1,653,520	1,009,834	565,325	1,556	1,576,715
Past-due and individually non-impaired loans	0	0	1	1	0	1,793	0	1,793
Individually impaired loans	0	126,214	0	126,214	0	220,742	7	220,749
of which D- and E-rated loans	0	126,214	0	126,214	0	220,742	7	220,749
Impairments	**(7,588)**	**(135,422)**	**0**	**(143,010)**	**(7,332)**	**(177,298)**	**(36)**	**(184,666)**
Individual impairments	0	(87,949)	0	(87,949)	0	(125,110)	(5)	(125,115)
of which impairments of D- and E-rated loans	0	(87,949)	0	(87,949)	0	(125,110)	(6)	(125,116)
Collective impairments	(7,588)	(47,473)	0	(55,061)	(7,332)	(52,188)	(31)	(59,551)
Net loans	**1,037,431**	**597,740**	**1,554**	**1,636,725**	**1,002,502**	**610,562**	**1,527**	**1,614,591**
Fair value of collateral	**2,543**	**711,668**	**0**	**714,211**	**3,640**	**820,376**	**0**	**824,016**

Non-past-due individually non-impaired loans

SID Bank	31 Dec 2017 Loans and advances to banks	Loans and advances to non-bank customers	Other financial assets	Loans Total	31 Dec 2016 Loans and advances to banks	Loans and advances to non-bank customers	Other financial assets	Loans Total
Gross	**1,039,767**	**606,947**	**1,552**	**1,648,266**	**1,003,700**	**565,325**	**1,557**	**1,570,582**
A-rated	318,302	162,724	1,551	482,577	166,622	125,002	385	292,009
B-rated	717,255	358,008	1	1,075,264	829,188	329,891	1	1,159,080
C-rated	4,210	86,215	0	90,425	7,890	110,432	1,171	119,493
D-rated	0	0	0	0	0	0	0	0
E-rated	0	0	0	0	0	0	0	0
Impairments	**(7,588)**	**(47,472)**	**0**	**(55,060)**	**(7,332)**	**(51,894)**	**(31)**	**(59,257)**
A-rated	(2,324)	(6,114)	0	(8,438)	(1,216)	(7,869)	0	(9,085)
B-rated	(5,234)	(30,314)	0	(35,548)	(6,073)	(34,023)	0	(40,096)
C-rated	(30)	(11,044)	0	(11,074)	(43)	(10,002)	(31)	(10,076)
D-rated	0	0	0	0	0	0	0	0
E-rated	0	0	0	0	0	0	0	0
Net	**1,032,179**	**559,475**	**1,552**	**1,593,206**	**996,368**	**513,431**	**1,526**	**1,511,325**
Fair value of collateral	**2,543**	**637,016**	**0**	**639,559**	**3,640**	**727,547**	**0**	**731,187**

Past-due individually non-impaired loans

SID Bank and SID Bank Group	31 Dec 2017 Loans and advances to banks	Loans and advances to non-bank customers	Other financial assets	Loans Total	31 Dec 2016 Loans and advances to banks	Loans and advances to non-bank customers	Other financial assets	Loans Total
Gross	**0**	**0**	**1**	**1**	**0**	**1,793**	**0**	**1,793**
Claims up to 30 days in arrears	0	0	1	1	0	1,692	0	1,692
Claims more than 30 to 90 days in arrears	0	0	0	0	0	101	0	101
Claims more than 90 days in arrears	0	0	0	0	0	0	0	0
Impairments	**0**	**0**	**0**	**0**	**0**	**(293)**	**0**	**(293)**
Claims up to 30 days in arrears	0	0	0	0	0	(278)	0	(278)
Claims more than 30 to 90 days in arrears	0	0	0	0	0	(15)	0	(15)
Claims more than 90 days in arrears	0	0	0	0	0	0	0	0
Net	**0**	**0**	**1**	**1**	**0**	**1,500**	**0**	**1,500**
Fair value of collateral	**0**	**21,485**	**0**	**21,485**	**0**	**5,261**	**0**	**5,261**

Individually impaired loans

SID Bank and SID Bank Group	31 Dec 2017 Loans and advances to banks	Loans and advances to non-bank customers	Other financial assets	Loans Total	31 Dec 2016 Loans and advances to banks	Loans and advances to non-bank customers	Other financial assets	Loans Total
Gross	**0**	**126,214**	**0**	**126,214**	**0**	**220,742**	**7**	**220,749**
Non-past-due claims	0	97,245	0	97,245	0	149,821	0	149,821
Claims up to 30 days in arrears	0	865	0	865	0	29,538	0	29,538
Claims more than 30 to 90 days in arrears	0	8	0	8	0	1,759	0	1,759
Claims more than 90 days in arrears	0	28,096	0	28,096	0	39,624	7	39,631
Impairments	**0**	**(87,949)**	**0**	**(87,949)**	**0**	**(125,110)**	**(6)**	**(125,116)**
Non-past-due claims	0	(61,724)	0	(61,724)	0	(62,226)	0	(62,226)
Claims up to 30 days in arrears	0	(838)	0	(838)	0	(25,120)	0	(25,120)
Claims more than 30 to 90 days in arrears	0	(3)	0	(3)	0	(1,590)	0	(1,590)
Claims more than 90 days in arrears	0	(25,384)	0	(25,384)	0	(36,174)	(6)	(36,180)
Net	**0**	**38,265**	**0**	**38,265**	**0**	**95,632**	**1**	**95,633**
Fair value of collateral	**0**	**53,168**	**0**	**53,168**	**0**	**87,567**	**0**	**87,567**

Past due loans are loans where an obligor is past due a day or more for the whole or part of the exposure. The whole exposure under a specific loan agreement is classified as a past due loan rather than only the part of the exposure where the obligor is past due. If the Bank is also exposed to the same obligor under other agreements and the obligor is not past due as regards the exposures under other agreements, such exposures are not classified as past due loans.

Gross exposure of past due claims resulting from loans and enforcement of guarantees (collectively or individually impaired) decreased and amounted to EUR 28,970 thousand at the end of 2017. This amount mainly includes individually impaired loans granted to 37 companies from Slovenia and individually impaired loans or claims relating to the guarantees enforced against three companies from Serbia and one company from Bosnia and Herzegovina. Less than one percent of all past due claims relating to loans or guarantees enforced are collectively impaired loans.

SID Bank's past-due exposures from loans are secured by commercial and residential real estate, SID Bank insurance policies for the account of the Republic of Slovenia, assignment of receivables serving as collateral, pledging of inventories and movable property.

Forborne loans

	31 Dec 2017				31 Dec 2016			
SID Bank and SID Bank Group	Loans and advances to banks	Loans and advances to non-bank customers	Other financial assets	Loans Total	Loans and advances to banks	Loans and advances to non-bank customers	Other financial assets	Loans Total
Gross loans	**0**	**70,082**	**0**	**70,082**	**0**	**210,411**	**0**	**210,411**
Non-past-due and individually non-impaired	0	3,478	0	3,478	0	6,940	0	6,940
Past-due and individually non-impaired loans	0	0	0	0	0	0	0	0
Individually impaired loans	0	66,604	0	66,604	0	203,471	0	203,471
of which D- and E-rated loans	0	66,604	0	66,604	0	203,471	0	203,471
Impairments	**0**	**(39,883)**	**0**	**(39,883)**	**0**	**(111,231)**	**0**	**(111,231**
Individual impairments	0	(39,883)	0	(39,883)	0	(111,044)	0	(111,044)
of which impairments of D- and E-rated	0	(78)	0	(78)	0	(111,044)	0	(111,044)
Collective impairments	0	0	0	0	0	(187)	0	(187)

Forbearance of loans comprises activities which SID Bank would not carry out if a customer's financial position was normal; the Bank applies such measures when a customer and its related parties find themselves in circumstances jeopardising the repayment of loans or claims of SID Bank and are usually reflected in deterioration of its credit rating. Typically, forbearance of a loan is connected with financial, ownership or operational restructuring of an obligor in accordance with the guidelines of the Bank of Slovenia and the Bank Association of Slovenia.

In line with the forbearance plan, in the forbearance procedure SID Bank agrees with the customer on any amendments to the original contract either by modifying the terms of the original contract or by signing a new contract under which the contracting parties agree any partial or full repayment of the original debt. Potential actions for forbearance of loans include:

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

The carrying amount of forborne loans (gross exposure minus impairments) decreased at SID Bank and the SID Bank Group and amounted to EUR 30,199 thousand at the end of 2017 (end of 2016: EUR 99,180 thousand). The proportion of forborne gross loans in all gross loans to non-bank customers decreased and accounted for 9.6% at the end of 2017 (end of 2016: 26.7%). The decline in the proportion explains the decrease in gross exposure also due to forbearance procedures.

In 2017, SID Bank reached a new agreement on the conditions for repayment of loans classified as bad loans for ten companies. The loans were forborne mainly through extension or postponement of repayment of debts, whereas in three cases SID Bank wrote off a portion of the loan. In the majority of cases, SID Bank forms part of the core group of banks in which it actively collaborates with the management boards of companies and external consultants. When negotiating any forbearance procedures, the Bank makes sure that the Slovenian corporate debt restructuring principles, prepared by the Bank of Slovenia together with the Bank Association of Slovenia, are strictly adhered to. As regards micro, small and medium-sized companies (MSME), it also takes into consideration the Restructuring guidelines for micro, small and medium-sized companies and the Handbook for Effective Management and Workout of MSME NPLs from such companies.

Breakdown of available-for-sale debt securities by issuer's credit rating

	SID Bank		SID Bank Group	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	714,287	**765,440**	**733,770**	**788,807**
AAA	0	0	2,024	2,026
AA- to AA+	37,718	17,360	38,880	20,593
A- to A+	403,483	109,375	417,950	118,364
BBB+ to BBB-	228,459	477,717	230,289	486,407
Lower than BBB-	44,627	160,988	44,627	161,417
Unrated	0	0	0	0

The table shows the fair value of available-for-sale debt securities in terms of the issuer's credit rating in accordance with SID Bank's methodology.

The portfolio of SID Bank's debt securities accounts for 97.3% of the entire debt securities portfolio of the SID Bank Group.

Credit risk from debt securities arises from the portfolio managed by SID Bank for the purpose of ensuring liquidity and managing the balance sheet. The Bank manages this credit risk primarily by means of limits on exposure with regard to the issuer's credit rating, registered office and type as well as by monitoring changes to the market values of debt securities.

At the end of 2017, SID Bank's portfolio of debt securities decreased by 6.7% to EUR 714,286 thousand relative to the end of 2016. As at 31 December 2017, debt securities issued by EU Member States (central level) with a minimum credit rating of BBB- account for the largest portion of the entire portfolio, 64.7% (end of 2016: 69.4%). Debt securities of the Republic of Slovenia account for 31.7% (end of 2016: 42%) of the debt securities portfolio.

In comparison with 2016, the overall structure of SID Bank's debt securities portfolio in terms of credit rating improved in 2017, primarily as a result of upgrades to the credit ratings of the issuers and a decrease in exposure to Slovenian banking issuers with a credit rating lower than BBB-.

A detailed breakdown of the securities portfolio by financial asset type is shown in section 2.4.2.

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 registered office of the debtor.

The majority of credit risk exposure to the rest of the world at the SID Bank Group level arises from SID Bank's exposure.

SID Bank	Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets as at 31 Dec 2017	**1,716,906**	**644,155**	**13,334**	**42,435**	**2,416,830**
Cash balances at central bank and demand deposits at banks	71,071	0	0	0	71,071
Available-for-sale financial assets	308,517	367,687	7,893	30,190	714,287
Debt securities	308,517	367,687	7,893	30,190	714,287
Loans	1,337,318	276,468	5,441	12,245	1,631,472
Loans and advances to banks	764,544	264,980	2,655	0	1,032,179
Loans and advances to non-bank customers	572,271	10,438	2,786	12,245	597,740
Other financial assets	503	1,050	0	0	1,553
Off-balance sheet liabilities as at 31 Dec 2017	**39,358**	**16,049**	**10,107**	**6,387**	**71,901**
Guarantees	13,762	0	0	0	13,762
Gross exposure	13,863	0	0	0	13,863
Provisions	(101)	0	0	0	(101)
Other off-balance sheet liabilities	25,596	16,049	10,107	6,387	58,139
Gross exposure	26,881	16,112	10,727	6,688	60,408
Provisions	(1,285)	(63)	(620)	(301)	(2,269)
Total exposure as at 31 Dec 2017	**1,756,264**	**660,204**	**23,441**	**48,822**	**2,488,731**
Financial assets as at 31 Decr 2016	2,137,256	352,044	18,979	13,288	2,521,566
Off-balance sheet liabilities as at 31 Dec 2016	29,365	12,000	0	0	41,365
Total exposure as at 31 Dec 2016	**2,166,621**	**364,044**	**18,979**	**13,288**	**2,562,931**

At the end of 2017, SID Bank's exposure to Slovenia accounts for 70.6% of the total exposure arising from financial assets and off-balance sheet liabilities or down EUR 410,357 thousand in comparison with the end of 2016, mainly due to the increase in exposure to other EU Member States arising from available-for-sale financial assets and loans to banks as well as lower total exposure. Exposures arising from debt securities and deposits to banks, notably exposures to other EU Member States, constitute the largest credit portfolio exposure to the rest of the world. At the end of 2017, credit risk exposure to the countries from the rest of Europe (Europe without EU Member States) accounts for 0.9% of total exposure (end of 2016: 0.7% of total exposure), while exposure to other countries increased to 2% mainly as a result of an increase in exposure of debt securities of US-based issuers.

SID Bank uses internal exposure limits to apply a maximum allowable exposure to individual geographical regions. A more detailed presentation of the largest exposures to credit risk broken down by country is shown in the table of exposures to credit risk by country.

As at 31 December 2017, the structure of SID Bank's exposures to specific countries shows a major change in comparison with 31 December 2016, mainly due to an increase in deposits with foreign banks and changes in exposure by country in the debt securities portfolio.

SID Bank Group	Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets as at 31 Dec 2017	**1,733,222**	**655,821**	**14,456**	**42,946**	**2,446,445**
Cash balances at central bank and demand deposits at banks	75,950	0	0	0	75,950
Available-for-sale financial assets	314,701	379,353	9,015	30,701	733,770
Debt securities	314,701	379,353	9,015	30,701	733,770
Loans	1,342,571	276,468	5,441	12,245	1,636,725
Loans and advances to banks	769,796	264,980	2,655	0	1,037,431
Loans and advances to non-bank customers	572,271	10,438	2,786	12,245	597,740
Other financial assets	504	1,050	0	0	1,554
Off-balance sheet liabilities as at 31 Dec 2017	**39,358**	**16,049**	**10,107**	**6,387**	**71,901**
Guarantees	13,762	0	0	0	13,762
Gross exposure	13,863	0	0	0	13,863
Provisions	(101)	0	0	0	(101)
Other off-balance sheet liabilities	25,596	16,049	10,107	6,387	58,139
Gross exposure	26,881	16,112	10,727	6,688	60,408
Provisions	(1,285)	(63)	(620)	(301)	(2,269)
Total exposure as at 31 Dec 2017	**1,772,580**	**671,870**	**24,563**	**49,333**	**2,518,346**
Financial assets as at 31 Dec 2016	2,159,830	362,996	20,120	13,808	2,556,754
Off-balance sheet liabilities as at 31 Dec 2016	29,365	12,000	0	0	41,365
Total exposure as at 31 Dec 2016	**2,189,195**	**374,996**	**20,120**	**13,808**	**2,598,119**

	31 Dec 2017			31 Dec 2016		
SID Bank	Financial assets	Off-balance sheet liabilities	Total exposure	Financial assets	Off-balance sheet liabilities	Total exposure
Slovenia	1,716,906	39,358	1,756,264	2,137,255	29,365	2,166,620
France	85,133	0	85,133	5,661	0	5,661
Spain	76,553	0	76,553	86,380	0	86,380
Austria	75,574	0	75,574	20,513	0	20,513
Poland	62,361	0	62,361	53,278	0	53,278
Netherlands	54,505	0	54,505	58,815	0	58,815
Italy	51,842	0	51,842	25,398	0	25,398
Germany	49,628	0	49,628	0	0	0
Romania	40,672	0	40,672	26,055	0	26,055
Slovakia	39,692	0	39,692	0	0	0
USA	38,199	0	38,199	5,227	0	5,227
Hungary	27,069	0	27,069	7,380	0	7,380
Ireland	19,242	0	19,242	35,391	0	35,391
Croatia	10,438	4,049	14,487	19,704	0	19,704
Luxembourg	1,050	12,000	13,050	0	12,000	12,000
Other	67,966	16,494	84,460	40,509	0	40,509
Total exposure	**2,416,830**	**71,901**	**2,488,731**	**2,521,566**	**41,365**	**2,562,931**

	31 Dec 2017			31 Dec 2016		
SID Bank Group	Financial assets	Off-balance sheet liabilities	Total exposure	Financial assets	Off-balance sheet liabilities	Total exposure
Slovenia	1,733,222	39,358	1,772,580	2,158,777	29,365	2,188,142
France	86,220	0	86,220	6,764	0	6,764
Spain	77,852	0	77,852	86,380	0	86,380
Austria	75,574	0	75,574	20,513	0	20,513
Poland	66,878	0	66,878	57,869	0	57,869
Netherlands	56,713	0	56,713	61,067	0	61,067
Italy	51,842	0	51,842	25,398	0	25,398
Germany	49,628	0	49,628	0	0	0
Romania	40,672	0	40,672	26,055	0	26,055
Slovakia	39,692	0	39,692	0	0	0
USA	38,199	0	38,199	5,227	0	5,227
Hungary	27,069	0	27,069	7,380	0	7,380
Ireland	19,773	0	19,773	35,391	0	35,391
Croatia	10,438	4,049	14,487	19,704	0	19,704
Luxembourg	3,075	12,000	15,075	4,058	12,000	16,058
Other	69,598	16,494	86,092	42,170	0	42,170
Total exposure	**2,446,445**	**71,901**	**2,518,346**	**2,556,753**	**41,365**	**2,598,118**

