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

ANNUAL REPORT 2006

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

Dear Ladies and Gentlemen,

The year 2006 was probably the most eventful and challenging business year in the short history of the company. It was marked by at least three important events:

- transformation of SID into SID Bank,
- creation of new company strategy and
- introduction of the Euro and the International Financial Reporting Standards.

As the nature of these events required considerable effort and patience from SID Bank employees, clients and shareholders alike, we can proudly say that the year 2006 was an exceptional year both in terms of organisational and technical aspects and with regard to business operations.

The good business results achieved in 2006 resulted from above-average involvement of employees and shareholders who supported our efforts to transform into a bank and who offered their support to our new business strategy.

Although demanding, the changes seem to have had a desirable impact on the business operations of SID Bank in all spheres of its activity to accommodate anticipated growth or even reach beyond it.

In financing international business transactions, which SID Bank conducts on its own behalf and for own account, volume of business was up 23.9%, climbing to SIT 181 billion (EUR 757 million) at the end of the year. In part, the growth was driven by borrowings in international financial markets, which SID Bank took out on own behalf and for own account with the guarantee of the Republic of Slovenia and secured with a successful issue of debt certificates (Schuldscheins) under very favourable conditions.

In short-term and medium-term export credit insurance against non-commercial risks and in investment insurance, which SID Bank performs on behalf and for the account of the Republic of Slovenia, the total volume of business insured increased by 3% to SIT 96 billion (EUR 402 million), with net exposure rising by 13% to SIT 115 billion (482 million). Growth was highest for medium-term export credit insurance.

In addition, SID Bank performed well in the related management of contingency reserves, which went up 6% to SIT 23.4 billion (EUR 97.8 million) in 2006 and which are, from a public finance point of view, proof of high security of business operations conducted on behalf and for the account of the Republic of Slovenia.

The Bank was also successful in providing other complementary activities such as issuance of guarantees, provision of credit rating and other credit information, business and legal counselling and performance of other operations conducted under mandate.

In June 2006 SID Bank hosted the Annual Meeting of the ISLTC Club, which is a union of 25 members, most of them public finance institutions or banks specialized in long-term financing. The Meeting contributed to the professional exchange of ideas and insights on the future operation of these financial subjects, all of great importance for the European market.

Through its activities of providing funding to banks, exporters, Slovene investors and foreign buyers and by providing short-term and medium-term export credit insurance, SID Bank actively promoted the international economic cooperation of Slovenia, in particular development of Slovene economic entities, and contributed to the stability and growth of international economic environment, trade, investment and development.

Accordingly, total assets were up 28% in 2006 totalling SIT 193.3 billion (EUR 806.5 million) at the end of the year. Total assets plus contingency reserve and Interest Rate Equalization Programme (IREP) amounted to SIT 218.2 billion (EUR 910.6 million).

The good business results achieved in 2006 were also reflected in pre-tax profit amounting to SIT 830 million (EUR 3.5 million) although the annual figure fell behind the 2005 level due to changes in valuations and amount of provisions.

Apart from achieving business results, the activities of SID Bank in 2006 were focused on organisational and technical changes as part of the process of transition to banking operations, which caused considerable changes to the organisation structure of the company and the efficiency of its operations. Special mention needs to be made of the newly established Risk Management department, reorganisation of the IT department through implementation of an effective information security management system, and the restructured Back Office, all with a view to ensure effective banking operations and reporting to supervisors in accordance with good banking practice.

On 24 October 2006 Slovenska izvozna družba, d.d., Ljubljana obtained from the Bank of Slovenia a licence to provide banking and other financial services, and in January 2007 the company formally started operating as a bank.

Throughout 2006, SID operations were subject to dynamic development and kept up to date with the trends in the wider economic environment. In 2006 the economic environment in Slovenia was characterized by high (5.2%) economic growth, fast growth of imports and exports (over 10%) and changes linked to the introduction of the Euro and the related convergence to the EMU (inflation, interest rates, etc.) in the Slovene financial market.

In 2006 European economy grew at a favourable annual rate of 2.8%, and the upward trend in world economy was preserved, leading to a positive development of international cooperation, trade and development.

In its operations SID Bank responded to the domestic and international development trends by modifying some of its products and by introducing several new products and services in accordance with the newly adopted corporate strategy and introduction of the Euro.

The subsidiaries of the SID Bank Group followed the lead of its parent company in responding to the challenges of their economic environments.

SID – Prva kreditna zavarovalnica (PKZ), established in 2005, closed the year with 20% growth which led to the volume of business insured amounting to SIT 890 billion (EUR 3.7 billion) and net profit climbing to SIT 450 million (EUR 1.9 million). Through its activities, PKZ made a decisive contribution to the management of credit portfolio of Slovene companies in the domestic and foreign markets.

PRO KOLEKT, another SID Bank subsidiary, performed debt collection services and intermediation of transactions and credit rating information for Slovene companies mostly in South Eastern Europe. With a view to achieving this aim, PRO KOLEKT established its subsidiaries in Zagreb, Skopje and Belgrade in 2006.

The highest growth in the SID Bank Group was recorded by SID subsidiary PRVI FAKTOR or the PRVI FAKTOR Group. In the markets of South Eastern Europe the company recorded annual growth of over 200%. In this way, the company has contributed to the promotion of factoring and purchase of receivables in this environment and established very good business results.

Adoption of the new strategy and strategic orientations of SID Bank was one of the most important tasks in 2006 aimed at profiling the new specialized bank in the Slovene economic and financial environment and at defining its business model.

The vision and mission of SID Bank are based on its continued development into a national export credit and development bank, which will maintain its role of the national export credit agency and, by performing a complementary activity, the role of a national development financial institution.

In the future, various finance services will be provided to Slovene economic entities by one financial institution – the SID Bank Group, as a one-stop shop.

The SID Bank's new role of providing services that are subsidiary and complementary to the financial market with regard to managing specific, mainly non-commercial or non-marketable risks, is aimed at creating new value added for both the Bank’s clients and shareholders. We are working towards this objective through partnerships with other Slovene banks and other institutions in the Slovene and international financial markets, constantly striving to promote innovation, competitiveness and internationalization of Slovene economy.

SID Bank will continue to act in line with the interests of our clients, shareholders and employees and the wider European economic and financial environment as well as sustainable development of Slovenia, by mitigating risks and increasing the opportunities for growth and development.

Like in the past, we look forward to your and our future challenges arising in the Slovene and international business environment.

Sibil Svilan, MSc.

President of the Board

Statement by the Supervisory Board

In 2006 the Supervisory Board of SID Banka, d.d., Ljubljana maintained a constant watching brief on the course of business and the situation of the company with regard to its goals and strategic orientations and in compliance with the Rules of Procedure of the Supervisory Board, the Articles of Association of SID Bank and in line with the regulations stating the authorities of the Supervisory Board.

The Supervisory Board of SID Bank met at eight regular and six correspondence meetings where it studied periodical reports on the operations of the bank and the companies of the SID Bank Group, quarterly internal audit reports, data on risk management and other general and specific issues related to the business operations of the company.

Throughout 2006 the Supervisory Board closely monitored the project aimed at harmonising the business operations of the company with the regulations governing operations of banks pursuant to the Act Governing Insurance and Financing of International Business Transactions and paid special attention to the establishment of SID – Slovenska izvozna in razvojna banka (SID – Slovene Export and Development Bank) and appointment of the Management Board of the new bank.

In 2006 the Supervisory Board discussed and decided on the following important issues:

- Action Strategy for the period 2006-2010,
- proposed changes to the Articles of Association,
- business policy and business plan for the year 2007,
- working plan of internal audit for the year 2007,
- current status and development of IT systems,
- borrowings in international financial markets,
- introduction of the Euro.

In monitoring and supervising the business operations of the company, the Supervisory Board obtained all the information necessary for continuous evaluation of the obtained results and of the performance of the Management Board, and adopted decisions within its powers.

At its meeting held on 25 May 2007, the Supervisory Board examined in detail the Annual Report for 2006 together with the reports of the certified auditor prepared by the auditing house Deloitte revizija d.o.o., which gave a positive opinion on the consolidated financial statements of the SID Bank Group for the year 2006.

Upon examining all the submitted reports, the Supervisory Board found that in 2006 the company followed its planned policy and achieved its set business goals. Therefore, the Supervisory Board has no reservations to the submitted reports and hereby confirms the Annual Annual Report of SID banka, d.d., Ljubljana for the year 2006.

Dr. Andrej Bajuk

Chairperson

1. Highlights from the Business Operations of 2006

The year 2006 saw completion of the transformation of Slovene Export Corporation, Export Insurance and Finance Corporation of Slovenia, Inc. Ljubljana, into a bank, as required by the Act Governing Insurance and Financing of International Business Transactions (hereinafter ZZFMGP). Although the transformation process was very demanding, SID performed well against the goals set for the year. On 24 October 2006 Slovenska izvozna družba, d.d., Ljubljana obtained from the Bank of Slovenia a licence to provide banking and other financial services. Upon the entry into the Register of Companies on 29 December 2006, the company was renamed as SID – Slovene Export and Development Bank, Inc., Ljubljana (short name: SID Bank, Inc., Ljubljana) and on 1 January 2007 started operating as a bank.

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

As Slovenia adopted the euro as its single currency in 2007, the figures in this Business Report are given in SIT and in EUR.*

Business results of SID Bank in 2006 or as at 31 December 2006

Business results from insurance on own account

- **Financing of international business transactions** – SIT 181.4 billion (EUR 757.0 million) (up by 23.9%)
- **Value of guarantees issued** – SIT 8.6 billion (EUR 36.0 million) (down by 23.2%)
- **Total assets** – SIT 193.3 billion (EUR 806.5 million) (up by 28.2%)
- **Total assets including contingency reserve and IREP** – SIT 218.2 billion (EUR 910.6 million) (up by 26.1%)
- **Net profit** – SIT 612.8 million (EUR 2.6 million) (down by 67.8%)

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

- **Export credit and investment insurance against non–marketable risks** on behalf of and for the account of the state – SIT 96.4 billion (EUR 402.2 million) (an increase of 3.5%), broken down into short term export credit insurance SIT 1.5 billion (EUR 6.3 million) (down by 10.6%), medium term export credit insurance SIT 21.3 billion (EUR 88.9 million) (up by 30.3%) and outward investment SIT 73.6 billion (EUR 307.1 million) (down by 2.1%).
- Premiums SIT 1.6 billion (EUR 6.7 million) (up by 4.7%) / claims SIT 238.1 million (EUR 1.0 million) (down by 69.4%)
- Contingency reserve – SIT 23.4 billion (EUR 97.8 million) (up by 5.8%)

Key figures

	2002	2003	2004	2005*	2006*
Number of shareholders	89	89	88	87	**87**
Nominal capital (in SIT million)	9,323.5	9,323.5	9,323.5	9,323.5	**9,323.5**
Nominal capital (in EUR million)	40.5	39.4	38.9	38.9	**38.9**
Equity (in SIT million)	18,236.9	18,515.5	19,046.0	24,744.1	**25,017.9**
Equity (in EUR million)	79.2	78.2	79.4	103.3	**104.4**
Net profit (in SIT million)	237.3	278.5	617.2	1,903.0	**612.8**
Net profit (in EUR million)	1.0	1.2	2.6	7.9	**2.6**
Return on equity after tax (ROE)	1.31%	1.52%	3.29%	7.99%	**2.45%**
Number of employees (31 Dec.)	69	74	83	62	**68**

*** Data stated are taken from financial statements prepared in accordance with the International Financial Reporting Standards.*

** Note: Unless otherwise specified, SIT (Slovene Tolars) equivalents in EUR used for showing SID business results at the end of each calendar year correspond to the middle (final monthly) exchange rates of the Bank of Slovenia on the last day of each calendar year. Thus the following exchange rates were used for expressing the data in EUR: 31.12.2002: 1 EUR = 230.2673 SIT; 31.12.2003: 1 EUR = 236.6903, 31.12.2004: 1 EUR = 239.7430; 31.12.2005: 1 EUR = 239.5756, 31.12.2006: 1 EUR = 239.6400 SIT). For other operational figures the values expressed in EUR were calculated from the average monthly exchange rates of the Bank of Slovenia in a given calendar year (2002: 226.2237 SIT; 2003: 233.7045 SIT; 2004: 238.8615, 2005: 239.6371, 2006: 239.6013).*

Business results of companies of the SID Bank Group in 2006 (as at 31 December 2006)

SID – Prva kreditna zavarovalnica d.d., Ljubljana

- Wholly-owned by SID Bank, nominal capital – SIT 2,020.3 million (EUR 8.4 million) (up by 25.0%);
- Business volume including domestic and export credit insurance against marketable risks – SIT 898.5 billion (EUR 3,750 million) (up by 23.5%);
- Total assets – SIT 6,943.1 million (EUR 29.0 million) (up by 2.2%);
- Net profit – SIT 450.1 million (EUR 1.9 million) (down by 14.5%).

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

- Wholly–owned by SID Bank, nominal capital **–** SIT 3.1 million (EUR 12.8 thousand) (up by 32.0%);
- Value of assumed collection cases – SIT 3,474.2 million (EUR 14.5 million) (up by 44.4%);
- Total assets – SIT 28.9 million (EUR 120.8 thousand) (up by 45.5%);
- Loss – SIT 4.0 million (EUR 16.9 thousand) (in 2005, net profit amounted to SIT 133 thousand or EUR 0.6 thousand).