Breakdown of credit risk exposure by sector

SID Bank	Financial and insurance activities	Manufa-cturing	Public administration and defence	Retail	Transportation and storage	Professional, scientific and technical activities	Electricity, gas and steam supply	Other	Total
Financial assets as at 31 Dec 2017	**1,293,330**	**198,668**	**514,758**	**74,963**	**91,869**	**43,438**	**129,210**	**70,594**	**2,416,830**
Cash balances at central bank and demand deposits at banks	71,071	0	0	0	0	0	0	0	71,071
Available-for-sale financial assets	177,718	8,640	462,234	28,123	261	18,431	4,989	13,891	714,287
Debt securities	177,718	8,640	462,234	28,123	261	18,431	4,989	13,891	714,287
Loans	1,044,541	190,028	52,524	46,840	91,608	25,007	124,221	56,703	1,631,472
Loans and advances to banks	1,032,179	0	0	0	0	0	0	0	1,032,179
Loans and advances to non-bank	11,180	190,028	52,154	46,840	91,608	25,006	124,221	56,703	597,740
Other financial assets	1,182	0	370	0	0	1	0	0	1,553
Off-balance sheet liabilities as at 31 Dec 2017	**48,746**	**4,188**	**2,528**	**251**	**0**	**2,231**	**4,049**	**9,908**	**71,901**
Guarantees	13,762	0	0	0	0	0	0	0	13,762
Gross exposure	13,863	0	0	0	0	0	0	0	13,863
Provisions	(101)	0	0	0	0	0	0	0	(101)
Other off-balance sheet liabilities	34,984	4,188	2,528	251	0	2,231	4,049	9,908	58,139
Gross exposure	35,665	5,193	2,566	280	0	2,274	4,112	10,318	60,408
Provisions	(681)	(1,005)	(38)	(29)	0	(43)	(63)	(410)	(2,269)
Total exposure as at 31 Dec 2017	**1,342,076**	**202,856**	**517,286**	**75,214**	**91,869**	**45,669**	**133,259**	**80,502**	**2,488,731**
Financial assets as at 31 Dec 2016	1,326,681	197,245	589,344	86,704	93,099	27,130	127,885	73,478	2,521,566
Off-balance sheet liabilities as at 31 Dec 2016	30,490	1,135	0	0	0	0	9,740	0	41,365
Total exposure as at 31 Dec 2016	**1,357,171**	**198,380**	**589,344**	**86,704**	**93,099**	**27,130**	**137,625**	**73,478**	**2,562,931**

At the end of 2017, SID Bank was again most heavily exposed to the financial and insurance sectors, with the majority of assets representing loans to banks based in the Republic of Slovenia, which transfer the funds obtained this way to the final beneficiaries in accordance with ZSIRB. At the end of 2017, the exposure to the financial and insurance sectors accounts for 53.9% (end of 2016: 53%) of the total exposure arising from financial assets and off-balance sheet liabilities, with the lower increase of the proportion in comparison with the end of 2016 as a result of an increase in loans to banks and investments in debt securities. This is followed by the exposure to the public administration and defence sector with its portion at the end of 2017 amounting to 20.8% (end of 2016: 23%). The exposure to professional, scientific and technical activities increased at the end of 2017 in comparison with 2016 as a result of new exposures in debt security investments and new loans.

SID Bank Group	Financial and insurance activities	Manufa-cturing	Public administration and defence	Retail	Transportation and storage	Professional, scientific and technical activities	Electricity, gas and steam supply	Other	Total
Financial assets as at 31 Dec 2017	**1,309,876**	**198,668**	**526,175**	**74,963**	**92,400**	**43,438**	**129,210**	**71,715**	**2,446,445**
Cash balances at central bank and demand deposits at banks	75,950	0	0	0	0	0	0	0	75,950
Available-for-sale financial assets	184,138	8,640	473,645	28,123	792	18,431	4,989	15,012	733,770
Debt securities	184,138	8,640	473,645	28,123	792	18,431	4,989	15,012	733,770
Loans	1,049,788	190,028	52,530	46,840	91,608	25,007	124,221	56,703	1,636,725
Loans and advances to banks	1,037,431	0	0	0	0	0	0	0	1,037,431
Loans and advances to non-bank	11,180	190,028	52,154	46,840	91,608	25,006	124,221	56,703	597,740
Other financial assets	1,177	0	376	0	0	1	0	0	1,554
Off-balance sheet liabilities as at 31 Dec 2017	**48,746**	**4,188**	**2,528**	**251**	**0**	**2,231**	**4,049**	**9,908**	**71,901**
Guarantees	13,762	0	0	0	0	0	0	0	13,762
Gross exposure	13,863	0	0	0	0	0	0	0	13,863
Provisions	(101)	0	0	0	0	0	0	0	(101)
Other off-balance sheet liabilities	34,984	4,188	2,528	251	0	2,231	4,049	9,908	58,139
Gross exposure	35,665	5,193	2,566	280	0	2,274	4,112	10,318	60,408
Provisions	(681)	(1,005)	(38)	(29)	0	(43)	(63)	(410)	(2,269)
Total exposure as at 31 Dec 2017	**1,358,622**	**202,856**	**528,703**	**75,214**	**92,400**	**45,669**	**133,259**	**81,623**	**2,518,346**
Financial assets as at 31 Dec 2016	1,347,018	197,245	603,054	86,704	93,099	27,130	127,885	74,619	2,556,754
Off-balance sheet liabilities as at 31 Dec 2016	30,490	1,135	0	0	0	0	9,740	0	41,365
Total exposure as at 31 Dec 2016	**1,377,508**	**198,380**	**603,054**	**86,704**	**93,099**	**27,130**	**137,625**	**74,619**	**2,598,119**

Counterparty credit risk

Market interest rates and yield curves are taken into consideration for 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 taking into account the credit risk and the value taking into account the credit risk. For valuation adjustment, counterparty credit risk (CVA) must be taken into account on the one hand and own credit risk on the other hand. SID Bank does not calculate its own credit risk. CVA is calculated on a monthly basis for each derivatives transaction. In the CVA calculation, any collateral is also taken into consideration.

SID Bank only concludes transactions outside the regulated stock market (OTC transactions) with banks with which it concluded a framework agreement on transactions in derivatives (ISDA Master Agreement). For the purpose of counterparty credit risk mitigation in derivatives transactions, the Bank has signed a credit support annex (CSA) as a legal supplement to the master agreement, based on a system of providing variation margins through the exchanges of collateral depending on the daily fair value of the derivative.

The Bank carries out daily monitoring of counterparty credit risk on the basis of the fair value of the derivative. If insufficient coverage of exposure by collateral due to unfavourable derivative fair value movements results in insufficient coverage of exposure by collateral, the counterparty is asked to provide additional collateral. SID Bank agreed on cash deposits as collateral with counterparties with whom it concluded derivatives transactions in 2017.

SID Bank recognises the calculated CVA amount in profit or loss in the month when the total amount of the calculated CVA for all derivatives exceeds 10 basis points of the last total risk exposure amount in accordance with paragraph three of Article 92 of the CRR.

As at 31 December 2017, the CVA for SID Bank and the SID Bank Group is EUR 0.

3.2 Liquidity risk

Liquidity risk is the risk of losses arising when a bank is unable to settle all its maturing liabilities, or when a bank is unable to provide enough funds to settle liabilities at maturity and is thus compelled to provide the necessary funds at significantly higher costs than normal. The greater the mismatch between interest and principal on the asset side and the liability side, and in off-balance sheet items, the higher the risk of illiquidity.

Liquidity risk in the narrower sense arises when a bank is unable to repay its liabilities through investment transactions. These liabilities are usually settled using cash inflows, easily liquidated assets and borrowed funding sources. Liquidity risk in the broader sense is the risk that a bank will have to make additional borrowings at a higher interest rate, and the risk that a bank will be compelled to sell non-monetary investments at a discount owing to the need for liquidity. At SID Bank, this risk is assessed as low as a result of the surplus position in current liquidity and high secondary liquidity, a significant proportion of which consists of government securities and other high quality liquid debt securities.

SID Bank manages liquidity risk by means of the proper planning of inflows and outflows, which is undertaken separately for own account and the account of contingency reserve assets as well as by means of an adequate stock of highly liquid financial assets. The objective of SID Bank's liquidity risk management is to ensure regular fullfilment of all financial obligations and high-quality management of operational and structural liquidity. Each SID Bank Group member carries out all liquidity risk management activities and processes autonomously and independently. The annual risk profile assessment is carried out at the Group level.

The subsidiary performing insurance activities manages its liquidity risk in accordance with its own financial risk management policy, which takes account of specific characteristics and regulations concerning liquidity risk management in insurance business and has been adopted by the management body of the subsidiary. The majority of the insurance company's financial investments comprise marketable government securities and other highly liquid debt securities as well as short-term deposits at banks. For the purpose of covering increased demand for liquidity, the insurance company has defined a cash-call option in its contract with reinsurers.

The majority of the SID Bank Group's liquidity risk exposure is exposure arising from the operations of SID Bank, which must meet legal and regulatory banking requirements. SID Bank's framework for the taking up and management of risk is presented below.

Taking up and management of liquidity risk

SID Bank takes on liquidity risk with the primary objective of ensuring prudent and secure operations of the Bank. Liquidity management includes prudent management of assets and liquidity (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 liquidity risk taking and managing is conducted in line with the adopted liquidity risk management policy, reviewed and adopted at least once a year by the Bank's management body. The Bank's management body discusses and adopts the internal liquidity adequacy assessment process (ILAAP) annually. The liquidity risk management action plan includes putting in place internal boundaries/limits of liquidity ratios, regular measurement, liquidity risk management procedures and monitoring and reporting of the Bank's liquidity position. Liquidity risk is discussed and monitored on a regular basis through weekly and monthly reports discussed at the asset-liability and liquidity management committee and through quarterly reports discussed at the sessions of the management board and the supervisory board.

The level of taking on liquidity risk is determined in accordance with the risk appetite, which is reflected through the higher value of the internally defined liquidity ratios, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) than those prescribed by the regulations, thus providing additional security to the Bank. Moreover, the minimal size of the pool of eligible collateral for Eurosystem claims is defined internally. In addition, regular planning of liquidity cash flows is carried out, including internally defined liquidity scenarios. Borrowing activities are based on SID Bank's long-term action strategy and annual financial plan of funding, drafted in the context of the annual operational plan. The purpose of borrowing is to ensure appropriate sources for carrying out SID Bank's lending business, with the appropriateness relating to maturity, currency, interest rate type, cost of borrowing and any other characteristics. SID Bank borrows in accordance with the intentions set out in the ZSIRB.

In addition of measuring and monitoring the liquidity position, liquidity ratios, regulatory ratios in the area of liquidity, risk management at SID Bank also includes regular planning and monitoring of liquidity cash flows and assessment of impacts of new transactions on the liquidity ratio and liquidity coverage ratio for the coming period as well as regular verification of the Bank's liquidity position by taking into account internally defined liquidity scenarios. Strict daily monitoring of operational liquidity is provided; liquidity is ensured through balancing the assets, particularly liquidity reserves and/or access to additional sources. For the purpose of raising additional reserves of daily liquidity from the central bank and from other banks, SID Bank has a portfolio of securities permanently available to serve as collateral for such claims. The Bank manages structural liquidity through the assessment of long-term liquidity position.

The liquidity risk management policy also envisages procedures and responsibilities of the competent committees and relevant organisational units dealing in liquidity risk management as well as a range of potential measures if operational or structural liquidity deteriorates and/or internally set limits are exceeded.

In the introduction to this section the Bank presents the key responsibilities of the competent bodies in the area of risk management, of the risk management function and individual organisational units. The asset-liability and liquidity committee at SID Bank is responsible for decision-making regarding the proposals for liquidity risk management, adoption, guidance and supervision of the implementation of the liquidity policy and treasury investment policy. The risk management department drafts and reviews at least once a year and proposes any changes to the liquidity risk management policy in accordance with the Bank's risk profile and the adopted business policy as well as liquidity risk appetite. Moreover, it ensures regular briefing of the management body on Bank's exposure to liquidity risk. The treasury department is responsible for attaining and maintaining daily liquidity, concluding transactions for the purpose of managing liquid assets and carrying out borrowing activities in the context of the adopted policy of liquidity risk taking and managing, the authorisations put in place and the decisions of the competent bodies. It is actively involved in the process of assessing the appropriate liquidity of the Bank.

SID Bank carries out measurement, supervision and monitoring of the 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 of the sum of financial assets in domestic and foreign currency to the sum of funding sources in domestic and foreign currency with regard to residual maturity. The first-bucket liquidity ratio (up to 30 days) must amount to at least 1, while the second-bucket liquidity ratio (up to 180 days) is merely informative in nature. SID Bank has set internal liquidity ratios that are higher than those prescribed by the regulations in order to ensure additional security. Moreover, SID Bank's liquidity risk management policy sets out the procedures in the event of the achievement of internally prescribed liquidity ratio values.

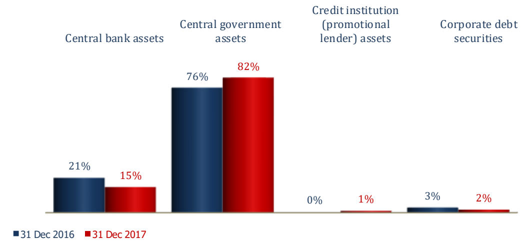
SID Bank	Minimum value	Average value	31 December 2017
LR (0 – 30)	5.8	15.2	10.8
LR (0 – 180)	3.5	7.7	8.9

The minimum level of daily values for the first-bucket liquidity ratio for all currencies amounted to 5.8 in 2017 (2016: 3.5), so that throughout the year all daily values considerably exceededonly the regulatory requirements of the Bank of Slovenia.

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. SID Bank's liquidity coverage ratio amounted to 1,340% at the end of 2017 (end of 2016: 3,439%) and considerably exceeded the regulatory limit, which amounted to 80 percent in 2017. At the end of 2017, SID Bank's net stable funding ratio amounted to 140% (end of 2016: 204%) and is reported by the Bank for information purposes only. The calculations, changes over time and compliance of the above ratios with the adopted internal limits are discussed on a regular basis by the asset-liability and liquidity committee.

In the Disclosures section, the Bank discloses, on the basis of Part 8 of the CRR, additional qualitative and quantitative information in accordance with the EBA guidelines on liquidity coverage ratio (LCR) disclosure to complement the disclosure of liquidity risk management under Article 435 of the CRR. The LCR indicates whether the level of the Bank's liquidity buffer is adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. By taking into account the monthly calculations for the period of 12 months prior to the expiration of the last quarter of 2017, the LCR amounted to 4,562% on average in Q4 2017. SID Bank's liquidity buffer was in excess of EUR 520 million.

Structure of high-quality liquid assets (after using applicable wieght)



As at 31 December 2017, liquid assets adequate to be included in the LCR calculation amounted to EUR 458.2 million, after using applicable weights, whereas government debt securities of an appropriate quality accounted for 81.7% of all adequate liquid assets subject to haircuts. At the end of 2017, the proportion of high-quality liquid assets (HQLA) Level 1 amounted to 98.2%.

SID Bank does not accept deposits from the public and therefore it is 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 impact the structure of the funding sources as well as higher concentration on the side of sources compared with commercial banks. The fact that SID Bank obtains long-term sources of funding supported by Slovenian government guarantees primarily on international financial markets and at related financial institutions increases the stability of the Bank.

SID Bank has adopted internal rules on contingent liquidity risk management, setting out effective management of exceptional liquidity situations, including identification of adequate measures for bridging and limiting the impact of liquidity crises and restoring the Bank's normal liquidity position. To this end, the Bank has defined the key elements of contingent liquidity risk management:
– organisation and competences;
– a range of potential measures for bridging and limiting the impact of liquidity crises;
– a range of indicators serving for early warning of a potential liquidity crisis;
– consistent internal and external communication during liquidity crises.

In addition to a set of selected indicators for early warning of a potential liquidity crisis, in the context of briefing at the competent committees SID Bank regularly monitors:
– the trend of SID Bank's performance indicators suggesting any possible changes in balance sheet structure;
– trend of macroeconomic indicators suggesting any possible economic changes;
– developments on financial markets which may result in tightening of the liquidity situation.

The Bank may promptly recognise any adverse liquidity conditions and take appropriate measures to overcome any liquidity difficulties through regular monitoring of the liquidity position, ratios and indicators.

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 adequate liquidity of the Bank with regard to its risk profile. The process includes an assessment of liquidity needs and available liquidity in the context of regular operations and in the scope of a business strategy for the upcoming period or the annual operational plan. The Bank's liquidity position is verified on a regular basis at the meetings of the relevant committees by monitoring various indicators, including in relation to the achievement of the planned indicators. The Bank regularly carries out an assessment of the appropriateness 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 within 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, effectiveness of the organisational structure, adequacy of LCR buffer, including in relation to the internal scenarios and the available contingency plan. The ILAAP report also serves as a basis for supervisory reviews and the evaluation of the Bank's liquidity risk.

Breakdown of financial assets and financial liabilities by residual maturity as at 31 December 2017

SID Bank	Up to 1 month	More than 1 to 3 months	More than 3 to 12 months	More than 1 to 5 years	More than 5 years	Total
Financial assets	**91,714**	**75,772**	**403,954**	**790,070**	**1,071,553**	**2,433,063**
Cash balances at central bank and demand deposits at banks	71,071	0	0	0	0	71,071
Available-for-sale financial assets	17,252	15,862	118,188	470,053	109,165	730,520
Loans	3,391	59,910	285,766	320,017	962,388	1,631,472
Loans and advances to banks	0	54,754	276,062	116,242	585,121	1,032,179
Loans and advances to non-bank customers	2,838	5,156	9,704	203,775	376,267	597,740
Other financial assets	553	0	0	0	1,000	1,553
Financial liabilities	**42,247**	**1,481**	**331,443**	**412,144**	**1,322,825**	**2,110,140**
Financial liabilities held for trading	0	0	0	0	93	93
Financial liabilities measured at amortised cost	27,053	55	290,918	397,388	1,322,732	2,038,146
Deposits from banks	25,264	0	0	0	0	25,264
Deposits from non-bank customers	0	0	0	0	0	0
Loans from banks and central banks	0	0	0	366,020	839,523	1,205,543
Loans from non-bank customers	0	0	0	31,216	423,612	454,828
Debt securities issued	0	0	290,917	0	59,403	350,320
Other financial liabilities	1,789	55	1	152	194	2,191
Assumed irrevocable liabilities and financial guarantees	15,194	1,426	40,525	14,756	0	71,901
Liquidity gap as at 31 Dec 2017	**49,467**	**74,291**	**72,511**	**377,926**	**(251,272)**	**322,923**
Financial assets as at 31 Dec 2016	164,069	22,041	593,991	771,211	982,490	2,533,802
Financial liabilities as at 31 Dec 2016	66,383	71,822	199,923	484,718	1,368,618	2,191,464
Liquidity gap as at 31 Dec 2016	**97,686**	**(49,781)**	**394,068**	**286,493**	**(386,128)**	**342,338**

SID Bank Group	Up to 1 month	More than 1 to 3 months	More than 3 to 12 months	More than 1 to 5 years	More than 5 years	Total
Financial assets	**96,824**	**76,490**	**409,160**	**804,963**	**1,075,241**	**2,462,678**
Cash balances at central bank and demand deposits at banks	75,950	0	0	0	0	75,950
Available-for-sale financial assets	17,482	15,980	118,743	484,946	112,853	750,004
Loans	3,392	60,510	290,417	320,017	962,388	1,636,724
Loans and advances to banks	0	55,354	280,713	116,242	585,121	1,037,430
Loans and advances to non-bank customers	2,838	5,156	9,704	203,775	376,267	597,740
Other financial assets	554	0	0	0	1,000	1,554
Financial liabilities	**42,722**	**1,551**	**331,738**	**412,176**	**1,322,825**	**2,111,012**
Financial liabilities held for trading	0	0	0	0	93	93
Financial liabilities measured at amortised cost	27,528	125	291,213	397,420	1,322,732	2,039,018
Deposits from banks	25,264	0	0	0	0	25,264
Deposits from non-bank customers	0	0	0	0	0	0
Loans from banks and central banks	0	0	0	366,020	839,523	1,205,543
Loans from non-bank customers	0	0	0	31,216	423,612	454,828
Debt securities issued	0	0	290,917	0	59,403	350,320
Other financial liabilities	2,264	125	296	184	194	3,063
Assumed irrevocable liabilities and financial guarantees	15,194	1,426	40,525	14,756	0	71,901
Liquidity gap as at 31 Dec 2017	**54,102**	**74,939**	**77,422**	**392,787**	**(247,584)**	**351,666**
Financial assets as at 31 Dec 2016	169,935	22,191	604,540	781,700	990,623	2,568,989
Financial liabilities as at 31 Dec 2016	67,113	71,822	199,923	484,718	1,368,618	2,192,194
Liquidity gap as at 31 Dec 2016	**102,822**	**(49,631)**	**404,617**	**296,982**	**(377,995)**	**376,795**

The breakdown of financial assets and financial liabilities by residual maturity illustrates liquidity risk in connection with credit risk. The items are disclosed in net amounts (gross amounts minus impairments). Cash flows from the payment of interest on the fixed and variable parts of derivatives used for hedging are settled in net amounts.

In 2017, SID Bank and the SID Bank Group once again had a good liquidity position, particularly due to longer maturity of liabilities and the high proportion of secondary liquidity, which can be seen from the structure of the liquidity gaps.

SID Bank is obliged to meet the reserve requirement at the central bank. The reserve requirement is 1% of the stock of deposits received and debt securities issued with an agreed maturity of up to two years. The reserve requirement for the period from 20 December 2017 to 30 January 2018 was EUR 0.

3.3 Interest rate risk

Interest rate risk is the risk of a change in the interest rates of interest-sensitive asset and liability items that could have an adverse impact on profit or loss, and on the economic value of assets, liabilities and off-balance sheet items. To a great extent exposure to interest rate risk derives from interest-sensitive assets with different maturities and a different repricing dynamic compared with interest-sensitive liabilities (the income aspect). Another part of interest rate risk consists of the sensitivity of assets to changes in interest rates (the economic aspect).

SID Bank and the SID Bank Group are exposed to interest rate risk from available-for-sale debt securities, loans granted and the balance in the settlement account and in commercial accounts on the asset side, and from loans and issued debt securities on the liability side. The operations of SID Bank account for a large part of the interest rate risk of the SID Bank Group. Exposure to interest rate risk at the subsidiary arises primarily from financial assets, cash and cash equivalents and insurance technical provisions. The insurance undertaking mitigates its interest rate risk by maintaining an appropriate combination of long-term and short-term financial assets with fixed and variable interest rates in its portfolio, and by providing the required level of solvency capital.

SID Bank establishes, measures, manages and monitors interest rate risk in accordance with the current interest rate risk management policy. The Bank's management body (management board and supervisory board) reviews and adopts the Interest Rate Risk Management Policy at least once a year. The level of interest rate risk has been curtailed through the introduction of a limit system and through the determination of the internal capital requirements. The Bank has a limit system in place for limiting 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 reduce 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 at acceptable levels and within the internally adopted risk appetite.

SID Bank manages exposure to interest rate risk through the coordination of assets and liabilities by their maturity and the level and method of setting interest rates, and through the use of derivatives. The management of interest rate risk is conducted particularly through the coordination of the methods for the remuneration of assets and liabilities, since the majority of assets and liabilities consist of euro-denominated instruments with an interest rate tied to the Euribor reference interest rate. The Bank is exposed to interest rate risk arising from time mismatches in changes to the reference interest rate and imperfect matching in the choice of the reference interest rate, and from exposure in available-for-sale debt securities and other items with fixed interest rates.

To reduce interest rate risk, SID Bank also conducts transactions in derivatives (interest rate swaps). If the derivatives meet the conditions, they are dealt with by applying hedge accounting with the aim of achieving lower volatility of the statement of profit or loss and under changes to the fair value of derivatives. To this end the Bank has internal documents in place in which it describes the relationship between the secured item and the hedging instrument, the purpose of risk management, the valuation method and the hedging strategy. The Bank also has documented assessments of the success of the hedge ratios set upon the concluding of transactions and conducts monthly assessments of the success of the hedge ratios. As at 31 December 2017, SID Bank held two interest rate swaps as fair value hedges for assets, for which the Bank used hedge accounting. The Bank regularly checks hedging performance, whereby hedging performance in 2017 fluctuated in the prescribed range of between 80% and 125%.

SID Bank carries out the measurement of exposure to interest rate risk arising from the mismatch of interest-sensitive items in the banking book, whereby it applies the principle of the classification of interest-sensitive on-balance sheet items into time intervals according to residual maturity for items with a fixed interest rate and with regard to the first repricing for items with a variable interest rate. The classification of interest-sensitive items is carried out 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.

The Bank carries out monthly analyses of the sensitivity of net interest income and the economic value of capital based on scenarios of changes to the interest rate curve. To assess the impact of rapid changes in market interest rates, (a sudden parallel shift of 200 basic points), SID Bank has an internal indicative limit on the economic value of capital, not counting capital that is defined in significantly stricter terms than set out in the banking regulations. Pursuant to the provisions of the ZBan-2, the Bank must report to the competent authority on changes to economic value arising from the calculation of the outcome of the standard shock. If a sudden and unexpected repricing of interest rates of 200 basic points absorbs more than 20% of the Bank's capital, the supervisory authority may require the Bank to adopt measures to limit interest rate risk. SID Bank also has an internal indicative limit for assessing the impact of rapid changes in market interest rates (a sudden parallel shift of 200 basic points) on net interest income in the first year after the change.

Information on interest rate gaps, sensitivity analyses, possible transgressions of limits on exposure to interest rate risk and other information on exposure to interest rate risk is discussed by the asset-liability and liquidity management committee.

Breakdown of financial assets and financial liabilities by exposure to interest rate risk as at 31 December 2017

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 net book value.

SID Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunerated items	Un-remunerated items	Total
Financial assets	**279,041**	**391,621**	**1,044,419**	**465,407**	**234,789**	**2,415,277**	**17,787**	**2,433,064**
Cash balances at central bank and demand deposits at banks	71,071	0	0	0	0	71,071	0	71,071
Available-for-sale financial assets	5,639	20,379	116,686	462,418	109,165	714,287	16,234	730,521
Loans	202,331	371,242	927,733	2,989	125,624	1,629,919	1,553	1,631,472
Loans to banks	30,201	248,947	703,883	0	49,148	1,032,179	0	1,032,179
Loans to non-bank customers	172,130	122,295	223,850	2,989	76,476	597,740	0	597,740
Other financial assets	0	0	0	0	0	0	1,553	1,553
Financial liabilities	**251,736**	**258,141**	**1,206,726**	**203,821**	**115,826**	**2,036,250**	**1,989**	**2,038,239**
Financial liabilities held for trading	0	0	0	0	93	93	0	93
Financial liabilities measured at amortised cost	251,736	258,141	1,206,726	203,821	115,733	2,036,157	1,989	2,038,146
Deposits from banks	25,264	0	0	0	0	25,264	0	25,264
Deposits from non-bank customers	0	0	0	0	0	0	0	0
Loans from banks and central banks	50,008	109,199	848,748	172,605	24,983	1,205,543	0	1,205,543
Loans from non-bank customers	176,464	148,941	67,050	31,216	31,157	454,828	0	454,828
Debt securities issued	0	0	290,917	0	59,403	350,320	0	350,320
Other financial liabilities	0	1	11	0	190	202	1,989	2,191
Interest rate sensitivity gap as at 31 Dec 2017	**27,305**	**133,480**	**(162,307)**	**261,586**	**118,963**	**379,027**	**15,798**	**394,825**
Financial assets as at 31 Dec 2016	456,654	356,657	1,141,243	349,150	217,475	2,521,179	12,623	2,533,802
Financial liabilities as at 31 Dec 2016	243,283	337,068	1,069,031	332,349	151,858	2,133,589	1,434	2,135,023
Interest rate sensitivity gap as at 31 Dec 2016	**213,371**	**19,589**	**72,212**	**16,801**	**65,617**	**387,590**	**11,189**	**398,779**

SID Bank Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunerated items	Un-remunerated items	Total
Financial assets	**283,920**	**394,246**	**1,049,582**	**478,580**	**238,563**	**2,444,891**	**17,788**	**2,462,679**
Cash balances at central bank and demand deposits at banks	75,950	0	0	0	0	75,950	0	75,950
Available-for-sale financial assets	5,639	22,404	117,197	475,591	112,939	733,770	16,234	750,004
Loans	202,331	371,842	932,385	2,989	125,624	1,635,171	1,554	1,636,725
Loans to banks	30,201	249,547	708,535	0	49,148	1,037,431	0	1,037,431
Loans to non-bank customers	172,130	122,295	223,850	2,989	76,476	597,740	0	597,740
Other financial assets	0	0	0	0	0	0	1,554	1,554
Financial liabilities	**251,736**	**258,141**	**1,206,726**	**203,821**	**115,826**	**2,036,250**	**2,860**	**2,039,110**
Financial liabilities held for trading	0	0	0	0	93	93	0	93
Financial liabilities measured at amortised cost	251,736	258,141	1,206,726	203,821	115,733	2,036,157	2,860	2,039,017
Deposits from banks	25,264	0	0	0	0	25,264	0	25,264
Deposits from non-bank customers	0	0	0	0	0	0	0	0
Loans from banks and central banks	50,008	109,199	848,748	172,605	24,983	1,205,543	0	1,205,543
Loans from non-bank customers	176,464	148,941	67,050	31,216	31,157	454,828	0	454,828
Debt securities issued	0	0	290,917	0	59,403	350,320	0	350,320
Other financial liabilities	0	1	11	0	190	202	2,860	3,062
Interest rate sensitivity gap as at 31 Dec 2017	**32,184**	**136,105**	**(157,144)**	**274,759**	**122,737**	**408,641**	**14,928**	**423,569**
Financial assets as at 31 Dec 2016	462,341	358,683	1,151,753	357,824	225,767	2,556,368	12,623	2,568,991
Financial liabilities as at 31 Dec 2016	243,283	337,068	1,069,031	332,349	151,858	2,133,589	2,164	2,135,753
Interest rate sensitivity gap as at 31 Dec 2016	**219,058**	**21,615**	**82,722**	**25,475**	**73,909**	**422,779**	**10,459**	**433,238**

Sensitivity analysis

SID Bank and the SID Bank Group conduct yearly analyses of the sensitivity of remunerated assets and liabilities to changes in interest rates.

The analysis of the sensitivity of interest-sensitive assets and liabilities 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.

If market interest rates rose by 100 basis points, SID Bank's net interest income in 2017 would increase by EUR 883 thousand (compared with EUR 2,223 thousand in 2016). The change would be reflected in higher income in the statement of profit and loss. If market interest rates fell by 100 basis points, the changes would be of the same magnitude as after a rise in interest rates, but in the opposite direction. For larger or smaller changes in market interest rates, the results have been calculated proportionately.

If market interest rates rose by 100 basis points, the SID Bank Group's net interest income in 2017 would increase by EUR 922 thousand (compared with EUR 2,270 thousand in 2016). The change would be reflected in higher income in the statement of profit and loss. If market interest rates fell by 100 basis points, the changes would be of the same magnitude as after a rise in interest rates, but in the opposite direction. For larger or smaller changes in market interest rates, the results have been calculated proportionately. The sensitivity analysis for the SID Bank Group includes the interest-rate sensitive items of SID Bank and SID-PKZ, while no material interest rate risk arises from the operations of the other companies in the SID Bank Group.

In addition to an analysis of the sensitivity of net interest income for a period of one year and an analysis of the economic value of capital, SID Bank also carries out an analysis of the sensitivity of the market values of the securities portfolio using an approximate modified duration in line with internal methodology.

In the area of interest rate risk in the banking book in 2018, the upgrading of measurement and/or assessment and the performance of a sensitivity analysis is planned in line with the new Basel standards or in line with the changes in regulatory requirements within the scope of the measurement of interest rate risk in the banking book.

3.4 Currency risk

Currency risk is the risk of a loss arising from adverse changes in exchange rates.

SID Bank establishes, measures, manages and monitors currency risk in accordance with the current currency risk management policy. The Bank's management body reviews and adopts the Currency Risk Management Policy at least once a year. The implementation of the policy is monitored by the asset-liability and liquidity management committee.

SID Bank manages currency risk through the regular and active implementation of a currency risk management action plan. The process of managing currency risk includes both the setting of internal limits and regular measurement, monitoring and reporting of exposure to currency risk on the basis of the calculation of the overall net position in 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 2017 was within the internally set limits.

When taking up and managing currency risk, SID Bank takes into account the adopted currency risk appetite and limits exposure to currency risk primarily through the matching of foreign exchange asset and liability positions and through trading in derivatives in significant foreign currencies.

Transactions executed by SID Bank and the SID Bank Group in foreign currencies are not materially significant, and currency risk is therefore also not of material significance. Owing to the low level of exposure to currency risk, SID Bank and SID Bank Group do not carry out analyses of currency sensitivity.

The subsidiaries of the SID Bank Group match the structure of assets and liabilities in foreign currencies to the greatest extent possible. SID-PKZ matches the liabilities structure with the currency structure of the assets, whereby the largest part of the currency mismatch arises from insurance technical provisions and insurance technical provisions ceded to reinsurers.