PRVI FAKTOR, faktoring družba, d.o.o.

- Fifty percent owned by SID Bank, nominal capital **–** SIT 797.8 million (EUR 3.3 million) (down by 13.1%); PRVI FAKTOR Group – SIT 1,415.7 million (EUR 5.9 million) (up by 54.9%);
- Value of acquired receivables – SIT 44.1 billion (EUR 184.0 million) (up by 72.9%); PRVI FAKTOR Group SIT 119.9 billion (EUR 500.4 million) (up by 136.7%);
- Total assets – SIT 16,846.7 million (EUR 70.3 million) (up by 47.3%); PRVI FAKTOR Group – SIT 51,792.9 million (EUR 216.1 million) (up by 123.3%);
- Net profit – SIT 44.2 million (EUR 0.2 million) (down by 15.3%); PRVI FAKTOR Group – SIT 558.5 million (EUR 2.3 million) (up by 273.1%);

Consolidated financial statements of the SID Bank Group

- Total assets – SIT 224.6 billion (EUR 937.3 million) (up by 34.4%);
- Equity – SIT 28.7 billion (EUR 119.7 million) (up by 4.7%);
- Net profit – SIT 1.6 billion (EUR 6.9 million) (down by 25.6%);
- Return on equity after tax – 5.90% (8.43% in 2005).

2. Corporate Profile of SID Bank

Legal status and history

- Slovenska izvozna družba, družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana was established on 22 October 1992 as a specialised private-law financial institution for insurance and financing of exports. In accordance with the Law establishing Slovene Export Corporation, it operated as an authorised export credit agency (ECA).
- The Corporation was entered into the Register of Companies at the District Court of Ljubljana with Decision No. SRG 8096/92 of 27 October 1992, under record entry number 1/19966/00.
- In accordance with the Act Governing Insurance and Financing of International Business Transactions (hereinafter ZZFMGP), which came into force on 14 February 2004, SID provides insurance against non–marketable risks and the Interest Rate Equalization Programme (IREP) in the name and on behalf of the Republic of Slovenia, and carries out financing and issue of guarantees for its own account. In this respect, the Republic of Slovenia issues guarantees to secure SID borrowings (intended to finance international transactions) to lenders and investors in SID debt securities.
- Pursuant to ZZFMGP, SID signed an agreement with the Ministry of Finance on the regulation of mutual relations concerning implementation of Chapter II of ZZFMGP on 1 December 2004.
- In establishing an insurance company and transferring onto it the insurance portfolio which it had performed on its own behalf by the end of 2004, SID acted in accordance with ZZFMGP, modifying its status and activities regarding these classes of insurance with the regulations governing insurance company operations. SID – Prva kreditna zavarovalnica d.d., Ljubljana, wholly-owned by SID, was entered into the Register of Companies on 31 December 2004.
- In 2006 the project of transforming SID into a bank was completed as SID was bound by Article 17, paragraph six, of ZZFMGP to harmonise its operations which were not insurance operations and therefore not the subject matter of ZZFMGP with the regulations governing operation of banks by 31 December 2006 at the latest. Harmonisation was carried out in compliance with the contents and deadlines set out in the Decision on harmonisation of business operations of Slovenska izvozna družba, d.d., Ljubljana with the regulations governing operation of banks, which was issued by the Bank of Slovenia pursuant to ZZFMGP.
- On 24 October 2006 SID obtained from the Bank of Slovenia a banking licence to provide banking and other financial services.
- Upon the entry into the Register of Companies on 29 December 2006, the company was renamed as SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (short name: SID banka, d.d., Ljubljana) and on 1 January 2007 it formally started operating as a bank.
- SID uses a two-tier management system with a Management Board and a Supervisory Board. The management and supervisory boards act in accordance with the existing legislation, the statute, corporate values and other regulations and recommendations from peer associations, and in particular with the specific role of SID evident in the activities of SID Bank. Formally, however, the company does not apply corporate management codes in its operations.
- The members of the Supervisory Board are appointed by the General Meeting of Shareholders by way of an ordinary majority of the shareholders present and votes validly cast, whereas the decision for early recall of Supervisory Board members is to be approved by a three-quarter majority of shareholders present and represented.
- The Management Board of SID Bank is appointed by the Supervisory Board. The Supervisory Board may also recall a member of the Management Board or a Managing Director under the conditions stated in Article 268, paragraph 2, of the Companies Act. The Management Board of SID Bank shall represent the Bank jointly. The Management Board shall obtain the consent of the Supervisory Board in all matters defined by law or the company's articles.
- Amendment of the company's articles requires a decision by the General Meeting of Shareholders taken by a majority which may not be less than three quarters of the votes cast and represented.

Capital as at 31 December 2006

- The nominal capital of the company is SIT 9,323.540 thousand.
- The capital is divided into 932,354 ordinary nominal shares, issued in non-materialized form. The central securities register and all securities trading procedures are managed by the Central Securities Clearing Corporation in Ljubljana.
- The decision to convert nominal shares (with a nominal value of SIT 10,000 per share) into unit shares was taken at the General Meeting of Shareholders on 23 May 2006. The change became effective on the day of entry of the Statute into the Court Register (26 July 2006).
- After the redenomination of nominal capital in EUR (at the conversion rate), the nominal capital of the company will be EUR 38,908,443 and will be divided into 932,354 unit shares. In accordance with the decision taken by the General Meeting of Shareholders, the Supervisory Board of SID Bank is responsible for redenominating the nominal capital in EUR amounts. The redenomination shall take effect at the first Supervisory Board Meeting or at the first General Meeting of Shareholders held in the year 2007.
- Equity amounted to SIT 25,017,939 thousand (EUR 104,398 thousand) as at 31 December 2006.

- Audited book value per share as at 31 December 2006 was SIT 27,375 (EUR 114), an increase from SIT 26,539 (EUR 111) as at 31 December 2005. The audited book value per share was calculated from data contained in financial statements prepared in accordance with the International Financial Reporting Standards.

Shareholders

- As at 31 December 2006 SID had 87 shareholders.
- The majority shareholder of SID Bank is the Republic of Slovenia, which holds a 91.15% share.
- The voting rights of the shareholders of SID Bank are not limited, and the one share-one vote principle is applied. Financial rights attached to shares are linked to their ownership.

- ***Ownership structure by shareholder type (as at 31 December 2006)***

Shareholders	Ownership (in %)
Republic of Slovenia	91.15%
Banks	5.15%
insurance companies	1.03%
Chamber of Commerce and Industry of Slovenia	0.01%
other companies	2.59%
natural persons	0.08%
Total	*100.00%*

- ***Shareholders (as at 31 December 2006)***

Shareholders	Number of shares	Ownership (in %)
Republic of Slovenia	849,812	91.15%
SID Bank, Inc, Ljubljana	18,445	1.98%
Nova ljubljanska banka d.d., Ljubljana	18,027	1.93%
Komercialna banka Triglav d.d. - in bankruptcy	5,104	0.55%
Lesnina Inženiring d.d., Ljubljana	4,420	0.47%
SKB banka d.d.	4,246	0.46%
Petrol, d.d., Ljubljana	3,940	0.42%
Zavarovalnica Triglav, d.d.	3,400	0.36%
Zavarovalnica Maribor d.d.	2,885	0.31%
Adriatic Slovenica d.d. Koper	2,100	0.23%
Total – major shareholders	*912,379*	*97.86%*

Activities

For its own account, SID Bank:
- provides pre-shipment and post-shipment financing of international business transactions and international business cooperation,
- issues guarantees,
- enters into money, currency, capital and derivative market transactions,
- provides credit rating and other credit information.

On behalf of the Republic of Slovenia, SID Bank as an authorised ECA provides:
- short-term export credit insurance against non-commercial and other non-marketable risks,
- investment insurance against non-commercial risks,
- medium-term export credit insurance against commercial and/or non-commercial risks;
- Interest Rate Equalization Programme (IREP), and
- other transactions on special authorisations.

In line with SID Bank Action Strategy and the newly adopted legislation, the Bank made preliminary preparations for provision of several new activities designed to supplement the existing range of the Bank's services:
- international development cooperation (Bilateral Official Development Assistance) in cooperation with the Republic of Slovenia and the Centre for International Cooperation and Development, and execution of certain international development cooperation tasks (financing of bilateral official development assistance).
- development financing and insurance in the Slovene market, and
- investment financing, in particular securitization.

In the light of its policy of sustainable development and long-term financing, these services will ensure diversification of the Bank's service portfolio.

SID Bank will strive to meet mandates for provision of services in the stated areas and will plan its activities in the year 2007 accordingly.

SID Bank operations for the account of the Republic of Slovenia

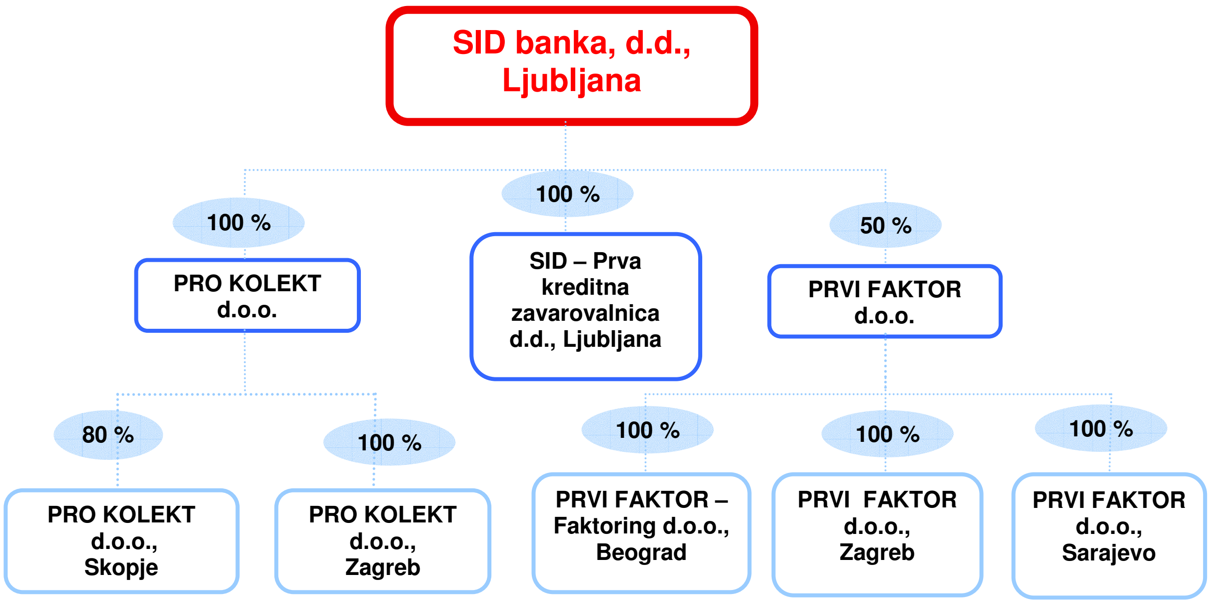
SID Bank performs insurance against non-marketable risks and conducts the Interest Rate Equalization Programme on behalf of and for the account of the Republic of Slovenia. SID Bank is also responsible for the management of contingency reserves which constitute important capacity of SID Bank (and the Republic of Slovenia) for insurance against non-marketable risks before such claims are paid out of the state budget. Contingency reserves are set aside using received premiums, fees and commissions, recourses and other income generated from insurance and reinsurance activities regarding non-marketable risks.

Pursuant to ZZFMGP and a long-term contract between SID Bank and the Ministry of Finance, contingency reserves are primarily utilised to settle liabilities to the insureds, pay costs of preventing and reducing future or existing losses, and to cover losses from transactions SID Bank performs on behalf of the State. If the losses cannot be indemnified from the contingency reserves, the funds for claims payments are ensured by the Republic of Slovenia.

In these operations as well as in providing financing for international business transactions from funds for which guarantees of the Republic of Slovenia have been issued, a special role is played by the government-appointed International Trade Promotion Commission, besides a number of other competent bodies.

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

Organisation Chart of the SID Bank Group as at 31 December 2006



3. SID Bank Group

SID Bank constitutes a part of the SID Bank Group a part of which are also:

- SID – Prva kreditna zavarovalnica d.d., Ljubljana
- PRO KOLEKT, družba za izterjavo, d.o.o., with its subsidiaries
- PRVI FAKTOR, faktoring družba, d.o.o. with its subsidiaries

At the end of 2006, SID Bank became a co-founder of the Centre for International Cooperation and Development Institute (hereinafter CMSR).

SID – Prva kreditna zavarovalnica d.d., Ljubljana

Harmonisation of Slovene legislation with *acquis communautaire* and adoption of new laws, in particular the Act Governing Insurance and Financing of International Business Transactions (ZZFMGP), have spurred changes in the organisation structure of SID and led to the expansion of the SID Group. As the sole owner, SID established a specialised credit insurance company SID – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter PKZ). In doing that, SID fully harmonised its legal status and operations applicable to insurance business on its own account with the regulation governing insurance company operations.