Breakdown of financial assets and financial liabilities by currency as at 31 December 2017

	SID Bank				SID Bank Group			
	EUR	USD	Other currencies	Total	EUR	USD	Other currencies	Total
Financial assets	**2,414,345**	**18,718**	**1**	**2,433,064**	**2,443,937**	**18,718**	**24**	**2,462,679**
Cash balances at central bank and demand deposits at banks	70,811	259	1	71,071	75,667	259	24	75,950
Available-for-sale financial assets	730,521	0	0	730,521	750,004	0	0	750,004
Loans	1,613,013	18,459	0	1,631,472	1,618,266	18,459	0	1,636,725
Loans to banks	1,025,984	6,195	0	1,032,179	1,031,236	6,195	0	1,037,431
Loans to non-bank customers	585,476	12,264	0	597,740	585,476	12,264	0	597,740
Other financial assets	1,553	0	0	1,553	1,554	0	0	1,554
Financial liabilities	**2,021,722**	**16,517**	**0**	**2,038,239**	**2,022,588**	**16,520**	**2**	**2,039,110**
Financial liabilities held for trading	93	0	0	93	93	0	0	93
Financial liabilities measured at amortised cost	2,021,629	16,517	0	2,038,146	2,022,495	16,520	2	2,039,017
Deposits from banks	15,000	10,264	0	25,264	15,000	10,264	0	25,264
Deposits from non-bank customers	0	0	0	0	0	0	0	0
Loans from banks and central banks	1,199,294	6,249	0	1,205,543	1,199,294	6,249	0	1,205,543
Loans from non-bank customers	454,828	0	0	454,828	454,828	0	0	454,828
Debt securities issued	350,320	0	0	350,320	350,320	0	0	350,320
Other financial liabilities	2,187	4	0	2,191	3,053	7	2	3,062
Net on-balance sheet position as at 31 Dec 2017	**392,623**	**2,201**	**1**	**394,825**	**421,349**	**2,198**	**22**	**423,569**
Assumed irrevocable liabilities as at 31 Dec 2017	**58,139**	**0**	**13,762**	**71,901**	**58,139**	**0**	**13,762**	**71,901**
Financial assets as at 31 Dec 2016	2,501,902	31,900	0	2,533,802	2,537,089	31,900	0	2,568,989
Financial liabilities as at 31 Dec 2016	2,118,019	17,004	0	2,135,023	2,118,740	17,005	8	2,135,753
Net on-balance sheet position as at 31 Dec 2016	**383,883**	**14,896**	**0**	**398,779**	**418,349**	**14,895**	**(8)**	**433,236**
Assumed irrevocable liabilities as at 31 Dec 2016	38,314	0	18,127	56,441	38,314	0	18,127	56,441

3.5 Operational risk

Operational risk arises as a result of inadequate or failed internal processes, human conduct and systems operations, or due to external factors not arising from credit, market or liquidity risk. Operational risk also includes IT risk, legal risks and risks associated with compliance, but does not include strategic risk and reputation risk. An element of legal risk is compliance risk, which is the risk of legal or regulatory sanctions, significant financial losses or a loss of reputation as a result of the Bank's operations failing to comply with the main regulations and standards of good practice. Operational risk depends on internal organisation, the management of business processes, the functioning of internal controls, the effectiveness of internal and external auditing, etc.

Operational risk factors include personnel, business processes, information technology and other infrastructure, organisational arrangements and external events.

SID Bank as Slovenia's main promotional and development financial institution is moving into new areas of operation in line with its mission. Operational risk is increasing at the Bank due to the gradual introduction of new products and the increasing complexity of products and processes.

The Bank uses a basic indicator approach for calculating capital requirements for operational risk in line with the provisions of the CRR. Management of operational risk is based on the established system of internal controls, the system of decision-making and powers, appropriate replacements during absences, appropriate personnel training and investment in information technology. The Bank continually endeavours to improve the culture of awareness among management and other employees of the importance of effective management of operational risk, which is present in all activities and processes relating to operations.

The 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 server infrastructure and other measures to increase information security (systems to prevent hacking, systems for detecting hacking, surveillance systems). The implementation of the business continuity plan is assigned to groups of employees formed in advance (emergencies group, operational security group, first aid and rescue group, asset remediation group). The members of these groups also collaborate in the procedure for amending the business continuity plan, while the body responsible for amending the plan is the compliance department, which ensures mutual coordination and provision of information in cooperation with IT.

In managing operational risk, SID Bank also takes account of the outsourcing policy and the outsourcing plan, the purpose of which is to create a framework for the selection, establishment, implementation and monitoring of contractual relationships with external providers, to prevent inconsistencies, inequalities, ambiguities and imbalanced risk management when outsourcing and thus the possible adverse consequences on the operations of SID Bank, and to ensure an adequate level of professionalism of outsourced services at SID Bank, monitor the implementation of those services and manage the risk arising from outsourcing.

Through 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.

Primarily through the provision of financing programmes for small and medium-sized enterprises (the promotional-development platform), SID Bank has obtained a large number of new customers in the last few years, which has required the hiring of new personnel and further development of the relevant software support. Operational risk on this account is managed using predetermined work processes and a system of powers, by applying the four-eyes principle and by ensuring adequate IT support.

In developing the risk profile of SID Bank and of the SID Bank Group, operational risk is assessed annually through the assessment of a risk matrix based on 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.

To manage risk arising from new product launches, the Bank has adopted internal rules which set out the rules for launching new products and the powers and responsibilities of the organisational units in the process of launching new products. All material risks identified in connection with planned new product launches 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.

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 effective identification, assessment and management of 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, 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 immediately notifies the supervisory board and the Bank of Slovenia, and submits all relevant documentation.

In terms of the order of loss events in line with the Basel III standards, the most common loss events in 2017 were execution, delivery, and process management (74% of all loss events), followed by business disruption and systems failures (21%), external fraud (3%), customers, products and business practice (2%) and damage to physical assets (1%). No loss events involving significant losses were recorded in 2017.

The risk management department drafts an annual review of risk management with external contractors, compiles an annual report and proposes measures. After receiving the management board's approval, the supervisory board risk committee is briefed on the report, which is then forwarded to the Bank of Slovenia.

In the event of a cyber incident that comprises an unwanted or unexpected information security event or a series of such events which could compromise operations and threaten information security, the employees who detect or suspect a cyber incident must immediately notify the security engineer and the director of the IT Department, who are in charge of processing the incident and any reporting to the Bank of Slovenia in line with the Bank of Slovenia's requirements relating to reporting on significant cyber incidents.

In 2018 SID Bank will upgrade its operational risk management system through the upgrading of information support and the increased role of the directors in resolving loss events, the continued automation of reporting, upgraded business processes and other measures.

3.6 Capital management

Capital management

SID Bank and the SID Bank Group must always have adequate capital at their disposal as a reserve against the various risks that they are exposed to in their operations. This is a continuous process of determining and maintaining an adequate amount and quality of capital, taking into account the risks defined in the capital management policy.

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 the assessment of the adequacy of the Capital Risk Management and Capital Management Policy and the assessment of the implementation of that policy. The management board is responsible for adopting an adequate capital risk management policy, ensuring an adequate amount and quality of capital, and the meeting of the capital requirements of the regulator.

Capital for capital adequacy purposes

The calculation of capital for capital adequacy purposes is based on the provisions of the CRR. Given the liquidation process and the resulting reduction in total assets of the Prvi faktor Group companies, in 2017 SID Bank was no longer required to fulfil requirements on a consolidated basis, as the proportionate part of the total assets of Prvi faktor Group accounted for by SID Bank no longer exceeded EUR 10 million. In accordance with the CRR insurance undertakings are exempt from prudential consolidation, therefore in 2017 the Bank was no longer required to fulfil requirements on a consolidated basis, and consequently capital adequacy is calculated only on an individual basis, for SID Bank.

A bank's capital is divided into three categories with regard to its attributes and the requirements: Common Equity Tier 1 capital (CET1), additional Tier 1 capital (T1) and additional Tier 2 capital (T2). SID Bank's capital is composed solely of the highest quality Common Equity Tier 1 capital, and the Bank does not hold any additional capital.

The bank calculates the capital requirement for credit risk using the standardised approach, in accordance with Part Three, Title II, Chapter 2 of the CRR. To calculate the amounts of the risk-weighted exposures for credit risk the ratings for individual categories of risk are not used, but 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 are calculated according to 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. It is calculated when the sum of the total net foreign currency position exceeds two percent of the total capital for capital adequacy purposes. As at year-end 2017 SID Bank was not required to formulate capital requirements for currency risk, as the limit was not exceeded.

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

SID Bank	31 Dec 2017	31 Dec 2016
Capital in the statement of financial position	**409,893**	**393,829**
Paid-in capital instruments	300,000	300,000
Share premium (paid-in surplus)	1,139	1,139
Treasury shares	(1,324)	(1,324)
Profit reserves and retained earnings (including net profit)	94,635	80,679
Accumulated other comprehensive income	15,444	13,336
Adjustment of capital in the statement of financial position	(13,956)	(21,363)
Net profit for the financial year (deducted)	(13,956)	(21,363)
Prudential filters	(10,319)	(11,838)
Intangible non-current assets	(804)	(805)
Surplus of mark-up of items of additional Tier 1 capital over additional Tier 1 capital	(731)	(852)
Elements or mark-ups of Common Equity Tier 1 capital – other	(426)	(778)
Other transitional adjustments to Common Equity Tier 1 capital	(8,359)	(9,403)
Common Equity Tier 1 capital (CET1)	385,619	360,628
Additional capital (AT1)	0	0
Tier 1 capital (T1)	385,619	360,628
Tier 2 capital (T2)	0	0
Capital for capital adequacy purposes	**385,619**	360,628
Total exposure to credit risk	969,785	971,609
of which: Central governments and central banks	21,343	28,953
Regional and local administrative units	8,582	7,293
Public sector entities	6,877	5,299
Multilateral development banks	2,400	2,400
Institutions	239,782	228,520
Large enterprises	610,598	554,606
Outstanding exposure	37,601	105,690
Own financial instruments	37,266	35,667
Other	5,336	5,581
Exposure to market risk (currency risk)	0	0
Exposure to operational risk	77,152	100,839
Exposure to credit valuation adjustment risk	2,117	39
Total risk exposure (RWA)	1,049,055	1,072,488
Surplus of Common Equity Tier 1 capital (CET1)	338,411	312,366
Surplus of Tier 1 capital (T1)	322,675	296,278
Total surplus capital	301,694	274,829
CET1 ratio in %	36.76%	33.63%
T1 ratio	36.76%	33.63%
Total capital ratio	36.76%	33.63%

Breakdown of capital requirements by type of risk and structure

SID Bank	31 Dec 2017	Structure %	31 Dec 2016	Structure %
Capital requirements				
for credit risk	77,583	92.4	77,729	90.6
for operational risk	6,172	7.4	8,067	9.4
for currency risk	0	0.0	0	0.0
for credit valuation adjustment risk	169	0.2	3	0.0
Total	83,924	100	85,799	100

Capital requirements for credit risk

SID Bank Exposure class	31 Dec 2017	31 Dec 2016
Central governments and central banks	1,707	2,316
Regional and local administrative units	687	583
Public sector entities	550	424
Multilateral development banks	192	192
Institutions	19,183	18,282
Large enterprises	48,848	44,368
Outstanding exposure	3,008	8,455
Own financial instruments	2,981	2,661
Other	427	446
Total	**77,583**	77,729

Internal capital assessment

The SID Bank Group annually assesses its risk profile, which comprises a documented and categorised collection of quantitative and qualitative assessments of the risks that the SID Bank Group takes up within the framework of its operations and the control environment with which it manages these risks. The appropriateness of the assumptions of the methodology for assessing the risk profile of the SID Bank Group is checked at least every three years and upon material changes in the risks to which the SID Bank Group is exposed (e.g. upon new product launches), upon substantial changes to the organisational structure and the operation of the system of internal controls.

The risk profile represents a basis for the integral risk management process, the internal capital adequacy assessment process, the planning of internal audit and compliance procedures, and direct supervision by the Bank of Slovenia.

In line with the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, and the CRR, the risk profile is assessed for the SID Bank Group on a consolidated basis.

The results of the risk profile assessment for 2017 indicate that the highest scored risks for the SID Bank Group are profitability risk, reputation risk, credit risk, operational risk and strategic risk. The results of the risk profile assessment for 2017 in general confirm the previous risk scores for the SID Bank and the SID Bank Group.

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 material. In 2017 SID Bank also allocated additional capital for a capital conservation buffer and a capital buffer for other systemically important institutions within the scope of risk-based capital requirements under the third element. In the fourth element (external factors), SID 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.

SID Bank calculates the internal capital requirements and checks the appropriateness of the level of capital on a quarterly basis, and the calculations are reviewed by the asset-liability and liquidity management committee. Once a year the management body approves the Bank's risk profile assessment and internal capital adequacy assessment process.

In 2017 the Bank of Slovenia, during its regular process of supervisory review and evaluation of risks (SREP[9]) assessed the risks to which SID Bank is exposed and found that the established strategies and processes for continuous assessment and provision of adequate internal capital provide adequate level of identification of risks. As at 31 December 2017 the SID Bank Group exceeded the Bank of Slovenia's requirements with respect to the level of capital ratios.

Capital buffers

In accordance with provisions of the ZBan-2 and European banking legislation, the Bank of Slovenia defines the requirements regarding the maintenance of capital buffers for the purpose of preventing or mitigating macro-prudential 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 banks (not relevant for SID Bank);
– the buffer for other systematically important institutions (O-SII); and
– the systemic risk buffer.

As at year-end 2017, 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 2017 amounted to 1.25% of the total risk exposure. The countercyclical capital buffer is implemented to protect the banking system against potential losses insofar as these are related to an increase in risks in the system as a result of excessive growth in lending. The instrument increases the resilience of the banking system and prevents excessive growth in lending. The buffer rate may range from 0% to 2.5% of the total risk exposure amount (and may exceptionally be higher), and depends on the level of risk in the system. The current buffer rate for exposure in Slovenia, in effect as of 1 January 2016, amounts to 0%. The institution-specific capital buffer rate comprises the weighted average of countercyclical buffer rates that apply in countries in which the related credit exposures of the Bank are located. SID Bank discloses the required data on the geographic 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 as at 31 December 2017 in Section 1 Disclosures on the basis of Part 8 of the CRR. As at 31 December 2017, the level of SID Bank's institution-specific countercyclical capital buffer stood at 0.01% of total risk exposure, which arises from the relevant credit exposure to Norway, whose countercyclical capital buffer is set at 2%. Pursuant to a Bank of Slovenia resolution, SID Bank will have to provide a buffer for other systematically important institutions (O-SII) on a consolidated basis through its Common Equity Tier 1 (CET1) capital in the amount of 0.25% of total risk exposure from 1 January 2019 on.

[9] Supervisory Review and Evaluation Process

Leverage ratio

SID Bank's asset-liability and liquidity management committee regularly monitors the movement of the leverage ratio. The appropriateness of the Bank's leverage ratio is also checked during the assessment of the risk profile.

The leverage ratio under transitional definition amounts to 15.5% as a 31 December 2017 and significantly exceeds the regulatory value and the adopted limit value with respect to 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. The detailed disclosure of the leverage ratio is given in the section on Disclosure under Part Eight of the CRR.

3.7 Fair value of financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid when transferring a liability in a standard transaction between market participants at the measurement date under current market terms, regardless of whether the price can be directly observed or estimated using another valuation technique.

The fair value of financial assets and financial liabilities traded on an active market is based on the published market prices. SID Bank and the SID Bank Group establish fair value for all other financial instruments using other valuation techniques.

An active market is a market on which frequent transactions are made using assets or liabilities whereby public information on prices is provided on a regular basis.

SID Bank and the SID Bank Group measure fair value using a fair value hierarchy that reflects the significance of the input data.

- Level 1: quoted prices on active markets for identical assets or liabilities to which SID Bank and the SID Bank Group have access as at the measurement date. For the SID Bank Group, level 1 includes investments in bonds, to which the MTS rate applies within the MTS Slovenia trading system, and the Composite Bloomberg Bond Trader (CBBT) rate applies for other trading systems.
- Level 2: inputs other than the quoted prices included in level 1 that can be directly (prices) or indirectly (derived from prices) observed for assets or liabilities. In level 2, SID Bank and the SID Bank Group include financial instruments valuated 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 that are not quoted prices and can be observed as assets or liabilities, e.g. interest rates and yield curves. Level 2 also includes investment in bonds, which are valuated based on the Bloomberg Generic Price (BGN), as this rate is identical to the interbank or OTC market rate. The BGN is otherwise not a direct rate that SID Bank and the SID Bank Group could use to sell securities on the valuation date, but its use ensures impartiality in valuation, and 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 rate to a materially significant extent.
- Level 3: SID Bank and the SID Bank Group include in this category financial instruments for which fair value is calculated according to a model that mainly uses unobservable inputs, and financial instruments that were valuated at original cost in the previous period.

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 are not available and are developed using the best available information on the assumptions that market participants would use when pricing the asset or liability.

Financial assets measured at fair value

The financial instruments that SID Bank and the SID Bank Group disclose at fair value in the statement of financial position are financial assets and liabilities held for trading, available-for-sale financial assets and derivatives used for hedging.

The financial assets and liabilities held for trading and derivatives used for hedging that include interest rate swaps are valuated taking account of market interest rates and yield curves.

The fair value of available-for-sale financial assets 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.

Fair value hierarchy – financial instruments measured at fair value

The table shows financial instruments measured at fair value as at the reporting date with respect to the level at which they are classified in the fair value hierarchy

	SID Bank							
	31 Dec 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Available-for-sale financial assets	32,048	628,282	70,191	730,521	18,332	724,069	35,275	777,676
Debt securities	32,048	618,393	63,846	714,287	18,332	718,237	28,871	765,440
Equity securities	0	9,889	6,345	16,234	0	5,832	6,404	12,236
Total financial assets	**32,048**	**628,282**	**70,191**	**730,521**	**18,332**	**724,069**	**35,275**	**777,676**
Financial liabilities measured at fair value								
Financial liabilities held for trading	0	0	0	0	0	312	0	312
Derivatives used for hedging	0	93	0	93	0	0	0	0
Total financial liabilities	**0**	**93**	**0**	**93**	**0**	**312**	**0**	**312**

	SID Bank Group							
	31 Dec 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Available-for-sale financial assets	50,513	629,300	70,191	750,004	41,271	724,498	35,275	801,044
Debt securities	50,513	619,411	63,846	733,770	41,271	718,666	28,871	788,808
Equity securities	0	9,889	6,345	16,234	0	5,832	6,404	12,236
Total financial assets	**50,513**	**629,300**	**70,191**	**750,004**	**41,271**	**724,498**	**35,275**	**801,044**
Financial liabilities measured at fair value								
Financial liabilities held for trading	0	0	0	0	0	312	0	312
Derivatives used for hedging	**0**	**93**	**0**	**93**	**0**	**0**	**0**	**0**
Total financial liabilities	**0**	**93**	**0**	**93**	**0**	**312**	**0**	**312**

Financial liabilities not measured at fair value

The table shows the fair values of financial instruments not measured at fair value and analysed with respect to the level at which they are classified in the fair value hierarchy.

	31 Dec 2017							
	SID Bank				SID Bank Group			
	Level 2	Level 3	Fair value	Carrying amount	Level 2	Level 3	Fair value	Carrying amount
Cash balances at central bank and demand deposits at banks	71,071	0	71,071	71,071	75,950	0	75,950	75,950
Loans	1,035,253	599,138	1,647,698	1,631,472	1,040,506	599,138	1,639,691	1,636,725
Loans to banks	1,033,700	0	1,033,700	1,032,179	1,038,952	0	1,038,952	1,037,431
Loans to non-bank customers	0	599,138	612,445	597,740	0	599,138	599,138	597,740
Other financial assets	1,553	0	1,553	1,553	1,554	0	1,601	1,554
Total financial assets	**1,106,324**	**599,138**	**1,718,769**	**1,702,543**	**1,116,456**	**599,138**	**1,715,641**	**1,712,675**
Financial liabilities measured at amortised cost	1,233,423	805,270	2,038,693	2,038,145	1,234,294	805,270	2,039,564	2,039,016
Deposits from banks	25,264	0	25,264	25,264	25,264	0	25,264	25,264
Deposits from non-bank customers	0	0	0	0	0	0	0	0
Loans from banks and central banks	1,205,968	0	1,205,968	1,205,542	1,205,968	0	1,205,968	1,205,542
Loans from non-bank customers	0	454,950	454,950	454,828	0	454,950	454,950	454,828
Debt securities issued	0	350,320	350,320	350,320	0	350,320	350,320	350,320
Other financial liabilities	2,191	0	2,191	2,191	3,062	0	3,062	3,062
Total financial liabilities	**1,233,423**	**805,270**	**2,038,693**	**2,038,145**	**1,234,294**	**805,270**	**2,039,564**	**2,039,016**

	31 Dec 2016							
	SID Bank				SID Bank Group			
	Level 2	Level 3	Fair value	Carrying amount	Level 2	Level 3	Fair value	Carrying amount
Cash balances at central bank and demand deposits at banks	147,668	0	147,668	147,668	153,355	0	153,355	153,355
Loans	999,522	612,445	1,611,967	1,608,458	1,005,655	612,445	1,618,100	1,614,591
Loans to banks	997,920	0	997,920	996,368	1,004,054	0	1,004,054	1,002,502
Loans to non-bank customers	0	612,445	612,445	610,563	0	612,445	612,445	610,563
Other financial assets	1,602	0	1,602	1,527	1,601	0	1,601	1,526
Total financial assets	**1,147,190**	**612,445**	**1,759,635**	**1,756,126**	**1,159,010**	**612,445**	**1,771,455**	**1,767,946**
Financial liabilities measured at amortised cost	1,674,687	460,652	2,135,339	2,134,711	1,675,417	460,652	2,136,069	2,135,441
Deposits from banks	31,740	0	31,740	31,740	31,740	0	31,740	31,740
Deposits from non-bank customers	30,000	0	30,000	30,000	30,000	0	30,000	30,000
Loans from banks and central banks	1,153,608	0	1,153,608	1,153,125	1,153,608	0	1,153,608	1,153,125
Loans from non-bank customers	457,572	0	457,572	457,427	457,572	0	457,572	457,427
Debt securities issued	0	460,652	460,652	460,652	0	460,652	460,652	460,652
Other financial liabilities	1,767	0	1,767	1,767	2,497	0	2,497	2,497
Total financial liabilities	**1,674,687**	**460,652**	**2,135,339**	**2,134,711**	**1,675,417**	**460,652**	**2,136,069**	**2,135,441**

For carrying amounts for cash it is assumed that their fair values are approximately the same.

For carrying amounts for variable-yield loans and variable interest rates, for which the credit risk does not materially change, the market interest rates are applied. In view of the fact that loans with fixed interest rates account for 8.4% of the credit portfolio, SID Bank and the SID Bank Group conclude that there are no material differences between the fair value of the loans and their carrying amounts.

The fair value of financial liabilities at variable interest rates is approximately equal to their carrying amounts as at the reporting date. Loans with fixed interest rates account for 5.7% of liabilities for loans measured at amortised cost at SID Bank and the SID Bank Group, and they conclude that there are no material differences between the fair value of the loans and their carrying amounts. Market interest rates are used to calculate the fair value of liabilities for variable interest rate loans measured at amortised cost.

SID Bank and SID Bank Group recognise and measure issued debt securities and loans according to amortised cost. For instruments included in the hedge ratio for purposes of calculation of the effects of the calculation of hedging, the fair value is calculated using valuation techniques and the expected current value. The expected current value is calculated using inputs that are not quoted prices and which can be observed, i.e. interest rates and yield curves.

Table of transfers between levels

2017	SID Bank			SID Bank Group		
	Transfers from level 1 to level 2	Transfers from level 2 to level 3	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 3	Transfers from level 2 to level 1
Financial assets measured at fair value						
Available-for-sale financial assets	0	3,596	14,073	590	3,596	14,073
Debt securities	0	3,596	14,073	590	3,596	14,073

Transfers from level 2 to level 1 and transfers from level 2 to level 3 at the SID Bank Group are the consequence of the inclusion of investments in bonds, which in 2017 are valuated based on the Ljubljana Stock Exchange rate at level 1 or 3, while in 2016 they were valuated based on the rate according to the Bloomberg model and classified as level 2.

2016	SID Bank			SID Bank Group		
	Transfers from level 1 to level 2	Transfers from level 2 to level 3	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 3	Transfers from level 2 to level 1
Financial assets measured at fair value						
Available-for-sale financial assets	4,861	261	5,662	4,861	261	23,900
Debt securities	4,861	261	5,662	4,861	261	23,900

4 Management body's concise statement on the Bank's approach to the measurement of risk appetite

In accordance with Article 435 (point 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: CRR) and 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, the management body hereby explains as follows:

1. The overall risk level and the levels and types of individual material risks are subject to comprehensive identification once a year in the process of drawing up the Bank's risk profile, which is approved by its management body. During the internal capital adequacy assessment process (hereinafter: the ICCAP) the management body approves the assessment of capital requirements and available capital to cover losses in the event the risks taken up are realised. The assessed risk absorption capacity is taken into account when drafting the business strategy and defining the business objectives and risk appetite. The risk profile of SID Bank and of the SID Bank Group is presented in detail in the Risk management segment in Section 3 of the financial report (accounts), subsection 3.6 Capital management. The management body also approves the internal liquidity adequacy assessment process (hereinafter: 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, SID Bank takes into account:
   - the risk profile assessment of SID Bank and of the SID Bank Group;
   - the result of the internal capital adequacy assessment process (ICAAP) that covers both 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 proportion of Common Equity Tier 1 capital to cover the recognised assessment of risk-based capital requirements, which are both prescribed by the Bank of Slovenia;
   - leverage ratio;
   - the result of the internal liquidity adequacy assessment process (ILAAP) or SID Bank's liquidity with regard to its risk profile;
   - the plan of activities for risk management, which, *inter alia*, sets out the available measures for managing the identified, measured and assessed risks;
   - other restrictions derived from SID Bank's bylaws and regulations and standards, or the requirements of the Bank of Slovenia and other competent 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 risk appetite once a year in its business strategy (for three years in advance) and in the annual operational plan. The management body adopted the Bank's level of risk appetite for 2017, that is reflected in the approved risk appetite indicators, and also in the limits set within the policies to take up and manage individual risks and other bylaws of SID Bank. In accordance with the disclosures under the CRR, the selected risk appetite indicators for SID Bank are presented below. Major financial data and performance indicators of SID Bank and of the SID Bank Group are disclosed in Section 1 of the business report. The selected risk appetite indicators recorded the following values at the end of 2017, including the aforementioned adopted risk appetite:
   - Common Equity Tier 1 capital ratio (CET 1): 36.8% (target value: ≥ 15%),
   - leverage ratio under transitional definition: 15.5% (target value: > 5%),
   - liquidity coverage ratio (LCR): 1.340% (target value: > 150%),
   - net stable funding ratio (NSFR): 140% (target value: > 110%),

- coverage of exposures of D- and E-rated claims with total impairments and provisions: 115.2% (target value: > 50%),
- risk profile assessment: 2.8 (target value: <3 of 5).

In addition, the Bank has identified risk appetite indicators in order to direct operations and mitigate individual types of risks, in particular:
- profitability and risks associated with directing operations: risk-weighted assets/total assets, net profit/average capital requirement for Pillar 1, interest margin;
- supervision of individual types of risks for risk mitigation: change in the economic value of capital – stress test (sudden parallel shift of 200 basis points in the yield curve), overall net position in foreign currencies in terms of capital, operational risk assessment (risk profile).

The level of risk appetite is approved annually by the management board and 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 are present in addition to the management board. Regular reporting of achieved risk appetite indicator values is also provided to the supervisory board's risk committee. In 2017 the values of the Bank's key risk appetite indicators were within the scope of the adopted thresholds. Limits were significantly stricter than the values prescribed by banking regulations.

The scope of taking up risks complements the set of internal policies for the management of individual types of risks, via which SID Bank transfers limits regarding risk appetite into operational restrictions on the appropriate direction of operations. Risk management policies and internal rules set out the limits for the management of credit and market risks and liquidity risks, including the procedures for the treatment of the exceeding of limits and notification of the management board.

In order to manage credit risk deriving from investments for the management of 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. Limits are not pre-determined or determined in general in credit transactions, but creditworthiness is determined when reviewing individual transactions according to the calculated borrowing capacity that takes into account the long-term sustainable cash flow, less replacement investments, taxes, potential profit payments and the current and envisaged net financial debt. Bylaws are used for the entire portfolio to set out the method of identifying and measuring concentration risk, i.e. on an individual basis, by industry, by sovereign, and by rating. Powers for the authorisation of transactions are set out in the bylaws and the articles of association of SID Bank according to the investment value and current exposure.

The quantitative limits are also set for the management of market risks. Limits on changes to the net interest income and changes in the economic value of the Bank’s capital (limits on weighted interest-rate gaps) are set for interest-rate risk. Limits were significantly stricter than the values 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 according to the Bank's capital is set for currency risk.

Quantitative limits are also set for the management of liquidity risk in a manner that is stricter than the levels prescribed in regulations. The Bank also carried out regular planning and monitoring of cash flows and assessment of the effects of new transactions on the liquidity ratio and liquidity coverage ratio for the coming period. In addition, it also regularly verifies its liquidity position, even during the consideration of internally defined liquidity scenarios, and has drafted a plan for the contingent liquidity risk management. The management body annually reviews and approves the ILAAP result that covers the assessed liquidity needs and assessed available liquidity within the scope of ordinary operations, and in the event of adverse situations (e.g. liquidity buffer within the scope of the LCR calculation). 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 appropriateness of the Bank’s funding, especially intensifying activities in the process of 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 significant risks, among which it classifies, in particular, strategic risk, reputation risk and profitability risk, and risks that are difficult to measure, such as certain subtypes of operational risk, i.e. compliance risk, business continuity risk, the risk of money laundering and terrorist financing and other unethical business practices, through qualitative risk management measures and internal control mechanisms. 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 aforementioned, other significant risks and risks that are difficult to measure are subject to qualitative measurement within the process of formulating a risk profile and quantified in accordance with the pre-determined criteria. SID Bank manages other significant risks by defining the required internal capital. Where required or depending on the assessment of residual risk, the capital requirement and appropriate coverage by capital is also determined in 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 shall be required to fully comply with the act governing banking, except with sections that are explicitly excluded. This relates to special features during the assessment of large exposures, capital requirements, the establishment of bank branches, and regarding obligations governing the drafting of the recovery plan and application of the provisions regarding guaranteed deposits, as SID Bank cannot and must not accept deposits from the public. Additional restrictions on operations are set out in the ZSIRB or rules governing state aid that apply in the EU and, *inter alia*, require SID Bank to provide financial services only in segments where market gaps appear or are identified, and cannot compete with other commercial banks. Furthermore, the purpose of SID Bank's funding must comply with the purposes defined by the law. SID Bank also cannot fund undertakings that comply with the definition of an undertaking in difficulty. The Bank and its management body shall take account of these and other prescribed requirements in the adoption and implementation of its business objectives, strategies and policies.

Ljubljana, 7 March 2018

SID banka d. d. Management Board		SID banka d. d. Supervisory Board
Goran Katušin	Sibil Svilan, M.Sc.	Monika Pintar Mesarič
Member	President	Chair

5 Reporting by operating segment

Allocation and disclosure by operating segment is carried out on the basis of the attributes of individual business activities at the SID Bank Group. The disclosure of information by operating segment takes account of supervisory approaches and the content of reports that serve the Bank's management in the governance of the SID Bank Group. Performance across operating segments is monitored on the basis of accounting policies as presented in point 2.3.25. Reports are compiled in accordance with the IFRS. The majority of the SID Bank Group's operations are on the domestic market, for which reason the Group does not disclose additional itemisation by geographical area.

The SID Bank Group's business activities can be divided into two operating segments:
- banking, and
- collateralisation of receivables.

Each operating segment is organised as a legal entity in the form of an independent undertaking. Within the SID Bank Group, banking services are provided by the controlling company SID Bank and collateralisation of receivables is carried out at PKZ. The individual operating segments include products and services that differ from the other operating segments in terms of risk and return. Transactions between the operating segments are executed under normal commercial terms.

During the reference 2016 financial year a separate operating segment of factoring, within which a proportionate share of the Prvi faktor Group (50%) was included among the operating segments.

Analysis by operating segment

2017	Banking	Securing of receivables	Total	Mutual relations	Relations to third parties
Interest income	29,119	305	29,424	0	29,424
Interest expense	(8,825)	(3)	(8,828)	0	(8,828)
Net interest	20,294	302	20,596	0	20,596
Dividend income	87	0	87	0	87
Fee and commission income	232	0	232	0	232
Fee and commission expenses	(459)	(18)	(477)	0	(477)
Net fees and commissions	(227)	(18)	(245)	0	(245)
Net gains on financial assets and liabilities not measured at fair value through profit or loss	3,316	11	3,327	0	3,327
Net gains on financial assets and liabilities held for trading	385	0	385	0	385
Net (losses) on financial assets and (liabilities) measured at fair value through profit or loss	(4,839)	0	(4,839)	0	(4,839)
Changes in fair value in hedge accounting	21	0	21	0	21
Net foreign exchange gains/losses	(1,186)	1	(1,185)	0	(1,185)
Net (losses) on derecognition of assets	(5)	0	(5)	0	(5)
Other net operating gains	1,732	5,655	7,387	(5)	7,382
NET REVENUES	19,578	5,951	25,529	(5)	25,524
Other information by segment	(3,354)	(4,654)	(8,008)	(3,348)	(11,356)
Administrative expenses	(12,394)	(4,275)	(16,669)	5	(16,664)
Depreciation and amortisation	(852)	(415)	(1,267)	0	(1,267)
Provisions	(917)	127	(790)	0	(790)
Impairments	7,452	(91)	7,361	0	7,361
Share of the profit of investments in subsidiaries, associates and joint ventures	3,353	0	3,353	(3,353)	0
Net profit from non-current assets classified as held for sale	4	0	4	0	4
Profit before tax from continuing operations	16,224	1,297	17,521	(3,353)	14,168
Income tax on continuing operations	(2,268)	(138)	(2,406)	0	(2,406)
Net profit for the financial year	13,956	1,159	15,115	(3,353)	11,762
31 December 2017					
ASSETS AND LIABILITIES					
Total assets	2,451,641	54,079	2,505,720	(8,418)	2,497,302
Long-term investments in subsidiaries, associates and joint ventures	8,413	0	8,413	(8,413)	0
Liabilities (other than equity) by segment	2,041,748	27,959	2,069,707	(5)	2,069,702
Total equity	409,893	26,120	436,013	(8,413)	427,600
Appreciation/(depreciation) of property, plant and equipment and intangible assets	(296)	270	(26)	0	(26)

The Mutual relations column shows all income and expenses generated between SID Bank Group companies, income from subsidiary dividends, mutual claims and liabilities of SID Bank Group companies, investments in subsidiaries and other consolidation bookings (accounting entries).