After the newly established company had obtained all the required licenses to carry out insurance operations, it was entered into the Register of Companies on 31 December 2004 with a nominal capital in the amount of SIT 1 billion (EUR 4.2 million). In conformity with the provisions of the agreement and required consents from its supervisory body, SID transferred to its daughter company the portfolio of all insurance operations it had performed on its own account prior to the end of 2004 and which have since 1 January 2005 been conducted exclusively by the newly established insurance company. Through portfolio transfer, insurance policy holders were ensured continuous implementation of the rights and obligations arising from concluded insurance contracts, regardless of the change in its legal status. Transfer of employees from the SID Credit Insurance Department to the new insurance company also guaranteed continuity in terms of human resources and implementation of operations.

With regard to ownership and business performance, the operations of PKZ remain an inseparable part of the SID Bank Group, which ensures that despite legal changes the synergy effects of complementary facilities are maintained.

The registered principal business activity of PKZ is conclusion and execution of property insurance in the insurance classes of credit insurance and suretyship. The company provides insurance of short-term credits to private-law entities (normally, suppliers' credits of up to 180 days, exceptionally up to 1 year). PKZ also provides insurance against commercial and other marketable risks for companies selling abroad and/or in Slovenia on deferred payment and, normally, on open account. The insurance contracts are normally made on a whole turnover revolving basis covering risks of non-payment in foreign and domestic markets.

The company is led by a two-member Management Board, represented by Mr Ladislav Artnik, President of the Board, and Mr Rasto Hartman, Member of the Board. The Supervisory Board has three members. The composition of the Supervisory Board is as follows: Mr Marko Plahuta, President, and Ms Alenka Ferjančič of SID Bank and Mr Ivan Štraus, Employee Representative of PKZ.

At the end of 2006, the company had 38 employees.

The nominal value of the equity interest owned by SID Bank was SIT 1,008 thousand (EUR 4.2 million) as at 31 December 2006.

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

PRO KOLEKT, družba za izterjavo d.o.o., with its registered office at Ulica Josipine Turnograjske 6, Ljubljana (hereinafter PRO KOLEKT) was established in 2004 by Slovenska izvozna družba, družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana as its sole owner. The nominal capital of the company was SIT 6.9 million (EUR 28.8 thousand) as at 31 December 2006. Following a decision by the Management Board of SID Bank, the nominal capital was increased by EUR 390 thousand in February 2007. The nominal value of the equity interest owned by SID Bank was SIT 6,892 thousand (EUR 28.8 thousand) as at 31 December 2006.

Mr Miloš Varga has been appointed General Manager of PRO KOLEKT. As SID Bank is the sole registered owner of PRO KOLEKT, the General Meeting of PRO KOLEKT is represented by the Management Board of SID Bank. At the end of 2006, the company had three employees.

PRO KOLEKT specializes in out-of-court debt collection. Originally, the company was established to perform debt collection for the needs of the SID Group. Today it handles debt collection cases for creditors in Slovenia and abroad. Among foreign clients, the principals of PRO KOLEKT increasingly include export credit agencies and debt collection agencies.

For foreign creditors PRO KOLEKT performs representation in court proceedings (recovery of debt through court action, forced settlements, bankruptcy proceedings, etc.) and provides credit rating information.

Aware of the importance of South-Eastern European markets for Slovene economy and the comparative benefits associated with the presence in the local market, PRO KOLEKT started setting up a network of subsidiaries in 2006 and has established three subsidiaries to date:

- PRO KOLEKT d.o.o., Zagreb, Croatia, was founded on 1 February 2006 by PRO KOLEKT, Ljubljana as its sole owner. The nominal capital of the company was SIT 3.2 million (EUR 13.8 thousand). The General Manager of the company is Mr Ivica Balenović; the General Meeting of PRO KOLEKT d.o.o., Zagreb is represented by the General Manager of PRO KOLEKT, Ljubljana as the sole owner of the company. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2006 equalled the balance of the nominal capital at the same day.
- PRO KOLEKT d.o.o., Skopje, Macedonia, was founded on 6 July 2006 and is 80 percent owned by PRO KOLEKT, Ljubljana and 20 percent owned by Štedilnica Mladinec Skopje. The nominal capital of the company is SIT 2.4 million (EUR 10.0 thousand). The General Manager of the company is Mr Goran Markovski; the General Meeting of PRO KOLEKT d.o.o., Skopje is represented by the General Manager of PRO KOLEKT, Ljubljana (as the majority owner of the company) and the Director of Štedilnica Mladinec Skopje. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana was SIT 1.9 million (EUR 8.0 thousand) as at 31 December 2006.
- PRO KOLEKT, društvo za izterjavo dolga, d.o.o., Beograd, Serbia, was founded on 18 December 2006 and is wholly-owned by PRO KOLEKT, Ljubljana. The nominal capital of the company is SIT 6.0 million (EUR 25.0 thousand). The General Manager of the company is Mr Nikola Debač; the General Meeting of PRO KOLEKT, društvo za izterjavo dolga, d.o.o., Beograd is represented by the General Manager of PRO KOLEKT, Ljubljana as the sole owner of the company. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2006 equalled the balance of the nominal capital at the same day.

PRVI FAKTOR, faktoring družba, d.o.o.

PRVI FAKTOR, faktoring družba d.o.o., with its registered office at Slovenska cesta 17, Ljubljana (hereinafter PRVI FAKTOR) is the leading factoring company in Slovenia. The principal business activity of the company is performance of factoring services for clients with registered offices in the Republic of Slovenia and abroad with regard to claims arising from sales of goods and services. The company provides the following services: repayment assumption or purchasing of claims arising from sales of goods and services with or without protection against the risk of non-payment, financing of purchased claims, claims management, encashment and collection of claims, trading in claims, mediation and representation in factoring transactions in Slovenia and abroad.

In 2002 SID acquired a fifty percent equity interest and a half of the voting rights in the company PRVI FAKTOR, the other shareholder being Nova Ljubljanska banka d.d., Ljubljana. The nominal value of the equity interest owned by SID Bank was SIT 140.0 million (EUR 584.2 thousand) as at 31 December 2006. Acting on the decision of the General Meeting of Shareholders of 13 February 2007 SID Bank paid for an increase in capital of EUR 1 million on 21 December 2007. The ownership share of SID Bank remained unchanged after the capital increase.

The company is led by the General Meeting of Shareholders and General Manager, Mr Ernest Ribič.

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

- PRVI FAKTOR, faktoring društvo, d.o.o., Zagreb, Croatia, specializing in other financial intermediation. The company was founded in 2003; its nominal capital is SIT 443.5 million (EUR 1.8 million). The General Manager of the company is Mr Valentin Vičič; the General Meeting is made up of the representatives of PRVI FAKTOR, Ljubljana.
- PRVI FAKTOR, faktoring d.o.o., Beograd, Srbija, specializing in other financial intermediation, was founded in 2005. The nominal capital of the company is SIT 131.8 million (EUR 0.5 million). The General Manager of the company is Mr Dmitar Polovina; the General Meeting is made up of the representatives of PRVI FAKTOR, Ljubljana.
- PRVI FAKTOR d.o.o., financijski inženiring, Sarajevo, Bosnia and Herzegovina, specializing in other financial intermediation, was founded in 2006. The nominal capital of the company is SIT 12.2 million (EUR 50.9 thousand). The General Manager of the company is Mr Nedim Rizvanović; the General Meeting consists of the representatives of PRVI FAKTOR, Ljubljana.
- On 22 September 2006 PRVI FAKTOR d.o.o., Skopje was entered in the Register of Companies; its nominal capital is SIT 1.2 million (EUR 5 thousand). The company is not operating yet.

The nominal value of the equity interests owned by PRVI FAKTOR, Ljubljana in the companies of the PRVI FAKTOR Group as at 31 December 2006 equalled the balance of the nominal capital of these companies at the same day.

The PRVI FAKTOR Group ended the year with a total of 76 employees, 30 of whom work in the Ljubljana office, 30 in Zagreb, 12 in Belgrade and 4 in Sarajevo.

Centre for International Cooperation and Development

On 28 December 2006 SID Bank signed the second Amendment to the Agreement Concerning Restructuring of the Centre for International Cooperation and Development Institute (hereinafter CMSR), thus joining the Republic of Slovenia as a co-founder of CMSR with which it had worked closely prior to the signing. The Centre will continue to pursue its existing activities, namely macroeconomic and political analyses of various countries, country risk assessments and similar macroeconomic and other analyses and publicity, while also focusing on the training for performance of international development cooperation activities and other areas.

4. International Economic Environment and Slovene Economy

World economy in 2006

In 2006 the economic growth in the EU was much higher than the year before. According to first figures published by Eurostat, real GDP growth rose by 0.9% in the last quarter of the year in both the EU and the euro area, pushing the total figure for 2006 to 3.3% or 3.4% when contrasted with the last quarter of 2005. GDP growth in the EU reached 2.9%, a significant rise from 1.7% in 2005. In the euro area economic growth rose from 1.4% to 2.6% in 2006. The recovery was underpinned by export growth and robust domestic demand.

High economic growth was shared by the old and new EU member states. Unlike the year before, economic growth in 2006 was also favourable in traditional Slovenia's trading partners, in particular Germany and Austria. According to first estimates, U.S. economic growth came to 3.3% (a slight increase from 3.2% in 2005) and was 2.2% in Japan (1.9% in 2005). Mainly on account of strong domestic demand, GDP growth in the Russian Federation climbed to a high 6.7%.

In terms of economic growth, 2006 was favourable for the countries of former Yugoslavia. In Croatia, economic growth was high for the first half the year, but calmed down in the second half, closing the year at 4.7%, staying close to the 2005 level (4.2%). The growth rate in Bosnia and Herzegovina was a high 5.3%. Modest growth in industrial production kept the growth in Macedonia below the forecasts at 3.5%. Serbia's economy rose at a rate of 5.8% in 2006, lagging behind the 2005 figures due to a decline in private and investment consumption.

The US and German stock indexes increased at an annual rate of 16% and 22%, respectively, whereas the Japanese stock exchange index recorded a modest 7% growth. The profitability of German state bonds followed the trends in key interest rates set by the European Central Bank. The average yield of German state bonds with a 5-year maturity period was 3.2% in the first half of the year, and ended the year at 3.8%.

Slovene economy in 2006

According to first estimates from the Statistical Office of the Republic of Slovenia, GDP growth rate went up 5.2% in real tems (5.0% in the first quarter, 4.7% in the second quarter, 5.6% in the third quarter and 5.5% in the last quarter of 2006) and at an even pace. The main factors which pushed Slovenia's GDP growth over its 2005 rate were exports of goods and services and rapid growth of investment in fixed assets. At the current exchange rate GDP amounted to EUR 29,741 million or EUR 14,811 per capita.

Relatively high economic growth in the EU and in traditional Slovenia's trading partners such as Russia and the countries of former Yugoslavia led to a rise in commodity exchange, with imports increasing slightly more than exports, which caused external trade balance to contribute negatively to the GDP growth (-0.3 percentage points). Exports recorded a 10.0% growth in 2006. The growth was highest at the beginning of the year but it stabilized during the year to reach approximately 9% at the annual level. In 2006, exports contributed 6.5 percentage points to the GDP volume growth. Imports rose at an annual rate of 10.4%.

Exports of goods saw a rise of 10.8%, mainly as a result of high growth in goods exported to the EU countries, which accounted for nearly 70% of Slovenia's exports of goods. Although exports to the countries of former Yugoslavia remained on the increase, the decline in exports of goods to BiH and Macedonia, which started after Slovenia's accession to the EU, continued whereas an increase was recorded in exports to Croatia, Serbia and Montenegro. Imports of goods grew by 10.5%, with a significant increase recorded in imports from non-EU states. Owing to continued active involvement of Slovenia in international trade and capital flows, the average share of Slovenia's imports is growing in imports as well as in investment and private consumption.

In 2006 exports and imports of services rose at a slower pace than trade in goods. Exports of services were up by 6.4%. The increase resulted from growth in exports of other services including operational lease, intermediation and other business, professional and technical services and transport. Despite high growth rates recorded in the exports of other services, the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia states that the changes in the structure of Slovenia's exports remain slow, since the share of this group of services accounts for a quarter of the exports of services, whereas the figure climbs to a half of exports of services in the EU states. The groups of other services and transport were the most dynamic categories also as regards growth in imports of services, which stood at 9.5%.

According to preliminary data from the Bank of Slovenia, Slovenia's current account deficit totalled EUR 772.8 million and was up from EUR 547.5 million in 2005.

Capital flows strengthened in 2006, and the capital and financial account shows a surplus in the amount of EUR 955.5 million, a rise from EUR 403.7 million in 2005. While the increase in the capital account assets was negligible, the structure of the financial account changed considerably. Financial transactions without international cash reserve showed an outflow of EUR 209.5 million, whereas in 2005 capital inflows amounted to EUR 706.4 million. Net capital exports were largely the result of higher investment in securities abroad, coupled with lower borrowing in long-term loans.

Favourable economic trends in the international environment affected the economic conditions in Slovenia by pushing investment growth figures above the economic growth rates and by causing a gradual reduction in inventory levels. Strengthened foreign demand had a positive effect on the growth in industrial production and contributed to better employment figures in particular with regard to processing industry. As economic trends and labour market indicators improved, the real growth of wages remained slow, with the gross wage per employee increasing by a nominal 4.8% and a real 2.3% according to the estimates for December 2006. The registered unemployment rate was 8.6% in December 2006, much the same as in previous months, with the total number of people employed totalling 833,016. The annual employment growth rate came to 1.4%.

The preparations for entering the EMU and the introduction of the euro as the official currency affected Slovenia's economy and the banking sector also in 2006.

The Bank of Slovenia continued implementation of its monetary policy in line with Slovenia's obligations following the ERM 2 entry and carried out the final activities for Slovenia's inclusion into the European Economic and Monetary Union. The Bank of Slovenia stepped up its activities aimed at adjusting monetary policy instruments with the structure of ECB instruments, mainly referring to the abolition of foreign currency bills and conversion of temporary foreign currency purchase with permanent foreign currency purchase. In 2006, like in the entire period since ERM entry, the nominal tolar exchange rate fluctuated at the level of the mean central exchange rate. The EUR/SIT exchange rate was fixed on 11 July 2006. Within the limitations set by the ERM 2 entry and the introduction of the euro, the Bank of Slovenia adjusted its interest rates with regard to the needs of Slovenia's economic activity and gradual nominal convergence and managed to keep the interest rates at levels higher than that of ECB.

Interest rates went up in August when the Bank of Slovenia increased the interest rates for 60-day tolar bills from 3.25% to 3.50% and the interest rates for lombard loans from 4.50% to 4.75%. Active tolar interest rates for long-term loans to companies went down in November and December 2006. On the other hand, the price of short-term loans to companies rose slightly. Passive tolar interest rates fluctuated throughout the year. The interest rates for deposits with maturity of one year and beyond fell from 2.7% to 1.5% as a result of changeover to the euro. 6M Euribor as the reference inter-bank interest rate of the euro area started the year 2006 at 2.6% and was 3.8% at the end of the year, the rise indicative of macroeconomic indicators and changes in ECB interest rates.

In 2006 the credit activity of banks continued to strengthen and promote financial deepening and conversion of economy from foreign to domestic sources of funding also due to narrowed differences between interest rates in Slovenia and abroad. Additionally, the free flow of capital and the process of accession to the euro area have provided banks with easy and low-cost access to sources of financing abroad. The volume of loans extended to the non-banking sector rose at a monthly rate of 1.8%, with the growth rate of foreign currency loans to companies and non-financial institutions rising to over 40%. The first two quarters of 2006 saw a continuation of the decline in tolar portfolio resulting from a reduction in indebtedness of both the banking sector and companies and non-financial institutions and other non-banking entities, which calmed down in the second half of the year due to a rise in private indebtedness in tolars.

In the capital market the Slovene stock exchange index SBI20 reached a record, having gained 38% in the year 2006 and reaching a record 6465 points on 8 December 2006. The Slovene stock exchange index of bonds (BIO) dropped 2.98% in 2006.

As a result of coordinated economic policies of the Bank of Slovenia and the Government of the Republic of Slovenia, growth of prices remained under control also directly prior to the adoption of the euro. Inflation rose from 2.3% in 2005 to 2.8% in 2006. The average year-on-year inflation measured with the harmonised consumer price index amounted to 2.5%.

Influence on SID operations

- **in financing of international business transactions**

The above business trends of the banking and corporate sectors and their impact on economic trends had a marked influence on SID operations concerning financing of international business transactions. In the first half of 2006 there was a strong reduction of bank indebtedness with regard to tolar refinanced loans, coupled with an increase in foreign currency loans, mostly euro loans, causing SID to achieve a turnover of SIT 79.8 billion (accounting for over 40% of the total credit portfolio at the end of 2006).

Pricing pressure from commercial banks and companies led to a considerable drop in interest rates linked to sources of financing and can be held responsible for a modest interest-generated income. The pressure for lower interest rates did not only affect Slovenia but is increasingly affecting foreign markets, in particular in the states applying for EU membership and in new EU member states (Bulgaria, Romania, Croatia, Serbia, Montenegro) and in the Russian Federation (impact of higher oil prices, decrease in state indebtedness, investment growth).

Increased trade in goods caused a rise in the volume of financing extended to EU residents both in direct terms, through commercial banks, and indirectly. The presence of Slovene companies in the markets of Central and Eastern Europe increased in 2006, as is evident from the growing demand of Slovene investors and exporters for direct funding of projects in foreign countries, provided mainly through direct funding of a Slovene investor or through funding extended to a foreign buyer of Slovene services and goods. SID Bank supports such projects and international business transactions in cooperation with commercial banks (syndicated loans, club deals) or independently and strengthens its partnerships with Slovene and international commercial banks. At the end of 2006, foreign currency deals took up almost a quarter of the overall credit portfolio of SID Bank.

- **in treasury transactions**

Considering that the domestic (tolar) and foreign (euro) interest rates were equalized in 2006 although convergence did not occur until the end of the year, Treasury transactions were mainly in tolar-denominated fixed-rate instruments. Tolar interest rates were higher than the interest rates for transactions in euros. Consequently, the euro position was cut back. The changes in currency markets had no marked effect on SID Bank as most of its balance sheet was denominated in EUR or SIT.

As a result of the Bank's balance sheet composition, no significant exposure occurred. Variable-rate investments and variable-rate liabilities linked to 6-month Euribor take up a significant portion of assets and liabilities, respectively.

Owing to its year-round excess liquidity position, Treasury did not take out borrowing without state guarantees as it focused mainly on placement of excess liquidity. Furthermore, Treasury activities in 2006 were negatively affected by the obligation to pay interest rate tax for loans taken out in foreign countries without the state guarantee.

- **in insurance on behalf of and for the account of the state**

Favourable macroeconomic conditions in Russia, political stability, export growth caused by the strong and stable domestic currency, good payment discipline of Russian buyers, having shown a strong improvement over the last three years, and strong domestic demand as the driving force behind economic growth were the key factors that generated outstanding demand for insurance of exports in Russia which, in terms of the volume of business insured, remains the most important SID Bank market for medium-term export credit insurance. Transactions insured chiefly cover construction projects and exports of high technology and other equipment.

With regard to the other countries formed in the area of the former Soviet Union, SID, in conducting insurance on behalf of and for the account of the state, supported Slovene exporters in Kazakhstan that was not faced with any significant changes of country risk in 2006, and is also processing several other projects involving other CIS markets.

In 2006 SID Bank entered into an export credit insurance transaction with Algeria. Although Algeria is currently not an important partner of SID Bank in insurance on behalf of and for the account of the state, SID as the national credit agency, acting in compliance with its current insurance policy, is interested in supporting export transactions to the country.

Due to the recent developments regarding the application of nuclear technology in Iran and the international attitude to the issue, the Intervention Group of SID Bank held a few sessions on Iran and has so far agreed to decide on a case-by-case basis and under certain insurance conditions whether to extend the coverage of export transactions and issue of insurance coverage to the country. In accordance with the prudent assessment of country risk, SID Bank performed insurance of risks to Iran in accordance with its risk appetite for the large part of the year 2006, mostly due to favourable macroeconomic conditions in the country, which were evident in the relative high credit rating, and on account of previous positive experience with debt settlement. In compliance with the UN Security Council Resolution which called upon UN member states to prevent all transfers of raw materials, equipment or technology that could contribute to Iran’s nuclear and missile programs and to freeze the assets of companies and individuals involved in Iran's nuclear and missile programs, in December 2006 SID Bank, like most ECAs, took a reserved yet positive standpoint towards future support to exports to Iran, thus slowing down the process of conducting insurance of exports to the country. In 2007, SID Bank will continue to observe the developments and measures taken with regard to Iran, and the Bank's strategy of insurance will depend on further developments in the nuclear program dispute and the political situation in the country. Despite the predictions made at the beginning of 2006 about the possible adoption of measures against Iran and the subsequent implementation of sanctions against the country, Iran remains, from the point of view of Berne Union members, one of the three largest world markets in terms of export credit insurance volume.

In 2006 SID regularly followed the changes in the classification of countries and territories prepared by OECD for the needs of setting minimum premium rates. Throughout the year, SID adapted its internal classification of countries by risk category accordingly. Owing to improved country risk status all the countries which were reclassified in 2006 were moved to a lower risk category, except Iran that was classified as belonging to Category 5 in the first half of the year: Macedonia, Armenia, Libya and Cape Verde went from Category 7 to Category 6, Azerbaijan, Dominican Republic, Guatemala, Uruguay and Papua New Guinea went from Category 6 to Category

5, Brazil and Columbia went from Category 5 to Category 4, Namibia and Morocco went from Category 4 to Category 3, Cyprus and Bahrain went from Category 3 to Category 2, whereas Czech Republic and Slovak Republic went from Category 2 to Category 1.

Influence on operations of other companies within the SID Bank

- **SID - Prva kreditna zavarovalnica (PKZ)**

Owing to the characteristics of credit insurance, national economic conditions in Slovenia and in the markets where PKZ clients perform their business activities have a considerable influence on the operations of PKZ. Among the most important economic indicators are economic growth, inflation rate, export and import of products and services. These indicators can significantly affect the volume of transactions to be insured and potentially also the business operations of PKZ. The reason for this is that economic conditions are normally the major contributor to the PKZ loss ratio.

PKZ underwrites risks in a number of countries. However, PKZ operations are most sensitive to the economic situation in the countries that form the largest part of the total PKZ portfolio in terms of premiums, business volume or exposure. According to the above-mentioned criteria, PKZ main markets include Slovenia, Germany, Croatia, Italy, Serbia, Russia, Bosnia & Herzegovina, and France.

- **PRVI FAKTOR Group**

The conditions in the Slovenia's financial market had an important effect on the business operations of PRVI FAKTOR, Ljubljana, in particular through the constant pressure to reduce interest rates. Successful performance of the PRVI FAKTOR Group depends heavily on the situation in Croatia and Serbia, where the overall conditions are favourable for factoring services as these markets deal in high-quality receivables insurance instruments in the form of drafts, and also debentures in Croatia. The market for drafts, which are both payment and insurance instruments in a large part of business transactions conducted in Croatia and Serbia, is much larger in these markets than it is in Slovenia.

- **PRO KOLEKT Group**

Collection of debts is under strong and direct influence of conditions governing national economies, evident mainly in the liquidity situation and likelihood of default. In addition to operating in Slovenia and its neighbouring countries, PRO KOLEKT has established a network of debt collection agencies in 70 states. Nevertheless, the largest part of its operations is limited to the markets of the main importers of Slovene goods and services and the majority of business partners of Slovene companies. So far, the number of collection cases performed by PRO KOLEKT has been highest with regard to Slovenia and Croatia, Serbia, Bosnia and Herzegovina, and Germany, which makes these countries the most important markets for the operation of the PRO KOLEKT Group.

5. Development Strategy of SID Bank

The future role and position of SID Bank are defined in the Action Strategy of SID Bank for the period 2006–2010, which was adopted at the Supervisory Board Meeting on 3 November 2006.

Mission

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

Vision

It is with dedication to its mission, acquisition of new knowledge and skills and development of optimal solutions tailored to the needs of Slovene companies and banks that by the year 2010 SID Bank will become a main promotional institution whose comprehensive range of services complementary to the financial market will continue to be an important factor of Slovenia's economic growth. On this basis, the Bank will increase its total assets by at least 100%, while at the same time maintaining its financial stability and bringing its share of new activities (in the total volume of business) to a minimum of 15%.

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

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

Strategy

SID Bank will continue its activities in the field of financing international economic cooperation and further development of export insurance and financing system in the Republic of Slovenia and will gradually transform from a company specializing in promotion of pre- and post-shipment insurance and financing into a specialized bank which will, in addition to its existing range of activities, also perform a comprehensive range of development and promotional activities complementary to financial markets.

In export insurance against non-marketable risks SID Bank will continue to perform its role of an authorised national export credit agency (ECA), striving to ensure competitive and safe business for Slovene companies in international markets.

In accordance with its new orientations and legal framework the Bank will continue to promote international economic cooperation and internationalization of Slovenia's economy, striving to achieve:

- further improvement of financing and insurance conditions for Slovene economy and cooperation with commercial banks, bank consortia and other financial institutions in facilitating of a variety of forms and methods of financing and insurance of their operations and international business cooperation,
- active development of long-term financing for Slovene exporters (in particular medium-term and long-term pre- and post-shipment financing of foreign buyers/banks and their investments abroad),
- financing and insuring of the transactions and development of small- and medium-sized enterprises (SMEs) as a contribution to faster inclusion of SMEs into the international economic environment and thus a faster development of this economic segment in the Republic of Slovenia,
- support to the development of economic entities for faster inclusion into international economic circles and achieving a high rate of internationalization with financial support for research, development, environment protection, sustainable development, employment and education and training in Slovene and foreign markets,
- introduction of new financing instruments to facilitate more effective development and export activities of the economic sector and, in particular, international development cooperation and development of other options that would enable providing of new services supplementary to financial markets, which involve instruments of mortgage and municipal financing and securitization.