2016	Banking	Securing of receivables	Factoring	Total	Mutual relations	Relations to third parties
Interest income	37,501	328	1,358	39,187	(376)	38,811
Interest expense	(13,660)	(3)	(844)	(14,507)	376	(14,131)
Net interest	23,841	325	514	24,680	0	24,680
Dividend income	27	0	0	27	0	27
Fee and commission income	1,921	0	268	2,189	0	2,189
Fee and commission expenses	(750)	(17)	(238)	(1,005)	17	(988)
Net fees and commissions	1,171	(17)	30	1,184	17	1,201
Net gains on financial assets and liabilities not measured at fair value through profit or loss	6,183	0	0	6,183	0	6,183
Net (losses) on financial assets and liabilities held for trading	(307)	0	(1)	(308)	0	(308)
Net gains on financial assets (and liabilities) measured at fair value through profit or loss,	11,151	0	0	11,151	0	11,151
Changes in fair value in hedge accounting	377	0	0	377	0	377
Net foreign exchange gains/losses	689	(4)	321	1,006	0	1,006
Net gains on derecognition of assets	0	0	26	26	0	26
Other net operating gains	1,670	6,093	945	8,708	(1,384)	7,324
NET REVENUES	44,802	6,397	1,835	53,034	(1,367)	51,667
Other information by segment	(19,485)	(4,290)	(7,232)	(31,007)	(2,828)	(33,835)
Administrative expenses	(11,018)	(4,275)	(2,218)	(17,511)	5	(17,506)
Depreciation and amortisation	(805)	(310)	(37)	(1,152)	0	(1,152)
Provisions	1,660	701	(132)	2,229	892	3,121
Impairments	(9,574)	(406)	(4,844)	(14,824)	(3,637)	(18,461)
Share of the profit of investments in subsidiaries, associates and joint ventures	88	0	(1)	87	(88)	(1)
Net profit from non-current assets classified as held for sale	164	0	0	164	0	164
Profit before tax from continuing operations	25,317	2,107	(5,397)	22,027	(4,195)	17,832
Income tax on continuing operations	(3,954)	(417)	(120)	(4,491)	0	(4,491)
Net profit/loss for the financial year	21,363	1,690	(5,517)	17,536	(4,195)	13,341
31 December 2016						
ASSETS AND LIABILITIES						
Total assets	2,548,643	55,853	22,760	2,627,256	(25,983)	2,601,273
Long-term investments in subsidiaries, associates and joint ventures	8,413	0	0	8,413	(8,413)	0
Liabilities (other than equity) by segment	2,154,814	27,461	19,568	2,201,843	(23,591)	2,178,252
Total equity	393,829	28,392	3,192	425,413	(2,392)	423,021
(Depreciation) of property, plant and equipment and intangible assets	(310)	(272)	(70)	(652)	0	(652)

The Mutual relations column shows all income and expenses generated between SID Bank Group companies, income from subsidiary dividends, impairments of loans granted to SID Bank Group companies and impairment of the investment in Prvi faktor, Ljubljana – in liquidation, investments in subsidiaries and joint ventures, mutual claims and liabilities of SID Bank Group companies, and other consolidation bookings (accounting entries).

OTHER DISCLOSURES

1 Disclosures on the basis of Part Eight of the CRR

The disclosures under Part Eight of the CRR that are relevant to SID Bank and are not included in the business or financial part of the annual report are presented in this section below.

Disclosures are compiled taking into account the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 published by the EBA.

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

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

Quantitative information of LCR

		On an individual basis		On an individual basis	
Currency and units		In EUR 000		In EUR 000	
Quarter ending on		30 September 2017		31 December 2017	
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)	0	582,660	0	524,810
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	46,725	45,225	36,438	34,938
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0
7	Non-operational deposits (all counterparties)	38,069	36,569	27,781	26,281
8	Unsecured debt	8,657	8,657	8,657	8,657
9	Secured wholesale funding		0		0
10	Additional requirements	37,934	13,342	42,683	16,712
11	Outflows related to derivative exposures and other collateral requirements	432	432	653	653
12	Outflows related to loss of funding on debt products	0	0	0	0
13	Credit and liquidity facilities	37,502	12,910	42,030	16,059
14	Other contractual funding obligations	1,734	1,734	1,831	1,831
15	Other contingent funding obligations	24,401	6,332	16,799	2,122
16	**Total cash outflows**		**66,634**		**55,604**
Cash - inflows					
17	Secured lending (e.g. reverse repos)	0	0	0	0
18	Inflows from fully performing exposures	46,962	41,027	39,402	34,220
19	Other cash inflows	14,574	14,574	11,140	11,140

Quarter ending on		30 September 2017		31 December 2017	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
EU-19a	Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies		0		0
EU-19b	Excess inflows from a related specialised credit institution		**0**		**0**
20	**Total cash inflows**	**61,536**	**55,602**	**50,543**	**45,360**
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*	61,536	55,602	50,543	45,360
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	**Liquidity buffer**		**582,660**		**524,810**
22	**Total net cash outflows**		**23,367**		**21,309**
23	**Liquidity coverage ratio (%)**		**5631%**		**4562%**

Qualitative information of LCR

Concentration of funding and liquidity sources	The specific role of the Bank and the fact that SID Bank does not accept deposits from the public significantly impacts the structure of the sources of funding. SID Bank secures long-term sources of funding supported by a Slovenian government guarantee primarily on international financial markets and at related financial institutions. Disclosure regarding the structure of financial liabilities and liquid assets: - Business section, Section 8.2.1 Sources of funding and liquidity - Financial section, Section 2.4 - Financial section, 3.2 Liquidity risk
Derivative exposures and potential collateral calls	Exposure to derivatives is presented in the financial section, Section 2.4.9
Currency mismatch in the LCR	The liquidity buffer mostly comprises items denominated in euros. During the observation period a minor part of the buffer was comprised of investments in securities denominated in US dollars only over a three-month period. This proportion did not exceed 1.5% of the liquidity buffer. 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 (i.e. balances on bank accounts in foreign currencies) is negligible.
A description of the degree of centralisation of liquidity management and interaction between the group's units	The Bank calculates the LCR on an solo basis.
Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile	-

1.2 The number of directorships held by members of the management body

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

Membership in bodies of other persons as at 31 Dec 2017

	Name of other person	Role
Management board		
Sibil Svilan	CMSR	CMSR council chair
	Bank Association of Slovenia	Member of the supervisory board
	European Association of Public Banks (EAPB)	Member of the management board
Goran Katušin	SID-PKZ	Chairman of the supervisory board
Supervisory board		
Monika Pintar Mesarič	Succession Fund of the Republic of Slovenia (public fund)	Member of the supervisory board
Aleš Berk Skok	Poslovno in finančno svetovanje Aleš Skok, s.p.	Sole proprietor
	Na.20 d.o.o.	Managing Director
	A.L.P.H.A. Finance d.o.o.	Managing Director
	Alpha Credo d.o.o.	Managing Director
	Alpha Risk d.o.o.	Managing Director
	Slovenian Corporate Treasurers Association (SCTA)	Member of the management board
	European Association of Corporate Treasurers (EACT)	Member of the management board
Zlatko Vili Hohnjec	Finančni inženiring Zlatko Vili Hohnjec, s.p.	Sole proprietor
	Terme Olimia d.d.	Member of the supervisory board
	TPC LIVADE, d.o.o. S.r.l.	Managing Director
	Petovia avto Ptuj, d.o.o. (in bankruptcy)	Official receiver
	Bigrad d.o.o. (in bankruptcy)	Official receiver
	Lotrans šped d.o.o. Sežana (in bankruptcy)	Official receiver
	Finsvet d.o.o. (in bankruptcy)	Official receiver
	Avto plus d.o.o. (in bankruptcy)	Official receiver
	CPL d.o.o. (in bankruptcy)	Official receiver
	ELTI d.o.o. (in bankruptcy)	Official receiver
Marko Tišma	Ecofin, ekonomsko finančno svetovanje, Marko Tišma, s.p.	Sole proprietor
	Terme Olimia d.d.	Member of the Supervisory Board

1.3 Scope of application

(Article 436(b) of the CRR Regulation)

Outline of the differences in the scopes of consolidation

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
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

SID Bank was included in the supervision on a consolidated basis until 2017 and in accordance with the CRR prepared disclosures on the basis of prudential consolidation, which in addition to SID Bank also included a proportionate part of the Prvi faktor Group.

Given the liquidation process and the resulting reduction in total assets of the Prvi faktor Group companies, SID Bank was no longer required to fulfil requirements on a consolidated basis in 2017 in accordance with Article 19 (1a) of the CRR, as the proportionate part of the total assets of Prvi faktor Group accounted for by SID Bank no longer exceeded EUR 10 million. In accordance with the CRR insurance undertakings (that is SID-PKZ within the SID Bank Group) are exempt from prudential consolidation, meaning that disclosures for SID bank, d.d., Ljubljana are prepared on an individual basis in accordance with Article 6 of the CRR. The comparable data for 2016 are adjusted accordingly.

There is no material practical or legal impediment to the prompt transfer of capital or repayment of liabilities between the parent company and its subsidiaries within the SID Bank Group. For more details on the consolidation for accounting means see the financial report, Section 2.3.3.

Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

		Carrying values of items			
2017	Carrying values as reported in published financial statements	Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash, cash balances at central bank and demand deposits at banks	71,071	71,071			
Available-for-sale financial assets	730,521	730,521			731
Loans and receivables	1,631,472	1,631,472			
Property, plant and equipment	4,992	4,992			
Intangible assets	804				804
Investments in subsidiaries, associates and joint ventures	8,413	8,413			
Other assets	4,368	4,368			
TOTAL ASSETS	**2,451,641**	**2,450,837**	**0**	**0**	**1,535**
Financial liabilities measured at amortised cost	2,038,146				
Provisions	2,946				
Derivatives – Hedge accounting	93				
Other liabilities	563				
TOTAL LIABILITIES	**2,041,748**	**0**	**0**	**0**	**0**
Off-balance sheet items	**74,271**	**74,271**	**15,000**	**0**	**0**

		Carrying values of items			
2016	Carrying values as reported in published financial statements	Subject to the credit risk framework	Subject to the CCR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash, cash balances at central bank and demand deposits at banks	147,668	147,668			
Available-for-sale financial assets	777,676	777,676			778
Loans and receivables	1,608,458	1,608,458			
Property, plant and equipment	5,287	5,287			
Intangible assets	805				805
Investments in subsidiaries, associates and joint ventures	8,413	8,413			
Other assets	336	336			
TOTAL ASSETS	**2,548,643**	**2,547,838**	**0**	**0**	**1,583**
Financial liabilities held for trading	312		0		
Financial liabilities measured at amortised cost	2,134,711				
Provisions	15,546				
Other liabilities	4,245				
TOTAL LIABILITIES	**2,154,814**	**0**	**0**	**0**	**0**
Off-balance sheet items	**56,441**	**56,441**	**7,812**	**0**	**0**

1.4 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

(Article 437 (1)(a) of the CRR Regulation)

2017	Carrying values as reported in published financial statements	Included in own funds	Fully phased in definition
Cash, cash balances at central bank and demand deposits at banks	71,071		
Available-for-sale financial assets	730,521	(731)	(731)
Loans and receivables	1,631,472		
Property, plant and equipment	4,992		
Intangible assets	804	(804)	(804)
Investments in subsidiaries, associates and joint ventures	8,413		
Other assets	4,368		
TOTAL ASSETS	**2,451,641**	**(1,535)**	**(1,535)**
Financial liabilities measured at amortised cost	2,038,146		
Provisions	2,946		
Derivatives – Hedge accounting	93		
Other liabilities	563		
TOTAL LIABILITIES	2,041,748		
Share capital	300,000	300,000	300,000
Share premium account	1,139	1,139	1,139
Accumulated other comprehensive income	15,444	6,660	15,444
Profit reserves	88,005	80,679	80,679
Treasury shares	(1,324)	(1,324)	(1,324)
Retained earnings (including net profit for the financial year)	6,629	0	0
TOTAL EQUITY	409,893	387,154	395,938
TOTAL LIABILITIES AND EQUITY	**2,451,641**	**387,154**	**395,938**
Own funds		**385,619**	**394,403**

2016	Carrying values as reported in published financial statements	Included in own funds	Fully phased in definition
Cash, cash balances at central bank and demand deposits at banks	147,668		
Available-for-sale financial assets	777,676	(778)	(778)
Loans and receivables	1,608,458		
Property, plant and equipment	5,287		
Intangible assets	805	(805)	(805)
Investments in subsidiaries, associates and joint ventures	8,413		
Other assets	336		
TOTAL ASSETS	**2,548,643**	**(1,583)**	**(1,583)**
Financial liabilities held for trading	312	0	0
Financial liabilities measured at amortised cost	2,134,711		
Provisions	15,546		
Other liabilities	4,245		
TOTAL LIABILITIES	2,154,814		
Share capital	300,000	300,000	300,000
Share premium account	1,139	1,139	1,139
Accumulated other comprehensive income	13,335	3,081	13,335
Profit reserves	70,531	59,315	59,315
Treasury shares	(1,324)	(1,324)	(1,324)
Retained earnings (including net profit for the financial year)	10,148	0	0)
TOTAL EQUITY	393,829	362,211	372,465
TOTAL LIABILITIES AND EQUITY	**2,548,643**	**362,211**	**372,465**
Own funds		**360,628**	**370,882**

Until the adoption of the resolution of SID Bank's general meeting on the distribution of profit, the Bank shall not take into account the net profit for the financial year in the calculation of own funds for capital adequacy purposes. Net profit for 2017 amounted to EUR 13,956 thousand, of which undistributed net profit stood at EUR 6,629 thousand, with the profit that was already distributed to profit reserves upon the compilation of the annual report standing at EUR 7,327 thousand.

1.5 The main features of the capital instruments issued by the Bank

(Article 437(b)(c) of the CRR Regulation)

1	Issuer	SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana
2	Unique identifier	SIDR, ISIN SI0021102932
3	Governing law(s) of the instrument	Slovene
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital	EUR 300 million
9	Nominal amount of instrument	No nominal amount - per value shares
9a	Issue price	No nominal amount - per value shares
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	20 June 1997
12	Perpeptual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subjet to prior supervisory approval	No
15	Optional call date, contingent call dates, and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	N/A

N/A – Not applicable

SID Bank has no Additional Tier 1 items or Tier 2 items. In accordance with the provisions of Article 4 of the ZSIRB the Bank cannot use the distributable profit for dividends, but is allocated to other profit reserves.

1.6 Disclosure of own funds, regulatory adjustments and prudential filters

(Article 437(d)(e) of the CRR Regulation)

		2017	2017	2016	2016
Common Equity Tier 1 capital: instruments and reserves		(A) Amount at disclosure date	(C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount	(A) Amount at disclosure date	(C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
1	Capital instruments and the related share premium accounts	299,815		299,815	
	of which: Paid up capital instruments	300,000		300,000	
	of which: Share premium	1,139		1,139	
	of which: Own CET1 instruments	(1,324)		(1,324)	
2	Retained earnings	0		0	
3	Accumulated other comprehensive income (and any other reserves)	96,123		72,650	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	395,938		372,465	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(731)		(778)	-
8	Intangible assets (net of related tax liability) (negative amount)	(804)		(805)	-
26a	**Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468**	**(8,784)**	**(6,660)**	**(10,254)**	**(3,081)**
	of which: filter for unrealised gains - debt securities measured at fair value, others	(434)	(1,737)	(1,821)	(1,251)
	of which: filter for unrealised gains - debt securities measured at fair value, central governments	(7,119)	0	(8,201)	0
	of which: filter for unrealised loss - debt securities measured at fair value, others	9	36	35	53
	of which: filter for unrealised loss – debt securities measured at fair value, central government	10	40	325	487
	of which: filter for unrealised gains – equity instruments measured at fair value	(1,250)	(4,999)	(592)	(2,370)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(10,319)	(6,660)	(11,837)	(3,081)
29	Common Equity Tier 1 (CET1) capital	385,619	(6,660)	360,628	(3,081)
45	**Tier 1 capital (T1 = CET1 + AT1)**	385,619	(6,660)	360,628	(3,081)
59	**Total capital (TC = T1 + T2)**	385,619	(6,660)	360,628	(3,081)
60	**Total risk-weighted assets**	1,049,055		1,072,488	
	Capital ratios and buffers				
61	Tier 1 (as a percentage of total risk exposure amount)	36.76%	(0.63%)	33.63%	(0.29%)
62	Total capital (as a percentage of total risk exposure amount)	36.76%	(0.63%)	33.63%	(0.29%)

	Common Equity Tier 1 capital: instruments and reserves	2017 (A) Amount at disclosure date	2017 (C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount	2016 (A) Amount at disclosure date	2016 (C) Amounts subject to pre-CRR treatment or CRR prescribed residual amount
63	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	36.76%	(0.63%)	33.63%	(0.29%)
64	of which: capital conservation buffer requirement	1.263%	1.500%	0.635%	2.375%
65	of which: countercyclical buffer requirement	1.250%	1.250%	0.625%	1.875%
66	of which: systemic risk buffer requirement	0.013%	0%	0.010%	0%
67	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0%	0%	0%	0%
67a	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	0%	0.250%	0%	0.500%
68	Tier 1 (as a percentage of total risk exposure amount)				
Amounts below the thresholds for deduction (before risk-weighting)					
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	6,345		6,404	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	8,413		8,413	

The above table discloses the items of the Bank's own funds under the template from the Commission Implementing Regulation (EU) No 1423/2013, which sets out the disclosure of own funds requirements for institutions in accordance with the CRR. The table shows the rows of the template containing amounts that are relevant to SID Bank. Column (C) indicates the remaining amounts determined in accordance with the CRR. SID Bank has no Additional Tier 1 items or Tier 2 items.