Through development of innovative solutions tailor-made to the needs of Slovene companies and banks, SID Bank will establish itself as one of Slovenia's main public promotional institutions and will, thanks to its comprehensive range of services complementary to the financial market, continue to be seen as an important growth factor in Slovenia's economy and sustainable development.

6. Review of SID Bank Operations in 2006

6.1. Financial review of SID Bank operations

In 2006 SID achieved its planned business objectives and generated positive results in both principal business segments: financing and issue of guarantees for international business transactions.

The presentation of financial review and financial position of SID over the years 2006 and 2005 is based on financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS).

Income statement summary

	2006	2005	2006	2005
	in SIT thousand		in EUR thousand	
Net interest	1,797,150	1,798,235	7,501	7,504
Net non-interest income	595,596	750,403	2,486	3,131
Labour, general and administrative costs	-1,142,355	-946,785	-4,768	-3,951
Depreciation	-103,612	-97,567	-432	-407
Impairments and provisions	-325,684	1,023,374	-1,359	4,271
Pre-tax profit	**829,687**	**2,527,498**	**3,463**	**10,547**
Corporate income tax	-216,887	-624,483	-905	-2,606
Net profit	**612,800**	**1,903,015**	**2,558**	**7,941**

In 2006 net profit amounted to SIT 829.7 million (EUR 3.5 million).

Net interest income totalled SIT 1.8 billion (EUR 7.5 million) and remained at the level achieved in 2005. As a result of strong growth of credit volumes and an increase in Euribor, interest income rose 46.0% over the year 2005, totalling SIT 6.6 billion (EUR 27.3 million). On the other hand, interest expenses climbed 76.8%, pushing the figure up to SIT 4.8 billion (EUR 19.8 million).

Net non-interest income amounted to SIT 595.6 million (EUR 2.5 million), the drop of 20.6% from the 2005 level caused mainly by lower realized net fees and commissions and the impact of foreign exchange losses. Income from net fees and commissions related to financing, guarantees and treasury transactions reached SIT 60.4 million (EUR 0.25 million) of the total net non-interest income. Income from reimbursement SID receives from the state subject to the Agreement on the regulation of mutual relationships concerning implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions amounted to SIT 497.3 million (EUR 2.1 million).

In 2006 operating costs totalled SIT 1.2 billion (EUR 5.2 million) and were 19.1% up from the year 2005, mostly due to higher costs of labour related to an increase in employee numbers and the costs of services linked to SID's transition into a bank. In the structure of operating expenses, labour costs accounted for 57.9%, cost of services 31.1%, depreciation 8.3% and cost of materials 2.7%. The percentage of operating costs as of assets lowered from 0.78% in 2005 to 0.71% in 2006.

Net expenses from impairments and provisions totalled SIT 325.7 million (EUR 1.4 million), whereas in 2005 SID recorded income from impairments and provisions in the amount of SIT 1.0 billion (EUR 4.3 million).

Balance sheet summary

	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	in SIT thousand		in EUR thousand	
Bank loans	166,394,630	123,804,076	694,352	516,764
Deposits from non-bank sectors	10,185	392,739	43	1,639
Provisions	417,524	714,672	1,742	2,983
Other liabilities	1,423,857	1,151,790	5,942	4,808
Equity	25,017,939	24,744,098	104,398	103,283
Total liabilities	**193,264,135**	**150,807,375**	**806,477**	**629,477**
Contingency reserve	24,611,935	22,311,917	102,704	93,131
IREP	350,003	0	1,461	0
Impairments of financial assets measured at amortised cost and provisions	3,362,757	3,082,954	14,033	12,868
Volume of off-balance-sheet business	61,365,556	71,315,274	256,074	297,673

As at 31 December 2006, total assets of SID Bank stood at SIT 193.3 billion (EUR 806.5 million), showing a year-on-year increase of 28.1%. Contingency reserve for insurance carried out for the account of the state and the corresponding contingent liabilities rose by 10.3% in 2006 to SIT 24.6 billion (EUR 102.7 million).

With the volume of borrowing concluded with the guarantee of the Republic of Slovenia increasing, bank loans rose 34.1% to account for SIT 166.4 billion (EUR 694.4 million), or 86.1% of total liabilities. At the end of 2006, the Bank's equity stood at SIT 25.0 billion (EUR 104.4 million), and had increased by 1.1% through generated net profit.

	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	in SIT thousand		in EUR thousand	
Financial assets available for sale	8,485,919	6,432,778	35,411	26,851
Loans to banks	142,387,944	107,852,921	594,174	450,183
Loans to non-bank customers	39,383,193	34,078,504	164,343	142,245
Tangible fixed assets and intangible long-term assets	1,380,489	768,550	5,761	3,208
Long-term investments in equity of SID Bank Group companies	1,515,112	1,510,320	6,322	6,304
Other receivables	111,478	164,302	465	686
Total assets	**193,264,135**	**150,807,375**	**806,477**	**629,477**
Investments of contingency reserves	24,611,935	22,311,917	102,704	93,131
Investments from IREP	350,003	0	1,461	0

In 2006 growth of total assets again resulted from intensive financing of international business transactions. Loans to banks increased by 32.0% to SIT 142.4 billion (EUR 594.2 million). There was a 15.6% increase in loans to non-bank customers, making up SIT 39.4 billion (EUR 164.3 million). At the end of 2006 SID Bank held debt securities in the amount SIT 8.5 billion (EUR 35.4 million), marking a year-on-year increase of 31.8%. The purchase of a part of an office building which houses the headquarters of SID Bank has led to an increase in tangible fixed assets.

Key figures

	2006	2005
Shares		
- number of shareholders	87	87
- number of shares	932,354	932,354
- nominal value per share (in SIT thousand)	10	10
- book value of a share (in SIT thousand)	27.37	26.54
Selected indicators		
Capital:		
- capital adequacy*	20.7%	26.3%
Quality assets of on-balance sheet and contingent liabilities:		
impairments of financial assets measured at amortised cost, and provisions for contingent liabilities/classified on-balance sheet assets and classified off-balance-sheet items*	1.85%	1.95%
Profitability:		
interest margin	1.03%	1.35%
financial intermediation margin	1.37%	1.91%
return on assets before taxation	0.47%	1.90%
return on equity before taxation	3.32%	10.61%
return on equity after taxation	2.45%	7.99%
Operating costs:		
operating costs / average assets	0.71%	0.78%
Liquidity:		
liquid assets / short-term deposits from the non-bank sector	0.03%	0.01%
liquid assets / average assets	0.00%	0.00%
Number of employees	68	62

* The calculations consider investments from own assets of SID Bank and investments from funds secured with the guarantee of the Republic of Slovenia.

6.2. Pre-shipment and Post-shipment Financing of International Business Transactions

In 2006 one of SID's main activities was financing of (preparation for) international business transactions, mainly by providing indirect exporter financing, through banks and other financial institutions, in particular by refinancing loans for pre- and post-shipment financing of international business transactions. The financing facilities provided by SID included loans (short-term and long-term), purchase of receivables, project financing, participation in syndicated loans, acquisition of assets, risk takeover, etc.

Through this activity SID has significantly contributed to the increase in the capacity of commercial banks and exporters for financing international business transactions. In financing export transactions, as in export credit insurance, SID covers all phases of international trade:

- *pre-shipment financing* and
- *post-shipment financing*.

SID Bank provides pre-shipment and post-shipment financing of international business transactions from:

- own funds of SID Bank
- funds obtained with the guarantee of the Republic of Slovenia,
- contingency reserves.

The credit portfolio structure follows the structure of funds where investments from funds obtained with the guarantee of the Republic of Slovenia held the largest share of the credit portfolio, the share of investments from own funds was 8.4% and the share of investments from contingency reserves was 7.0%.

In the continuation of the report the structure of SID credit portfolio in 2006 is presented. The 2005 and 2006 data are based on financial statements prepared in accordance with IFRS.

Volume of financing

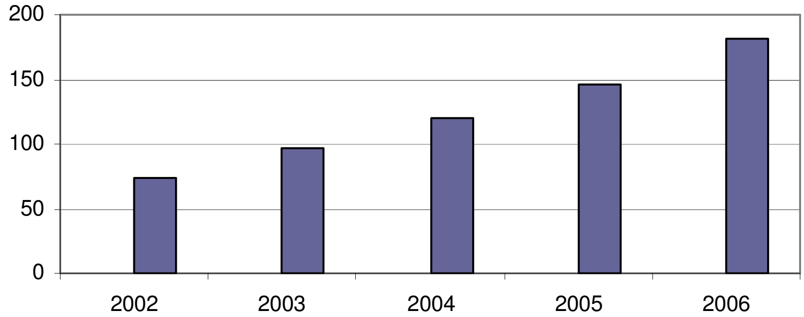
• SID financing 2002-2006

	2002	2003	2004	2005	**2006**
outstanding as at 31 December (in SIT billion)	73.6	97.6	119.8	146.4	**181.4**
outstanding as at 31 December (in EUR million)	319.6	412.4	499.7	611.0	**757.0**

In 2006 SID Bank actively cooperated with most Slovene banks in financing of (preparation for) international business transactions. The year 2006 was marked by preparations of the economic and banking sectors for entry to the EMU and favourable trends concerning internationalization of Slovene economy, which led to an increase in demand for SID funds in foreign currency, mostly euros, both from the banking and corporate sectors.

Compared to 2005 when the outstanding amount of SID financing was SIT 146.4 billion (EUR 611.0 million), financing operations in 2006 rose by 23.9% and totalled SIT 181.4 billion (EUR 757.0 million) at the end of the year. The share of financing portfolio in total SID Bank assets was 83.1 %.

SID financing by year (in SIT billion)



The growth rate of SID financing (23.9%) was at the level of the annual growth of all loans extended to the Slovene corporate sector, with the share of SID Bank financing in all loans extended to the Slovene corporate sector in 2006 (direct and indirect) reaching 5.4%. According to first estimates from the Statistical Office of the Republic of Slovenia, Slovene exports saw a 10.0% growth in the year 2006, which means that the growth rate of SID financing in 2006 was substantially higher than the growth rate of Slovene exports.

Portfolio structure

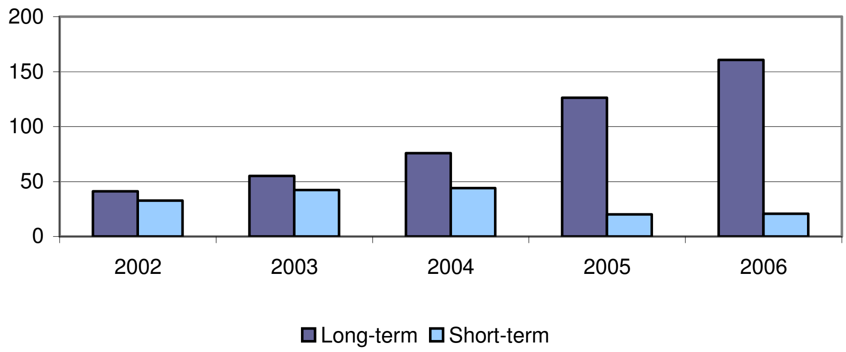
- **By maturity**

In 2006 the maturity structure of SID Bank credit portfolio confirmed the orientation of SID Bank towards long-term financing of international business transactions with the share of long-term financing amounting to 88.6% of SID Bank credit portfolio at the end of the year.

SID Financing: Outstanding amounts by maturity 2002 – 2006

	2002	2003	2004	2005	**2006**
- Financing by maturity (in SIT billion)					
long-term	34.2	55.2	75.9	126.3	**160.7**
short-term	39.4	42.4	43.9	20.1	**20.7**
total	73.6	97.6	119.8	146.4	**181.4**
- Financing by maturity (in EUR million)					
long-term	148.5	233.2	316.6	527.2	**670.6**
short-term	171.1	179.1	183.1	83.9	**86.4**
total	319.6	412.4	499.7	611.1	**757.0**

The growth of 27.3% in long-term credit portfolio was largely due to a steep rise in foreign currency lending, making up nearly 40% of the long-term segment.

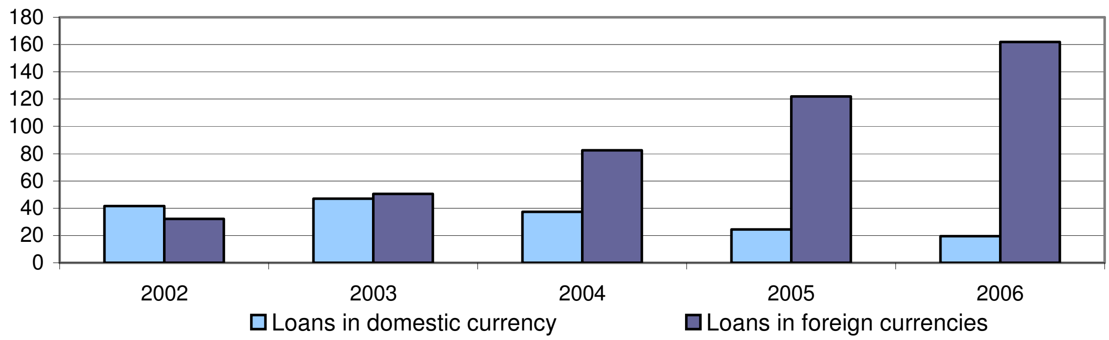


- **By currency**

As Slovenia adopted the euro as its official currency in 2007, the interest of exporters and their commercial banks for foreign currency financing strengthened significantly in 2006. As a result, SID foreign currency credit portfolio climbed 32.8% year-on-year to SIT 161.9 billion (EUR 675.6 million), accounting for 89.3% of the total SID credit portfolio at the end of 2006.

The decline in tolar credits continued throughout 2006, ending the year at SIT 19.5 billion (EUR 81.5 million). Compared with 2005, tolar financing decreased in the long-term (down by 35.4%) segment whereas short-term tolar financing went up by 5.5%. Foreign currency financing, conversely, saw a substantial rise with the long-term segment up 35.9% and the short-term segment remaining at the level of 2005.

SID Financing: currency structure as at 31 December 2006 (in SIT billion)

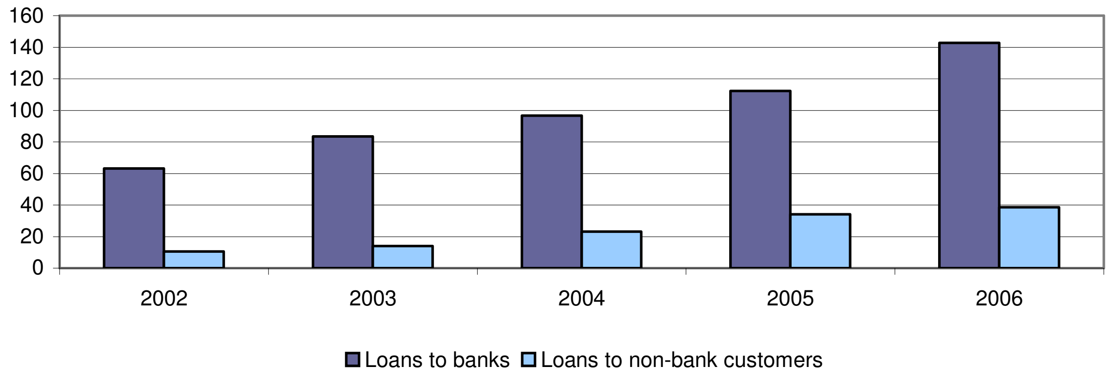


- **By borrower**

In 2006 commercial banks remained the most important SID partner in financing international business transactions and preparation for international business transactions (including outward investment), their share in SID Bank portfolio reaching 78.7% at the end of the year. The demand for direct financing of projects of Slovene exporters abroad and for pre-shipment financing increased steadily throughout 2006, showing a 13.5% increase on the year before for loans extended to customers other than banks.

Despite a significant growth in loans to customers other than banks, this segment represented only 21.3% of the total loan portfolio in 2006. The share of loans to non-residents in the SID Bank credit portfolio remains a low 7.4%, as most placements for support to realization of international business transactions were performed indirectly, through commercial banks.

SID Financing: By borrower as at 31 December 2006 (in SIT billion)



- **By risk**

Despite a considerable increase in the volume of direct financing of Slovene exporters, their buyers and investors abroad, high quality of SID financing portfolio abroad remained unaffected in 2006 since the investments classified in classes lower than A and B only take up 0.4% of the SID credit portfolio. For more information on portfolio risk and portfolio classification in accordance with IFRS see Point 6.8.

Income from SID financing

In 2006 SID Bank generated SIT 5,744.8 million (EUR 23.0 million) in interest income from financing. The pressure to lower investment interest rates has neutralized the impact of gradual increase in Euribor throughout the year, causing net interest income to reach 2005 levels at the end of the year 2006. Received fees and commissions from these operations totalled SIT 167.2 million (EUR 697 thousand).

Guarantees

Guarantees are a welcome supplement to the range of services SID Bank provides for Slovene companies in the field of insurance and financing as it enables them to obtain deals through guarantees which domestic and foreign beneficiaries consider a first-class protection instrument against counter-party risks related to contractual obligations and other contractual relations. Guarantees issued at request may also be insured with SID Bank against non–commercial risks and risk of unfair calling, which is important for banks (guarantors) and companies (obligors) alike.

Volume of guarantees

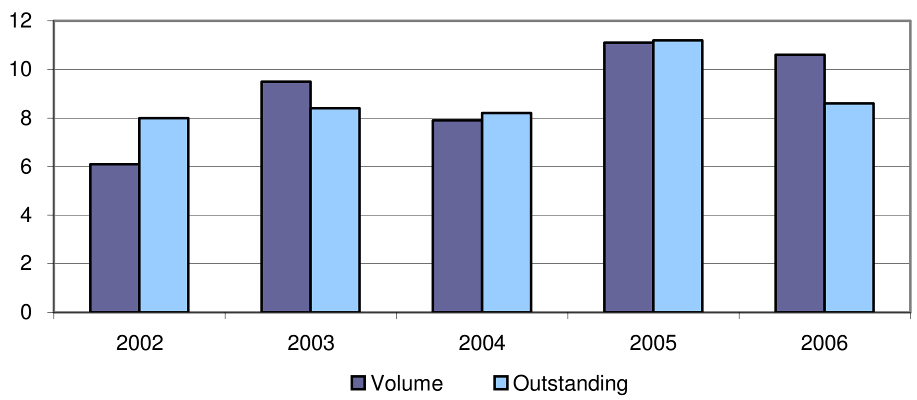
Guarantees: business volume 2002 – 2006

	2002	2003	2004	2005	**2006**
volume of issued guarantees (in SIT billion)	6.1	9.5	7.9	11.1	**10.6**
volume of issued guarantees (in EUR million)	27.0	40.7	33.2	46.2	**44.2**
outstanding (value as at 31 Dec.) (in SIT billion)	8.0	8.4	8.2	11.2	**8.6**
outstanding (value as at 31 Dec.) (in EUR million)	34.6	35.3	34.2	46.9	**36.0**
honoured (in SIT billion)	0.5	0.6	0.2	-	**-**
honoured (in EUR million)	2.1	2.7	0.7	-	**-**
recourse (in SIT billion)	0.1	0.1	0.2	0.1	**0.1**
recourse (in EUR million)	0.0	0.0	0.8	0.4	**0.4**

Guarantee volume met the goals set for the year 2006. The value of guarantees issued in 2006 was only 5% down from the year 2005 when the volume of issued and outstanding SID guarantees was particularly high thanks to the successful execution of a large short-term transaction.

The quality of SID guarantee portfolio improved significantly in 2006 as guarantee investments rated A or B take up over 99% of the total guarantee portfolio. For more information on portfolio risk and portfolio classification in accordance with IFRS see Point 6.8.

SID Bank guarantees: issued and outstanding, 2002 - 2006 (in SIT billion)



6.3. Borrowing

In compliance with the Act Governing Financing and Insurance of International Business Transactions (ZZFMGP), SID Bank as an authorised export credit agency strives to obtain favourable sources of long-term financing in international markets and utilises these sources to support internationalization of Slovene economy, that is pre- and post-shipment financing of international business transactions.

In selecting borrowing instruments, SID Bank focuses on flexible instruments that can be tailored to investment needs. SID Bank has a diversified portfolio of borrowings, funds obtained varying in maturity, size and dynamics of disbursements. Pursuant to ZZFMGP the Bank aims to obtain long-term funding with a maturity of up to 20 years, which is comparable with the funding provided by the Republic of Slovenia.

Having obtained its banking licence in 2006, SID Bank will be even more active and flexible in obtaining funds in international financial markets in the future.

Favourable long-term financing of SMEs

In 2006 SID offered and successfully completed a special program aimed at providing favourable long-term financing to SMEs (and sole proprietors), which was carried out through selected Slovene commercial banks in cooperation with the German Kreditanstalt für Wiederaufbau (KfW) and the Council of Europe Bank (CEB).

Long-term sources of funding for financing international business transactions and internationalization

In order to provide Slovene companies and their commercial banks with favourable long-term funding for financing of (preparation for) international business transactions in foreign currencies, SID continued raising funds in international financial markets, which started in 1999.

SID Bank and HSH Nord Bank signed a long-term framework agreement for a successive issuance of *Schuldscheins* (debt certificates) in the amount of EUR 292 million and the duration of indebtedness up to 15 years. *Schuldschein* is an instrument of indebtedness typical of the German market. *Schuldscheins* have the elements of a loan but resemble securities in the way they are traded in the capital market. Investors in *Schuldscheins* include insurance companies, commercial banks and mortgage banks. In accordance with the existing contracts, SID Bank issued debt certificates with a maturity of five, seven and ten years in the year 2006.

Through its continuous presence in international financial markets, SID Bank is building on its position of a first-class partner with an excellent track record. In the future, this reputation will continue to enable the Bank to access the funds for financing international business activities of Slovene companies under favourable conditions.

6.4. Treasury

SID Bank Treasury manages the liquidity of the Bank's accounts and closes deals with instruments of the monetary, capital and foreign currency markets and derivative instruments.

In closing deals in the financial market Treasury operates as a separate business unit, but on the other hand, the role of Treasury is of particular importance with regard to the company's balance sheet management and management of liquidity, interest rate and currency risks.

Loans & Guarantees are separated from treasury operations in such a way that the Loans & Guarantees grants loans regardless of the SID Bank balance sheet segment and raises funds with state guarantees, whereas Treasury secures funds without state guarantees and manages assets, except loans, regardless of the SID Bank balance sheet segment. Besides, Treasury mitigates market risk for all SID Bank balance sheet segments.

Treasury manages, in part or in total, four portfolios:

- investments from own funds of SID Bank
- investments from funds obtained with the state guarantee
- contingency reserve and
- IREP reserve.

The procedure of entering into the stated transactions is governed by the Bank's internal acts, which specify the decision-making process, authorisations and potential risks SID Bank may encounter in treasury transactions. SID Bank investments are held in the banking book, with securities investments classified as assets available for sale. Transactions in derivatives are held in the trading book, given that the volume of these transactions does not exceed EUR 15 million or 5 percent of all transactions conducted by SID Bank. The investments held by SID Bank Treasury are aimed at controlling liquidity, currency and interest rate risks.

Own funds of SID Bank

The volume of Treasury investments from SID own funds accounted for 35.4% of total own assets at the end of 2006. Treasury conducted transactions with partners (issuers/debtors) rated BBB- or higher, with Slovene banks and unrated subsidiaries whose credit rating under the methodology of SID Bank was not lower than B.

The currency structure of investments corresponded with the currency structure of SID assets and was constantly coordinated with adopted limits. Treasury also coordinated the maturity structure of assets and liabilities. As for the type of interest rate, the major part of investments (80%) was taken up by fixed rate investments, and the composition was adjusted to the trends in the interest rate market.

As a rule, SID Bank does not hold investments that are not settled by an independent institution. Priority is given to investments which can be used in concluding REPO transactions and investments which can be, on the basis of currently valid decisions of the Bank of Slovenia, considered in calculation of all types of liquidity ratios or can be used as the basis for calculating the liquidity of the European Central Bank. On account of lower transaction costs, primary market investments are preferred over secondary market investments. SID Bank operates in the financial markets of EEA and OECD member states

In 2006 the volume of borrowing in money market instruments taken out without state guarantees was quite low, the majority of funds obtained from banks dealing in derivatives with maturity of up to one year. Passive transactions were denominated in EUR or SIT with a maturity of up to one year and a fixed interest rate. As for borrowing, SID Bank's operations in the Slovene financial market were highly limited due to the Bank's excess liquidity position, since it would be obliged to pay interest rate tax if it entered into borrowings in foreign markets without the state guarantee.

SID is not an authorised participant in the securities market. Transactions in securities were concluded as an investment option supplementing the Bank's ordinary activities and to manage the liquidity risk and not for the purpose of trading. All investments are held in the banking book and classified as assets available for sale.

Treasury investment from own funds of SID Bank as at 31 December 2006 amounted to SIT 10.2 billion (EUR 42.6 million). Investments include Slovene and foreign government bonds, market bonds issued by other issuers, and deposits. The majority of investments are denominated in EUR or SIT. With regard to investment policy, the highest priority is given to investment-grade investments. About two thirds of all investments are rated A (S&P), and a fifth is held in investments to unrated issuers (Slovene banks). Fixed-rate investments to residents are the predominating form of investment.

SID Bank funds from sources of funding obtained with state guarantee

A detailed definition of SID Bank's investment structure is given in the Rules on the Implementation of Loans for Financing International Trade and Investments. In this segment of SID operations, Treasury only held investments in deposits of commercial banks for the purpose of liquidity control and other investments in short-term debt instruments issued by high-rated issuers. In liquidity control, Treasury followed the strategy of reduced risk concentration, which means that the liquidity surplus was invested in banks to which SID has a low exposure. Derivative financial instruments were not used in this segment of SID operations, since activities were dominated by the policy of closed foreign currency position and the policy of interest rate harmonisation (variable, linked to 6-month Euribor) and maturity of both assets and liabilities. Treasury investments from SID own funds aimed at liquidity control totalled 6.7% of SID investment from sources of funding obtained with state guarantee at the end of 2006.