1.7 Participation in insurance undertakings

(Article 438(c) of the CRR Regulation)

	2017 Values	2016 Values
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	8,413	8,413
Total risk-weighted assets	**21,032**	**21,032**

The carrying amount in the table above of EUR 8,413 thousand and risk-weighted exposure amount relate to the investment in the SID-PKZ subsidiary.

1.8 CVA capital charge

(Article 439(f) of the CRR Regulation)

		2017	2016
4	All portfolios subject to the standardised method – RWA	2,117	39
5	Total subject to the CVA capital charge	169	0

1.9 The geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer – breakdown by country

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

The table below indicates those credit exposures to individual sovereigns (governments) that are relevant for 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, not even securitised exposures.

2017	General credit exposures	Own funds requirements			
	(010) Exposure value under the Standardised Approach	(070) of which:	(010) Exposure value under the Standardised Approach	(110) Own funds requirements weights	(120) Countercyclical
Country code					
SI	600,103	48,961	48,961	0.89	0.00%
US	29,382	1,836	1,836	0.03	0.00%
NL	21,094	1,688	1,688	0.03	0.00%
HR	12,462	828	828	0.01	0.00%
CK	6,345	508	508	0.01	0.00%
AT	4,396	352	352	0.01	0.00%
NO	4,379	350	350	0.01	2.00%
IE	3,487	279	279	0.01	0.00%
SN	3,174	254	254	0.00	0.00%
FR	1,503	120	120	0.00	0.00%
RS	1,330	38	38	0.00	0.00%
TR	935	3	3	0.00	0.00%
ME	578	7	7	0.00	0.00%
BA	306	37	37	0.00	0.00%
GB	45	4	4	0.00	0.00%
BE	8	1	1	0.00	0.00%
DE	4	0	0	0.00	0.00%
AE	2	0	0	0.00	0.00%
IT	1	0	0	0.00	0.00%
Total	**689,536**	**55,264**	**55,264**	**1.00**	

2016	General credit exposures	Own funds requirements			
	(010) Exposure value under the Standardised Approach	(070) of which:	(010) Exposure value under the Standardised Approach	(110) Own funds requirements weights	(120) Countercyclical
Country code					
SI	609,169	50,328	50,328	0.90	0.00%
NL	22,984	1,839	1,839	0.03	0.00%
HR	14,843	1,271	1,271	0.02	0.00%
CK	6,404	512	512	0.01	0.00%
US	5,243	419	419	0.01	0.00%
NO	4,461	357	357	0.01	1.50%
RS	3,907	395	395	0.01	0.00%
IE	3,645	292	292	0.01	0.00%
FR	3,526	282	282	0.01	0.00%
AT	2,629	210	210	0.00	0.00%
TR	1,681	6	6	0.00	0.00%
ME	867	10	10	0.00	0.00%
MD	210	0	0	0.00	0.00%
BA	94	8	8	0.00	0.00%
GB	9	1	1	0.00	0.00%
BE	8	1	1	0.00	0.00%
DE	4	0	0	0.00	0.00%
HU	1	0	0	0.00	0.00%
IT	1	0	0	0.00	0.00%
Total	**679,687**	**55,931**	**55,931**	**1.00**	

An institution-specific countercyclical capital buffer rate will be 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 this Bank stood at 0.013% at the end of 2017. Within the scope of the countries that already introduced the countercyclical capital buffer rate, the Bank as at 31 December 2017 disclosed the required exposure only to Norway, the rate of which stood at 2% at the end of 2017.

		2017	2016
010	Total Risk exposure amount	1,049,055	1,072,488
020	Institution specific countercylical capital buffer rate	0.013%	0.010%
030	Institution specific countercylical capital buffer requirement	133	105

1.10 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 types of exposure classes

(Article 442(c) of the CRR Regulation)

Exposure class	Balance as at 31 Dec 2017	Average 2017	Balance as at 31 Dec 2016	Average 2016
Central governments or central banks	541,743	610,338	688,262	684,209
Regional governments or local authorities	41,079	37,328	36,466	37,860
Public sector entities	34,386	27,150	26,496	36,949
Multilateral Development Banks	13,050	12,210	12,000	14,718
Institutions	1,193,831	1,164,403	1,140,814	1,423,373
Corporates	631,601	589,639	563,324	499,392
Exposures in default	38,265	72,017	95,759	142,449
Items associated with particular high risk	0	0	0	40
Equity	24,647	23,380	20,649	18,836
Other items	5,336	5,486	5,581	5,858
Total	2,523,938	2,541,951	2,589,351	2,863,684

1.11 The geographic distribution of the exposures, broken down in significant areas by exposure classes

(Article 442(d) of the CRR Regulation)

2017 Exposure class	Slovenia	Other EU members	Other non EU european countries	Other countries	Total
Central governments or central banks	301,343	236,145	0	4,255	541,743
Regional governments or local authorities	39,939	0	1,140	0	41,079
Public sector entities	34,386	0	0	0	34,386
Multilateral Development Banks	0	13,050	0	0	13,050
Institutions	803,496	367,243	14,262	8,829	1,193,830
Corporates	549,810	38,210	7,844	35,737	631,601
Exposures in default	31,314	6,757	194	0	38,265
Equity	18,302	6,346	0	0	24,648
Other items	5,264	58	0	14	5,336
Total	**1,783,854**	**667,808**	**23,440**	**48,836**	**2,523,938**

2016 Exposure class	Slovenia	Other EU members	Other non EU european countries	Other countries	Total
Central governments or central banks	467,292	209,982	2,928	8,060	688,262
Regional governments or local authorities	36,466	0	0	0	36,466
Public sector entities	26,497	0	0	0	26,497
Multilateral Development Banks	0	12,000	0	0	12,000
Institutions	1,041,399	94,584	4,831	0	1,140,814
Corporates	517,907	32,783	7,406	5,227	563,323
Exposures in default	77,102	14,843	3,814	0	95,759
Equity	14,245	6,404	0	0	20,649
Other items	5,541	24	0	16	5,581
Total	**2,186,449**	**370,620**	**18,979**	**13,303**	**2,589,351**

Within the scope of exposure to other countries, the largest exposure as at 31 December 2017 of EUR 38,211 thousand was to the US.

1.12 The distribution of the exposures by industry type, broken down by exposure classes

(Article 442(e) of the CRR Regulation)

2017 Exposure class	Financial and insurance activities	Public administration and defence, compulsory social security	Manu-facturing	Electricity, gas, steam and air conditioning	Transport-ation and storage	Other	Total
Central governments or central banks	70,778	470,965	0	0	0	0	541,743
Regional governments or local authorities	0	41,079	0	0	0	0	41,079
Public sector entities	23,736	9,348	0	0	0	1,302	34,386
Multilateralne razvojne banke	13,050	0	0	0	0	0	13,050
Institutions	1,193,831	0	0	0	0	0	1,193,831
Corporates	40,237	0	195,332	133,258	82,035	180,738	631,601
Exposures in default	1,517	0	7,525	0	9,834	19,390	38,265
Equity	14,758	0	0	0	9,889	0	24,647
Other items	5,165	4	0	0	0	167	5,336
Total	1,363,072	521,396	202,857	133,258	101,759	201,596	2,523,938

2016 Exposure class	Financial and insurance activities	Public administration and defence, compulsory social security	Manu-facturing	Electricity, gas, steam and air conditioning	Transport-ation and storage	Other	Total
Central governments or central banks	145,393	542,869	0	0	0	0	688,262
Regional governments or local authorities	0	36,466	0	0	0	0	36,466
Public sector entities	14,064	9,842	0	0	0	2,590	26,496
Multilateral Development Banks	12,000	0	0	0	0	0	12,000
Institutions	1,140,814	0	0	0	0	0	1,140,814
Corporates	29,586	0	172,185	137,625	83,568	140,360	563,324
Exposures in default	15,463	210	25,670	0	9,510	44,906	95,759
Equity	14,817	0	0	0	5,832	0	20,649
Other items	5,353	5	0	0	0	222	5,581
Total	**1,377,490**	**589,392**	**197,856**	**137,625**	**98,910**	**188,078**	**2,589,351**

Within the scope of exposure to other industries, the largest exposures as at 31 December 2017 were to retail and wholesale trade and maintenance and repair of motor vehicles in the amount of EUR 75,214 thousand, and to the sector of professional, scientific and technical activities in the amount of EUR 35,736 thousand.

1.13 The distribution of the exposures by residual maturity, broken down by exposure classes

(Article 442(f) of the CRR Regulation)

The table below shows net on-balance sheet and off-balance sheet exposures, broken down by individual exposure class in terms of residual maturity, excluding credit protection effects. The final maturity date of a transaction is taken into account in the event of instalment repayment upon maturity of individual transactions.

2017 Exposure class	On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	70,955	85,140	289,985	95,663	0	541,743
Regional governments or local authorities	0	0	1,574	39,505	0	41,079
Public sector entities	0	1,302	14,073	19,011	0	34,386
Multilateral Development Banks	0	0	0	1,050	12,000	13,050
Institutions	1	364,243	218,172	611,415	0	1,193,830
Corporates	1	34,681	253,843	343,076	0	631,601
Exposures in default	2,744	113	29,338	6,070	0	38,265
Equity	0	0	0	0	24,647	24,647
Other items	0	127	0	0	5,210	5,336
Total	**73,700**	**485,606**	**806,985**	**1,115,789**	**41,856**	**2,523,938**

2016 Exposure class	On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	145,570	142,305	267,711	132,645	31	688,262
Regional governments or local authorities	0	0	1,084	35,382	0	36,466
Public sector entities	0	0	16,655	9,842	0	26,496
Multilateral Development Banks	0	0	0	0	12,000	12,000
Institutions	2,275	439,162	204,268	495,110	0	1,140,814
Corporates	0	35,775	196,059	331,490	0	563,324
Exposures in default	2,033	1,602	85,872	6,252	0	95,759
Equity	0	0	0	0	20,649	20,649
Other items	0	1	0	0	5,580	5,581
Total	**149,878**	**618,845**	**771,648**	**1,010,721**	**38,259**	**2,589,351**

1.14 The amount of impaired exposures, past due exposures and credit risk adjustments by significant industry type

(Article 442(g) of the CRR Regulation)

2017 Sector	Gross carrying values of Defaulted exposures	 Non-defaulted exposures	Specific credit risk adjust-ments	General specific credit risk adjust-ments	Accumu-lated write-offs (net)	Credit risk adjust-ment charges of the period	Net values
Financial and insurance activities	10,297	790,234	33,264	0	659	250	767,268
Public administration and defence, compulsory social security	0	522,520	1,125	0	0	186	521,395
Manufacturing	13,830	220,017	30,989	0	0	19,346	202,858
Electricity, gas, steam and air conditioning supply	0	136,092	2,834	0	0	787	133,258
Transportation and storage	15,831	98,944	13,016	0	0	2,136	101,759
Other	86,256	793,959	82,815	0		(16,169)	797,401
Total	**126,214**	**2,561,767**	**164,043**	**0**	**659**	**6,536**	**2,523,938**

2016 Sector	Gross carrying values of Defaulted exposures	 Non-defaulted exposures	Specific credit risk adjust-ments	General specific credit risk adjust-ments	Accumu-lated write-offs (net)	Credit risk adjus-tment charges of the period	Net values
Financial and insurance activities	36,283	1,384,960	43,753	0	0	(375)	1,377,490
Public administration and defence, compulsory social security	218	590,488	1,314	0	0	1,816	589,392
Manufacturing	70,991	201,607	74,742	0	145	(1,896)	197,856
Electricity, gas, steam and air conditioning supply	0	141,245	3,621	0	0	1,433	137,625
Transportation and storage	17,877	96,894	15,861	0	0	(3,581)	98,910
Other	110,124	157,479	79,525	0	0	(5,311)	188,078
Total	235,493	2,572,673	218,815	0	145	(7,914)	2,589,351

1.15 The amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including the amounts of credit risk adjustments

(Article 442(h) of the CRR Regulation)

2017 Area	Gross carrying values of Defaulted exposures	 Non-defaulted exposures	Specific credit risk adjust-ments	General specific credit risk adjust-ments	Accumu-lated write-offs (net)	Credit risk adjust-ment charges of the period	Net values
Slovenia	97,001	1,825,016	138,164	0	659	15,572	1,783,854
Other EU members	20,095	663,120	15,408	0	0	(8,625)	667,807
Other non EU european countries	9,117	24,446	10,123	0	0	(79)	23,440
Other countries	0	49,184	348	0	0	(332)	48,836
Total	**126,214**	**2,561,767**	**164,043**	**0**	**659**	**6,536**	**2,523,938**

2016 Area	Gross carrying values of Defaulted exposures	 Non-defaulted exposures	Specific credit risk adjust-ments	General specific credit risk adjust-ments	Accumu-lated write-offs (net)	Credit risk adjust-ment charges of the period	Net values
Slovenia	187,627	2,187,810	188,989	0	145	(19,666)	2,186,448
Other EU members	21,077	356,326	6,783	0	0	3,696	370,620
Other non EU european countries	26,789	15,208	23,018	0	0	7,444	18,979
Other countries	0	13,328	24	0	0	612	13,304
Total	**235,493**	**2,572,673**	**218,815**	**0**	**145**	**(7,914)**	**2,589,351**

The table indicates on-balance sheet and off-balance sheet gross and net exposures. Provisions for off-balance-sheet liabilities are disclosed within the scope of specific credit risk adjustments.

1.16 Changes in the stock of general and specific credit risk adjustments

(Article 442(i) of the CRR Regulation)

		2017 Accumulated specific credit risk adjustment	2016 Accumulated specific credit risk adjustment
1	**Opening balance as at 1.1.**	**184,667**	**205,407**
2	Increases due to amounts set aside for estimated loan losses during the period	47,935	69,259
3	Decreases due to amounts reversed for estimated loan losses during the period	(55,667)	(71,935)
4	Decreases due to amounts taken against accumulated credit risk adjustments	(47,409)	(35,715)
6	Impact of exchange rate differences	(16)	3
8	Other adjustments	13,500	17,648
9	Closing balance as at 31.12.	143,010	184,667
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	282	18

The table shows balances and changes in the stock of the credit risk adjustment of financial assets, excluding provisions for off-balance sheet items. A detailed presentation of the balance and changes in the credit risk adjustments can be seen in the financial report, Section 2.4.3.

1.17 Unencumbered assets

(Article 443 of the CRR Regulation)

The table below shows the medians of consecutive quarterly mean values of the Bank's encumbered and unencumbered assets over a 12-month period using interpolation. The Bank has assets pledged (eligible securities and loans) at the central bank as collateral for the loan received from the drawdown of targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia or ECB.

2017	Encumbered assets Carrying amount	Encumbered assets Fair value	Unencumbered assets Carrying amount	Unencumbered assets Fair value
Loans on demand	0	0	76,652	76,652
Equity instruments	0	0	15,506	15,506
Debt securities	124,707	124,707	647,389	647,389
Loans and advances other than loans on demand	48,222	48,274	1,547,929	1,550,795
Other assets	0	0	19,242	19,242
Total assets	**172,929**	**172,981**	**2,306,718**	**2,309,584**

2016	Encumbered assets Carrying amount	Encumbered assets Fair value	Uncumbered assets Carrying amount	Uncumbered assets Fair value
Loans on demand	0	0	61,580	61,580
Equity instruments	0	0	10,459	10,459
Debt securities	12,332	12,332	849,610	849,610
Loans and advances other than loans on demand	3,907	3,911	1,758,749	1,762,179
Other assets	0	0	23,725	23,725
Total assets	**16,239**	**16,243**	**2,704,123**	**2,707,553**

1.18 The breakdown of exposures under the standardised approach by asset class and risk weight

(Article 444(e) of the CRR Regulation)

2017	Risk weight								
Exposure class	0%	20%	50%	100%	150%	250%	Total	Of which unrated	Deducted
Central governments or central banks	519,153	4,080	40,672	191	0	0	564,097	564,097	(462)
Regional governments or local authorities	0	39,172	0	0	498	0	39,671	39,671	0
Public sector entities	0	34,386	0	0	0	0	34,386	34,386	(14)
Multilateral Development Banks	1,050	12,000	0	0	0	0	13,050	13,050	0
Institutions	0	1,167,721	0	0	4,158	0	1,171,879	1,171,879	(123)
Corporates	0	0	0	610,057	361	0	610,418	610,418	(115)
Exposures in default	0	0	0	37,279	215	0	37,494	37,494	0
Equity	0	0	0	16,234	0	8,413	24,647	24,647	(16)
Other items	0	0	0	6,140	0	0	5,336	5,336	(804)
Total	520,203	1,257,360	40,672	669,902	5,232	8,413	2,500,977	2,500,977	(1,535)

2016	Risk weight								
Exposure class	0%	20%	50%	100%	150%	250%	Total	Of which unrated	Deducted
Central governments or central banks	655,593	0	26,055	15,848	0	31	697,527	697,527	(537)
Regional governments or local authorities	0	36,466	0	0	0	0	36,466	36,466	0
Public sector entities	0	26,496	0	0	0	0	26,496	26,496	(14)
Multilateral Development Banks	0	12,000	0	0	0	0	12,000	12,000	0
Institutions	0	1,133,670	0	0	1,191	0	1,134,860	1,134,860	(121)
Corporates	0	0	0	554,484	81	0	554,565	554,565	(93)
Exposures in default	0	0	0	95,333	0	0	95,333	95,333	0
Equity	0	0	0	12,236	0	8,413	20,649	20,649	(12)
Other items	0	0	0	6,389	0	0	5,581	5,581	(805)
Total	**655,593**	**1,208,633**	**26,055**	**684,290**	**1,272**	**8,444**	**2,583,478**	**2,583,478**	**(1,583)**

Standardised approach – Credit risk exposure and CRM effect

The table shows on-balance sheet and off-balance sheet exposures by individual class, i.e. net exposures before the application of conversion factors and before the reduction in exposures resulting from the effects of using eligible collateral, exposures after they have been used and the amount of risk-weighted assets and proportion of the latter by exposure class.