Treasury investments from sources of funding obtained with state guarantee as at 31 December 2006 amounted to SIT 11.0 billion (EUR 46.0 million) and included deposits to Slovene banks, with a fixed interest rate and denominated in EUR or SIT

Contingency reserve

Treasury investments from SID contingency reserve totalled 38.1% of the fund at the end of 2006. The variable share of treasury investment – liquid investments – depends mainly on the estimated claims payments and the resulting liquidity position of the contingency reserve.

Investment policy pursues the aim of contingency reserve management, that is the capacity to settle insurance claims. Contingency reserve investment policy summarizes the investment policy for cover assets as defined in the Insurance Act, applying, however, an additional restriction that unweighted exposure to a debtor shall not exceed 25% of the contingency fund. The provision does not apply to securities issued or guaranteed by the Republic of Slovenia, Bank of Slovenia, other EU member states and OECD member states, except for Mexico, Turkey and South Korea.

Contingency reserve funds are invested in liquid obligations to the amount representing the sum of all potential claims and claims under consideration from non-marketable risks insurance or not less than 20% of investments from contingency reserve funds. Debt securities quoted on the organized market and all other debt documents with residual maturity under one year are considered liquid investments.

Provisions of the Insurance Act apply *mutatis mutandis* in controlling the currency structure of investments from the contingency fund. Investments from contingency reserves which expose the Bank to risks of potential losses resulting from foreign exchange rate changes have to be coordinated with the Bank's liabilities arising from insurance policies and contracts the amount of which depends on foreign exchange rate changes, to the extent not lower than 80%. Net exposure by currency is the basis for determining the currency structure. Net exposure is the sum of all exposures from assumed non-marketable risks.

Treasury investment from contingency reserve as at 31 December 2006 amounted to SIT 11.0 billion (EUR 38.1 million). These investments consist largely of short-term and long-term securities and bank deposits. The major part of all investments is taken up by A-rated (S&P) investments, with the share of investments to residents rising to 71.2%.

Other treasury services

SID Bank’s Treasury operates as the SID Bank Group treasury and as such performs technical activities concerning the management of portfolio of cover assets and own assets for a Bank’s subsidiary, SID – Prva kreditna zavarovalnica d.d. Ljubljana (PKZ). To a large extent, the structure of investments is specified in the Insurance Act. In 2006 SID Bank Treasury performed control of liquidity and currency risks for PKZ. SID Bank Treasury carries out these services on the basis of the Agreement on Excluded Treasury Transactions and in accordance with the decisions taken by the Management Board of PKZ, by placing orders with authorised market participants on behalf of PKZ.

6.5. Operations on Special Authorisation – Insurance against Non-marketable Risks

Certain commercial and non-commercial or political risks (non-marketable risks) of the nature and level for which private reinsurance market lacks either willingness or capacity to cover are insured by SID Bank as an authorised institution on behalf of and for the account of the Republic of Slovenia. According to the EU legislation, non-marketable risks are defined as commercial and political risks of a time horizon exceeding two years in the OECD countries and all risks in countries which are not OECD members.

The role of the state is of key importance as without an insurance cover most such business transactions, especially medium-term, would not be carried out. Furthermore, it is in insurance of such transactions that export promotion as one of the core activities of SID Bank is clearly expressed. Due to the size of transactions and higher risks involved, states remain by far the most important reinsurer of export credits and investments ("last resort"), in particular with regard to medium- and long-term risks.

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

Review of operations in 2006

Insurance against non–marketable risks on behalf of and for the account of the State 2002–2006

in EUR million	2002	2003	2004	2005	**2006**
business insured	748.8	806.6	810.0	388.7	**402.2**
exposure (31 Dec.) – gross*	467.6	568.8			
– net*		512.3	580.5	497.5	**566.6**
premiums	3.208	6.519	5.220	6.397	**6.661**
claims	0.504	0.415	2.124	3.242	**0.994**
number of claims	16	15	22	19	**17**
recoveries	0.514	0.044	0.174	0.067	**0.081**

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

- ***Business insured***

Volume of business insured against non-marketable risks amounted to SIT 96.4 billion (EUR 402.2 million) in the year 2006, a 3% rise on the previous year. The increase was highest in medium-term export credit insurance, which climbed 22% to reach the highest annual level recoded to date (SIT 19.9 billion or EUR 83.2 million).

However, the volume of insured investments of Slovene companies abroad, which takes up the largest share of total investments, dropped 2%. The downward trend was also apparent in short-term insurance (down by 10%) although its volume was too low to significantly affect the overall insurance volume. The number was down over 50% on the year 2004, mainly on account of the transfer of short-term revolving credits onto PKZ, a SID Bank subsidiary, and the recent changes in the reinsurance market reflected in better possibilities of providing reinsurance cover against commercial and non-commercial risks in higher-risk countries, which the private market had not been willing to assume prior to the beginning of 2005. 2005 namely saw a substantial year-on-year increase in the number of countries for which private reinsurers were willing to reinsure commercial and non-commercial risks and which are covered by PKZ (marketable risks).

The correlation between insurance classes and their corresponding regional concentration became even closer in 2006. Medium-term export credit insurance centres around the CIS countries (88.9%), mostly Russia, Ukraine and Kazakhstan, whereas the countries of former Yugoslavia take up a the largest part of investment insurance. As for short-term risks, most insurance went to Iran, followed by Croatia and Argentina. There was, however, no record of insurance for the account of the state in other countries, mainly due to the mentioned transfer of portfolio to the SID subsidiary and the changes in the reinsurance market.

The top 2006 investment insurance clients include Bosnia and Herzegovina, Serbia, Russia, Macedonia, Montenegro, Ukraine, Iran, Kazakhstan, Croatia, and Algeria.

Exposure

Exposure from business insured for the account of the Republic of Slovenia (insurance covers issued) stood at SIT 115.5 billion (EUR 482.1 million). The 13% rise over the 2005 figures resulted from increased medium-term insurance volumes (exposure medium-term insurance against commercial risks rose by 26%). Subject to the same trends mentioned above, medium-term insurance recorded the highest figures also in terms of exposure. There was an upturn in exposure from valid offers of insurance, rising by 16% to SIT 20.2 billion (EUR 84.4 million), which are counted in the total exposure on account of their binding nature and pursuant to ZZFMGP.

Exposure as at 31 December 2006 was largest with regard to the Russian Federation (29.04% of total exposure), Serbia, Bosnia & Herzegovina, Ukraine, Macedonia, Montenegro, Croatia, Kazakhstan, Belarus, and Iran.

- **Insurance technical figures**

Insurance premium rose 4.7% in 2006 to reach the highest level recorded in the company's history at SIT 1.6 billion (EUR 6.7 million). The growth in medium-term export credit insurance for which premiums are normally higher to account for longer credit maturity led to an increase in income generated from premiums. On the other hand, there was drop in premiums charged on investment insurance (down by 15%) and short-term export credit insurance. Income from handling fees was negligible because SID Bank, in conformity with its business policy, returns the amount charged to exporters and other persons insured if the project is implemented.

Compared with 2005, **claims paid** were down 69% to SIT 238.1 million (EUR 1.0 million) in 2006, mainly because one large claim was paid in 2005 and in 2006 claims paid were relatively low in value and in number. The number of all claims paid was 17, most of them (16) arising from short-term credit insurance. The value of claims paid was highest with regard to export credit insurance for Croatia (53%), followed by Serbia, Montenegro, Bosnia and Herzegovina, Pakistan, Belarus, the Russian Federation and Macedonia.

SID successfully **recovered** SIT 19.5 million (EUR 0.08 million) from paid claims, the relatively low amount being linked to a low number of claims paid out from insurance on account of the state in previous years. As at 31 December 2006, the **volume of claims for compensation** fell by 54% on the year 2005, and the **volume of potential claims** dropped by 12%.

The **current business result** of insurance made for the account of the state was **positive** for the seventh year running, reaching the record at 1.3 billion (EUR 5.4 million), and was used up to further increase the contingency reserve, closing the year 2006 at SIT 23.4 billion (EUR 98.3 million). The **cumulative business result** rose to SIT 4.2 billion (EUR 17.6 million) for the first time in the 12-year history of SID operation.

The trends and certain other explanations are presented in detail in subsections on insurance of traditional export credits (short-term and medium-term) and investment insurance. Business results by type of insurance against non-marketable risks are presented in the table below.

Insurance against non–marketable risks on behalf of and for the account of the state, 2002 - 2006; by type of insurance

in EUR million

Short-term export credits	2002	2003	2004	2005	**2006**
Business insured	658.9	628.6	632.9	7.0	**6.3**
Exposure (31 Dec.)					
- gross*	282.0	253.6			
- net*		221.8	179.2	2.5	**4.3**
Premiums	1.596	2.073	1.666	0.267	**0.050**
Claims	0.426	0.369	2.116	0.743	**0.467**
Number of claims	14	15	22	18	**16**
Recoveries	0.048	0.078	0.116	0.067	**0.081**
Medium-term export credits					
Business insured	20.7	79.1	44.9	68.1	**88.8**
Exposure (31 Dec.)					
- gross*	80.9	200.4			
- net*		187.9	152.7	205.4	**267.0**
Premiums	1.132	3.586	2.449	4.036	**4.824**
Claims	0.078	0.046	0.008	2.499	**0.527**
Number of claims	2	/	/	1	**1**
Recoveries	0.466	-0.034	0.058	/	/
Investments abroad					
Business insured	69.1	98.8	132.3	313.5	**307.1**
Exposure (31 Dec.)					
- gross*	104.8	114.8			
- net*		102.6	248.6	289.6	**295.3**
Premiums	0.480	0.860	1.105	2.094	**1.787**
Claims	/	/	/	/	/
Number of claims	/	/	/	/	/
Recoveries	/	/	/	/	/

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

Short-term export credit insurance

The major part of the total volume of short-term export credit insurance was linked to export credit revolving insurance of Slovene companies to buyers in Iran and Argentina, whereas there were also several individual export credit insurance covers for exports to Croatia (white goods and telecommunications equipment). The volume of short-term insurance (SIT 1.5 billion or EUR 6.3 million) was relatively modest. In 2006 the private market again started undertaking export credits to Argentinian buyers, which had a marked effect on the volume of insurance with regard to Argentina.

Mainly as a result of newly extended credit limits to foreign buyers and several individual insured export credits which were still outstanding at the end of 2006, the year-on-year increase in exposure from these types of insurance was 69%, annual exposure reaching SIT 1.0 billion (EUR 4.2 million).

Lower volume of business insured led to lower **total insurance premium**, which was down 81%, and a decrease of 37% in **claims paid** (SIT 126.3 million or EUR 0.5 million). Despite this reduction, claims paid exceeded insurance premiums in 2006. Thus, business result for short-term credit insurance on account of the state was negative.

Medium term export credit insurance

The majority of medium-term export credits insured in 2006 were linked to investment and construction projects abroad, hotel infrastructure, exports of turbines and other hydromechanical equipment, telecommunications equipment, rock wool production lines and other capital equipment, exports of agricultural mechanization and durable consumer goods to the Russian Federation, Ukraine, Kazakhstan, Iran, Croatia, Algeria, Romania, and Serbia.

The volume of medium-term export credit insurance is fluctuating from year to year due to a low number of such projects executed on a yearly basis. In 2006 it totalled SIT 21.3 billion (EUR 88.8 million), recording an increase of 30.4% on the year before.

In 2006 SID secured 26 medium-term export credits (compared with 24 in 2005) with a total of 11 main contractors or exporters and a significant number of Slovene subcontractors and subsuppliers. The main reason for a relatively low number of secured individual transactions requiring medium-term insurance and also financing lies in the low number of Slovene companies which are able to acquire such transactions on a regular rather than sporadic basis. The factors contributing to this situation include the development of banking systems in several traditional Slovene markets which are becoming increasingly capable of providing financing to their best companies at competitive financing conditions, less favourable insurance conditions for the markets of SE Europe resulting largely from unfavourable classification of these markets into risk categories and the facts that the financing options provided by Slovene banks are still less competitive than those provided by foreign banks.

Exposure from the 75 currently outstanding transactions as at 31 December 2006 was SIT 50.1 billion (EUR 209.2 million), with the Russian Federation, recording a 67% share, as the predominating country of exposure. In 2006, total insurance premium amounted to SIT 1.2 billion (EUR 4.8 million), recording a 20% increase on the previous year. In that amount, reinsurance premium for active reinsurance accounted for SIT 431.3 million (EUR 1.8 million). One claim in the amount of SIT 126.3 million (EUR 527 thousand) was paid from insurance of medium-term export credit to Croatia.

Investment insurance

The increase in direct outward investment led to the relatively high volume of insurance against political risks, which amounted to SIT 73.6 billion (EUR 307.1 million) in 2006. Despite recording a 2% decrease on the year 2005, SID managed to retain its investment insurance centred on the area of SE Europe where the trust of investors is gradually picking up thanks to Euro-Atlantic alliances.

In addition to investments insured SID Bank finished the year with four valid offers of cover totalling SIT 6.4 billion (EUR 26.6 million), which clearly shows that the trend of growing interest for outward investment insurance is likely to continue. The change in the attitude of several Slovene exporters to insuring investments of Slovene companies in foreign countries may be a result of completed transition and clearer ownership structure of Slovene companies, which sets high demands for investments to be insured. Besides, on the basis of experience gained from past events in the neighbouring countries and worldwide, Slovene exporters have realized that political risks were present everywhere and at all times.