2017 Exposure class	Exposures before CCF and CRM On-Balance Sheet amount	Exposures before CCF and CRM Off-Balance Sheet amount	Exposures post CCF and CRM On-Balance Sheet amount	Exposures post CCF and CRM Off-Balance Sheet amount	RWA	RWA density
Central governments or central banks	541,743	0	564,097	0	21,343	2.2%
Regional governments or local authorities	38,551	2,528	38,407	1,264	8,582	0.9%
Public sector entities	34,386	0	34,386	0	6,877	0.7%
Multilateral Development Banks	1,050	12,000	1,050	12,000	2,400	0.2%
Institutions	1,155,885	37,946	1,145,424	26,454	239,782	24.7%
Corporates	610,974	20,627	600,214	10,204	610,598	63.0%
Exposures in default	38,265	0	37,494	0	37,601	3.9%
Equity	24,647	0	24,647	0	37,266	3.8%
Other items	5,336	0	5,336	0	5,336	0.6%
Total	**2,450,836**	**73,101**	**2,451,056**	**49,922**	**969,785**	**100.0%**

2016 Exposure class	Exposures before CCF and CRM On-Balance Sheet amount	Exposures before CCF and CRM Off-Balance Sheet amount	Exposures post CCF and CRM On-Balance Sheet amount	Exposures post CCF and CRM Off-Balance Sheet amount	RWA	RWA density
Central governments or central banks	688,262	0	697,527	0	28,953	3.0%
Regional governments or local authorities	36,466	0	36,466	0	7,293	0.8%
Public sector entities	26,496	0	26,496	0	5,299	0.5%
Multilateral Development Banks	0	12,000	0	12,000	2,400	0.2%
Institutions	1,122,175	18,639	1,116,469	18,391	228,520	23.5%
Corporates	552,577	10,747	549,443	5,122	554,606	57.1%
Exposures in default	95,633	127	95,206	127	105,690	10.9%
Equity	20,649	0	20,649	0	33,267	3.4%
Other items	5,581	0	5,581	0	5,581	0.6%
Total	**2,547,838**	**41,513**	**2,547,838**	**35,640**	**971,609**	**100.0%**

1.19 Exposures to equities outside the trading book

(Article 447 of the CRR Regulation)

	31.12.2017	31.12.2016
Carrying amount	16,234	12,236
Revaluation surplus	0	3,292
Realised gains	1	2,539

Equities in the amount of EUR 9,830 thousand were acquired from the conversion of receivables, while EUR 6,404 thousand covers investments in EIF shares. All these securities are determined as available-for-sale financial assets, are not listed on the stock exchange and are disclosed at fair value. The gains generated in 2017 relate to gains on the sale of shares that the Bank acquired in previous years through the conversion of receivables.

1.20 Leverage ratio

(Article 451 of the CRR Regulation)

Summary reconciliation of accounting assets and leverage ratio exposures

		2017		2016	
		Transitional definition	Fully phased in definition	Transitional definition	Fully phased in definition
1	Total assets as per published financial statements	2,571,574	2,571,574	2,660,329	2,660,329
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(54,079)	(54,079)	(55,853)	(55,853)
4	Adjustments for derivative financial instruments	(1,200)	(1,200)	(148)	(148)
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	(25,549)	(25,549)	(20,950)	(20,950)
7	Other adjustments	(1,412)	7,373	(13,063)	(2,808)
8	Total leverage ratio exposure	2,489,334	2,498,118	2,570,315	2,580,570

Leverage ratio - common disclosure

		2017		2016	
		Transitional definition	Fully phased in definition	Transitional definition	Fully phased in definition
On-balance sheet exposures (excluding derivatives and SFTs)					
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,451,056	2,451,056	2,547,838	2,547,838
2	(Asset amounts deducted in determining Tier 1 capital)	(11,644)	(2,859)	(13,162)	(2,908)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2,439,412	2,448,196	2,534,675	2,544,930
Derivative exposures					
EU-5a	Exposure determined under Original Exposure Method	1,200	1,200	148	148
11	Total derivative exposures (sum of lines 4 to 10)	1,200	1,200	148	148
Other off-balance sheet exposures					
17	Off-balance sheet exposures at gross notional amount	74,271	74,271	56,441	56,441
18	(Adjustments for conversion to credit equivalent amounts)	(25,549)	(25,549)	(20,950)	(20,950)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	48,722	48,722	35,492	35,492
Capital and total exposures					
20	Tier 1 capital	385,619	394,403	360,628	370,030
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	2,489,334	2,498,118	2,570,315	2,580,570
Leverage ratio					
22	**Leverage ratio**	**15.5%**	**15.8%**	**14.0%**	**14.3%**
Choice on transitional arrangements for the definition of the capital measure					
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional definition	Fully phased in definition	Transitional definition	Fully phased in definition

Split-up of on balance sheet exposures

		2017		2016	
		Transitional definition	Fully phased in definition	Transitional definition	Fully phased in definition
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	2,451,056	2,451,056	**2,547,838**	**2,547,838**
EU-2	Trading book exposures	0	0	0	0
EU-3	Banking book exposures, of which:	2,451,056	2,451,056	2,547,838	2,547,838
EU-5	Exposures treated as sovereigns	565,147	565,147	697,527	697,527
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	72,793	72,793	62,963	62,963
EU-7	Institutions	1,145,425	1,145,425	1,116,469	1,116,469
EU-10	Corporates	600,214	600,214	549,443	549,443
EU-11	Exposures in default	37,494	37,494	95,206	95,206
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	29,983	29,983	26,229	26,229

When calculating the leverage ratio the Bank takes into account the relevant amount of on-balance sheet and off-balance sheet exposures (adjusted to the provisions of Article 429 of the CRR) and the amount of Tier 1 capital as at 31 December 2017. For the calculation the Bank takes into account the balances as at the date of quarterly reporting.

The leverage ratio as at 31 December 2017 was at 15.5% and significantly exceeded the minimum leverage ratio prescribed by the Basel Committee (3%).

The Bank monitors the leverage ratio within the scope of the Bank's risk profile where it established an internal scale for the assessment of the risk of excessive leverage. Pursuant to the ZSIRB the Republic of Slovenia provides a guarantee for SID Bank's liabilities. For that reason, SID Bank was not required to form internal capital requirements for the risk of excessive leverage within the scope of the internal capital adequacy assessment process as at 31 December 2017.

1.21 Use of credit risk mitigation techniques

(Article 453 of the CRR Regulation)

The Bank classes the following as eligible providers of unfunded credit protection: central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organisations, and legal entities with a high rating (credit quality step of at least 2 under the ECAI methodology). For more on credit protection see the financial report, Section 3.1.

(Article 453(g) of the CRR Regulation)

The total exposure value by exposure classes that is covered by financial guarantees

	2017			2016		
	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by financial guarantees	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by financial guarantees
Total loans	1,609,503	21,969	21,969	1,600,957	7,501	7,501
Total debt securities	705,405	8,881	8,881	763,114	2,326	2,326
Total exposures	**2,314,908**	**30,850**	**30,850**	**2,364,071**	**9,827**	**9,827**
Of which defaulted	37,494	771	771	95,203	428	428

The table above shows the carrying amount of secured and unsecured loans and debt securities. Only the exposures that are secured by financial guarantees that the Bank takes into account for mitigation of credit risk when calculating capital requirements are indicated as secured. The Bank does not use other protection, neither credit derivatives nor collateral to mitigate credit risk.

The list of all disclosures required under Part 8 of the Regulation (EU) no. 575/2013

Article	Requirement		Section of Annual report	Chapter	Side
435	**Risk management objectives and policies**				
1.	**Risk management objectives and policies**				
	(a)	the strategies and processes to manage those risks	BUS FIN	6 3	49 – 52 152 – 155
	(b)	the structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements	BUS FIN	6 3	43 – 45 153 – 155
	(c)	the scope and nature of risk reporting and measurement systems	BUS FIN	6 3, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6	47 – 50 148 – 152 164 – 169 172 - 175
	(d)	the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	FIN FIN	2.3.12 3.3	112 175
	(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	7	53
	(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	190 – 192
2.	**Information regarding governance arrangements**				
	(a)	the number of directorships held by members of the management body	OTH	1.2	200
	(b)	the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	BUS	3.2	29 - 30
	(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	3.2	29 – 30
	(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	152
	(e)	the description of the information flow on risk to the management body	FIN BUS	3 6	153 – 154 47
436	**Scope of application**		**OTH**	**1.3**	**201 - 202**
	(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	N/A	-	
437	**Own funds**				

Article	Requirement		Section of Annual report	Chapter	Side
	(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;	OTH	1.4	203 – 204
	(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;	OTH	1.5	204
	(c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	OTH	1.5	204
	(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	OTH	1.6	205 – 206
	(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;	OTH	1.5	204
	(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	6 3.6	49 – 50 184 - 185
	(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	3.6	181 – 183
	(d)	for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154 (1) to (4) correspond	N/A	-	
	(e)	own funds requirements calculated in accordance with points (b) and (c) of Article 92(3)	FIN	3.6	184
	(f)	own funds requirements calculated in accordance with PartThree, Title III, Chapters 2, 3 and 4 and disclosed separately.	FIN	3.6	184
439	**Exposure to counterparty credit risk**		**FIN**	**3.1**	**170**
	(a)	a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures			
	(b)	a discussion of policies for securing collateral and establishing credit reserves			
	(c)	a discussion of policies with respect to Wrong-Way risk exposures			
	(d)	a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating			
	(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			
	(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;	**OTH**	**1.8**	**207**
	(g)	the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure			

Article	Requirement	Section of Annual report	Chapter	Side
	(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			
440	**Capital buffers**	**FIN**	**3.6**	**185**
	(a) the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	OTH	1.9	207 - 208
	(b) the amount of its institution specific countercyclical capital buffer.	OTH	1.9	207 – 208
441	**Indicators of global systemic importance**	**N/A**	**-**	
442	**Credit risk adjustments**			
	(a) the definitions for accounting purposes of "past due" and "impaired"	FIN	2.3.11, 3.1	108 – 112 155 – 158
	(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments	FIN	2.3.11, 3.1	108 – 112 153
	(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	OTH	1.10	209
	(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	OTH	1.11	209 - 210
	(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	OTH	1.12	210
	(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;	OTH	1.13	211
	(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	OTH	1.14	212
	(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	OTH	1.15	212 - 213
	(i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately The information shall comprise: - a description of the type of specific and general credit risk adjustments - the opening balances - the amounts taken against the credit risk adjustments during the reporting period - the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments - the closing balances. Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	FIN OTH	2.4 1.16	128 – 133 213
443	**Unencumbered assets**	**OTH**	**1.17**	**214**
444	**Use of ECAIs**			
	(a) the names of the nominated ECAIs and ECAs and the reasons for any changes	FIN	3.6	181
	(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	181

Article	Requirement	Section of Annual report	Chapter	Side
	(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	OTH	1.18	214 – 215
445	**Exposure to market risk**	**FIN**	**3.6**	**184**
446	**Operational risk**	**FIN**	**3.5, 3.6**	**179 – 181**
447	**Exposures in equities not included in the trading book**	**FIN** **OTH**	**2.3.11, 2.4.2** **1.19**	**108** **127** **215**
	(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			
	(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			
	(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures			
	(d) the cumulative realised gains or losses arising from sales and liquidations in the period			
	(e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in Common Equity Tier 1 capital			
448	**Exposure to interest rate risk on positions not included in the trading book**	**FIN**	**3.3**	**175 - 177**
	(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**	**145 - 151**
	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			

Article	Requirement	Section of Annual report	Chapter	Side
	(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 theinstitution, indicating the following:			
	(i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person (i) the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;			
	(j) upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.			
451	**Leverage**	**OTH** **FIN**	**1.20** **3.6**	**216 – 217** **186**
	(a) the leverage ratio and how the institution applies Article 499(2) and (3)			
	(b) a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements			
	(c) where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11)			
	(d) a description of the processes used to manage the risk of excessive leverage			
	(e) (e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.			
452	**Use of the IRB Approach to credit risk**	**N/A**	**-**	
453	**Use of credit risk mitigation techniques**			
	(a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting	N/A	-	
	(b) the policies and processes for collateral valuation and management	FIN	3.1	158 - 159
	(c) a description of the main types of collateral taken by the institution	FIN	3.1	158 – 159
	(d) the main types of guarantor and credit derivative counterparty and their creditworthiness	OTH	1.21	217 - 218
	(e) information about market or credit risk concentrations within the credit mitigation taken;	N/A	-	
	(f) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, onor off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral, and other eligible collateral	N/A	-	

Article	Requirement		Section of Annual report	Chapter	Side
	(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.	OTH	1.21	218
454	**Use of the Advanced Measurement Approaches to operational risk**		**N/A**	**-**	
455	**Use of Internal Market Risk Models**		**N/A**	**-**	
492	**Transitional provisions for disclosure of own funds**		**OTH**	**1.6**	**205 - 206**
	(a)	the nature and effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Articles 467 to 470, 474, 476 and 479			
	(b)	the amounts of minority interests and Additional Tier 1 and Tier 2 instruments, and related retained earnings and share premium accounts, issued by subsidiaries that are included in consolidated Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds in accordance with Section 4 of Chapter 1			
	(c)	the effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Article 481			
	(d)	the nature and amount of items that qualify as Common Equity Tier 1 items, Tier 1 items and Tier 2 items by virtue of applying the derogations specified in Section 2 of Chapter 2.			
	(e)	the amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484	N/A	-	

BUS: Business report
FIN: Financial report
OTH: Other disclosures
N/A: Not applicable

2 Disclosures in accordance with the Regulation on the books of account and annual reports of banks and savings banks

(Article 20c of the Regulation)

Country	Company	Nature of activity	Turnover*	Headcount in full-time equivalent (in integers)	Pre-tax profit or loss	Corporate income tax	Public subsidies received
2017							
EU Member States							
Slovenia	SID banka d.d., Ljubljana	banking	32,791	154.04	16,224	(2,268)	0
	SID – Prva kreditna zavarovalnica d.d., Ljubljana	insurance	17,833	65.26	1,297	(138)	
	Prvi faktor, Ljubljana – in liquidation	factoring	199	7.01	1,180	0	0
Croatia	Prvi faktor, Zagreb – in liquidation	factoring	2,014	10.75	822	0	0
Third countries							
Bosnia and Herzegovina	Prvi faktor, Sarajevo – in liquidation	factoring	4	2.00	4	0	0
Serbia	Prvi faktor, Belgrade – in liquidation	factoring	152	3.00	3,892	0	0
2016							
EU Member States							
Slovenia	SID banka d.d., Ljubljana	banking	39,537	147.50	25,317	(3,954)	0
	SID – Prva kreditna zavarovalnica d.d., Ljubljana	insurance	17,262	65.45	2,107	(416)	
	Prvi faktor, Ljubljana – in liquidation	factoring	1,277	18.24	(22,825)	0	0
Croatia	Prvi faktor, Zagreb – in liquidation	factoring	2,990	27.50	(4,210)	0	0
Third countries							
Bosnia and Herzegovina	Prvi faktor, Sarajevo – in liquidation	factoring	(468)	5.67	(5,283)	0	0
Serbia	Prvi faktor, Belgrade	factoring	239	7.16	(13)	(82)	0

*Turnover from banking includes interest income, income from fees and commission and income from dividends. Turnover from insurance includes gross premiums written and income from commission.

3 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 generally insures against those commercial and non-commercial risks that given 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 the financial statements of SID Bank. They are recorded in separate items, as determined by the Bank of Slovenia for the administration of these transactions.

	31 Dec 2017	31 Dec 2016
Assets		
Customer funds in current accounts	237	2,520
Receivables from financial instruments	134,547	130,503
Loans	17,351	17,464
Available-for-sale financial assets	117,196	113,039
Investments in Group companies	1,073	2,871
Other assets	864	3,936
Total assets	**136,721**	**139,830**
Liabilities		
Contingency reserves	132,167	130,249
Other liabilities	4,554	9,581
Total liabilities	**136,721**	**139,830**
Memorandum account for brokerage	**586,797**	**489,024**

The memorandum account for brokerage represents an exposure deriving from valid insurance policies and commitments in respect of insurance on behalf of and for the account of the Republic of Slovenia.

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

In 2017 SID Bank was appointed the manager of the Fund of Funds within the scope of implementing 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 innovations and current operations through debt and equity financing focused on four areas: research, development and innovations, small and medium-sized enterprises, 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. They are recorded in separate items, as determined by the Bank of Slovenia for the administration of these transactions.

	31 Dec 2017
Assets	
Funds in the settlement account	31,062
Receivables from financial instruments	31,961
Loans	28,785
Available-for-sale financial assets	3,176
Total assets	**63,023**
Liabilities	
Financial liabilities	63,023
Loans from non-bank customers	63,250
Revaluation of loans from non-bank customers	(354)
Other financial liabilities	127
Total liabilities	**63,023**
Transaction memorandum account	**189,750**