In 2006 SID Bank added six new transactions to its 28 valid investment insurance and shareholders' loan policies (two transactions in Croatia - manufacturing; one transaction in Serbia – hotel industry; one transaction in Iran – manufacturing; two transactions in Bosnia & Herzegovina – finance) with a total insurance sum of SIT 11.0 billion (EUR 45.9 million), which accounts for 14.1% of all investments insured at the end of 2006. In addition, SID Bank concluded an agreement to insure all current and future investments with two leading Slovene investment companies, and is currently negotiating conclusion of such an agreement with several other enterprises.

At the end of 2006, the company portfolio included 34 investment insurance transactions of Slovene companies and banks worth SIT 64.4 billion (EUR 268.7 million), and together with its offers of cover SID gross exposure in investment insurance as at 31 December 2006 rose to SIT 70.8 billion (EUR 295.3 million). Investment insurance mainly covers transactions in Serbia, Bosnia & Herzegovina, Macedonia, Montenegro, Croatia, Germany, Iran and Belarus. In 2006, total premium was SIT 428.3 million (EUR 1.8 million), which is 15% less than in the year before; no claims were paid in that year. The decrease is total premium is largely due to the general downward trend of premiums rates in investment insurance.

New developments concerning insurance on behalf of and for the account of the state

The main change affecting insurance products and insurable risks in 2006 refers to the introduction of project financing insurance as the most complex type of insurance. With this product, SID Bank has rounded up its range of basic insurance products and services, only provided by several most developed foreign export credit agencies.

Also important was the introduction of execution risk insurance for exporters, which had previously been covered by banks in credits to foreign buyers. In this way, SID Bank has improved its insurance conditions and reduced the conditionality of insurance covers, which will help the Bank to retain the first-class quality of the instrument in accordance with the Basel II Accord and provide exporters with easier access to funding for their export transactions.

Furthermore, SID Bank introduced a new price list for covering pre-shipment risks, which enables Slovene exporters to obtain cover for manufacturing costs in the period prior to delivery at significantly lower premium rates. The Bank's revised export credit insurance rates allow for up 100 percent coverage of insurance premium financing, more flexible calculation of premium rates for export credits of over two years to developed countries and additional discounts in cases of additional quality guarantees.

In the course of reorganisation conducted in mid-2006, aimed at simplifying access to and ensuring quality treatment of Slovene exporters and investors, Export Credit Insurance Department and Investment Insurance Department were joined into a common division.

It is of particular importance that export credit insurance and investment insurance will retain their role in the new organisation structure of SID Bank and by 2010 enrich the range of products and services with a number of new products in line with the new SID Bank Action Strategy.

New products which SID Bank intends to offer its clients in the future include export credit reinsurance against non-marketable risks, which will provide private credit insurers with additional possibilities and capacity in monitoring their export-oriented clients. At the end of 2006, the International Trade Promotion Commission gave its consent and SID Bank will, in accordance with the recommendations of the European Commisison, attempt to adjust this type of reinsurance to the needs of SMEs in Slovenia.

6.6. Operations on Special Authorisation – Interest Rate Equalization Programme (IREP)

In accordance with the Act Governing Insurance and Financing of International Business Transactions (ZZFMGP), and on behalf of and for the account of the Republic of Slovenia, SID Bank implements the Interest Rate Equalization Programme for export credits in euros and American dollars, which will be in compliance with the OECD Arrangement on Officially Supported Export Credits. In November 2006 SID and the Ministry of Finance concluded an Agreement on Implementation of the Interest Rate Equalization Programme. SID Bank will coordinate the dynamics of interest rate equalizations with budgetary means as well as concrete calculations and granting of credits by SID Bank and other financial institutions that provide funding for the exports of Slovene goods and services.

The primary objective of the Interest Rate Equalization Programme is to provide export credits at fixed interest rates which are lower than the commercial interest rates. SID Bank enters into interest rate swaps with participating banks, thus providing them with fixed interest rate finance. The purpose of interest rate swaps is to reduce exposure of the participating bank to interest rate fluctuations originating from approvals of fixed-rate export credits. Since the participating bank is limited with regard to the final margin, it is entitled to the application of an equalization factor. For end borrowers (foreign buyers of Slovene goods or services) the interest rate is not lower than the CIRR interest rate, and its maximum is also set. More favourable financing will improve the competitiveness of Slovene exporters in foreign markets.

The interest rate risks linked to IREP are covered by SID Bank through inverse interest rate swaps into which the Bank will enter with foreign banks not rated lower than BBB- by Standard & Poor's.

6.7. Credit Rating and Other Credit Information

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

Aware of these requirements, SID continued to develop its own Credit Rating Department also in 2006. In its work, the department uses state-of-the-art professional methodology of risk assessment, in particular with regard to solvency, an internal information system, existing and regularly updated internal databases, reliable credit information and analyses of domestic and foreign institutions, as well as other data, which is also exchanged, for example among the members of the Berne Union.

In assessing country risks of foreign markets SID works closely with other relevant institutions, in particular with the Centre for International Co-operation and Development, which provides basic country risk reports for selected markets. In support of internal needs of SID Bank, the Credit Rating Department prepares credit rating reports and credit information on domestic and foreign companies and banks. With a view to ensuring efficient credit risk management in financing, issuing guarantees and in certain classes of insurance and for external users of credit information, the department prepares corporate credit rating reports which also include the recommended credit and exposure limits. Additionally, SID Bank provides such information to other domestic and foreign financial institutions whose interest in credit rating information is increasing, in particular as regards information on selected markets, companies and banks in Slovenia and in those countries of South Eastern Europe that represent traditional Slovene markets.

The companies of the SID Bank Group and external clients can order with SID Credit Rating Department:
- credit rating information on Slovene companies (including sole proprietors),
- credit rating information on Slovene banks,
- credit rating information on banks and companies of SE Europe, etc.

Access to credit information via the Internet

Standardized credit rating information on Slovene companies (SID-BON) prepared by the SID Bank Credit Rating Department on the basis of publicly available data, is now readily available to registered users also via the Internet (SID-NET). Registered users are thus provided with a fast and safe (password protected) access to quality and up-to-date information, in particular with regard to Slovene companies, which enables SID Bank Group clients faster decision-making relative to business operations, risk monitoring and, consequently, better performance.

6.8. Risk Management

Management and mitigation of risk and approach to risk aligned with corporate business objectives is one of the main challenges of every bank or other financial institution. In its risk management practises SID Bank needs to observe the specifics of the public character of the bank and the breakdown of its business operations into transactions involving the Bank's own assets, promotion of international business transactions financed with the guarantee of the Republic of Slovenia and activities performed for the account of the state, including the management of contingent reserves.

The primary objective of risk management is to reduce the likelihood of a loss event and minimise losses when a loss event does occur. Risk management is a permanent process concerned with identifying, measuring, controlling and minimising risks, which is aimed at ensuring safe and stable operation of a company. Safe and efficient operation of the company is paramount in risk management, as in the long term it leads to increased equity value, helps the company enhance its reputation and maximises the benefits for SID Bank clients and other stakeholders.

Risk management is a permanent process which comprises identification and measurement of risk and risk mitigation measures, aligned with the Bank's long-term strategy to create the conditions for safe and efficient operation of SID Bank. The precondition for efficient risk management is an appropriate organisation structure and regulated work processes, which enable achievement of business goals accompanied by implementation of safe business operations in compliance with the existing regulations. The key objective of risk management measures is to ensure high risk awareness at all levels of operation.

Identification of risks is performed in organisational units which are separated from commercial units up to the level of the Management Board so as to provide for their independent and objective operation. The responsibility for direct implementation of risk management lies with the following bodies and organisational units:

- Credit Risk Committee; mitigation of credit risk and large exposures,
- Liquidity Risk Committee; liquidity and currency risks,
- Asset-Liability Committee; balance sheet composition, capital adequacy, aggregate risk,
- Risk Management Department; preparation of risk management policies, risk monitoring,
- Credit Rating Department; evaluations of the credit risk of investments,
- Back Office and Payments; daily follow-up on currency and liquidity risks within the set limits.

SID Bank saw the key challenge and motivation with regard to risk management in the adaptation of Bank's operations with banking regulations. The process began in 2005 and was completed in 2006 when SID Bank acquired a banking licence from the Bank of Slovenia for performance of banking services.

For SID Bank, harmonization with banking regulations is a stepping stone on the path towards complying with more demanding regulatory requirements provided for in the New Banking Act based on the Basel II Accord. The activities aimed at adapting the Bank's operations to the new regulations coincided with harmonisation to the existing legislation, and have intensified after SID Bank acquired its banking licence. Like most Slovene banks, SID Bank has postponed the application of new regulations by the beginning of the year 2008, wherever the Banking Act allows for such a delay (calculation of capital requirements for credit and operational risks, certain provisions concerning regulatory oversight).

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

Risk management is of particular importance in credit and investment insurance as these operations are conducted on the behalf and for the account of the Republic of Slovenia. Loss ratio is compensated from the contingency reserve, but higher losses from these operations could bring contingent funds down to a level for which ZZFMGP provides for special means allocated from the budget of the Republic of Slovenia.

Effective risk management starts with a proper organisation structure. Credit and investment insurance is conducted by a special department which is separated from banking operations to the level of the Management Board. Definition of the right to close deals is similar to the banking segment, in that all deals in the amount exceeding five million euros can only be approved by the International Trade Promotion Commission. The Commission holds ultimate authority over other risk management issues such as approving insurance policies for certain countries or groups of countries, which limit the potential volume of loss in addition to the insurance limits specified in ZZFMGP.

Capital and capital adequacy

Adequate capital is key to ensuring the solvency of financial institutions. Capital adequacy, expressed in relative terms with regard to the volume of business and the undertaken risks, guarantees trust in the company's operations and enables a stable development of the company in line with its set goals.

SID regulatory capital, calculated according to the Regulation of the Bank of Slovenia on Capital Adequacy of Banks and Savings Banks which covers all SID operations on own account (except for insurance of international business transactions, management of contingency reserves and IREP), amounted to SIT 16.0 billion (EUR 66.8 million) as at 31 December 2006, a drop of SIT 1.9 billion (EUR 7.8 million) on the year 2005. The Bank must take the differences between the impairments and provisions declared under collective assessment method under the IFRS methodology and the amount of impairments and provisions calculated on the basis of the percentages specified in the Regulation of the Bank of Slovenia on the Assessment of Credit Risk Losses of Banks and Savings Banks into consideration as a deduction item in the calculation of regulatory capital in accordance with the current regulation on capital adequacy of banks and savings banks. The relatively high decrease of company's capital was largely the result of the portfolio of loans to banks, for which impairments and provisions are calculated under the Bank's own methodology (for more detailed information on the policy of impairment and provisions formation see 6.2.5 Notes to the Financial Statements).

Capital adequacy ratio is the ratio between the company's regulatory capital and risk-weighted assets of credit and currency risks. The minimum ratio of 8% was significantly exceeded in 2006. In consideration of the operations governed by the Banking Act, the capital adequacy ratio was 109.7%, and 20.7% considering all the operations SID conducted in the year ending for its own account (all operations except insurance of international business transactions, management of contingency reserves and IREP). Similar capital adequacy figures were obtained in calculations under the Basel II Accord, which the Bank will start implementing in 2008.

Credit risk

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit risk management begins prior to conclusion of a contractual relation by determining the credit rating of a client and by putting in place appropriate insurance instruments. The credit exposure limit is approved by the Credit Risk Committee. Throughout the transaction life cycle, credit risk is managed through close monitoring and credit portfolio management, by limiting the concentration of credit risk with regard to a client, a group of clients, a sector and a country, by classifying and creating provisions for expected losses and by providing sufficient capital for incidents when the actual losses exceed expectations.

Credit risk considers:

- risk of financial loss from credit transactions,
- country risk,
- risk of securities issuer,
- credit risk of counterparty default and derivative financial instruments.

Pursuant to the Regulation of the Bank of Slovenia on the Assessment of Credit Risk Losses and in consideration of the credit rating of a client and other elements of performance capability and quality of insurance, **exposure from credit transactions, credit compensation value of derivative financial instruments** and other types of exposure, which are classified according to credit quality and for which losses are assessed, are divided into five categories with the clients of the highest credit rating ranked A and the clients of the lowest credit rating ranked E. This classification is consistent with the Regulation of the Bank of Slovenia on the Assessment of Credit Risk Losses and is used to measure the change in credit quality of a financial asset (transitions between categories) and to assess aggregate credit quality.

SID credit portfolio by credit rating category as at 31 December 2006:

Category	in SIT million	in EUR million	Share
A	175,807	733.6	78.7%
B	45,995	191.9	20.6%
C	0	0.0	0.0%
D	1,544	6.4	0.7%
E	44	0.2	0.0%
Total	**223,391**	**932.2**	**100.0%**

The balance of SID Bank credit portfolio as at 31 December 2006 indicates that 79% of all credits, other claims and off-balance sheet liabilities are classified into the highest credit rating category. A further 21% of the portfolio fall into the B credit rating category, whereas the categories C, D and E account for a total of less than 1%.

Impairments and provisions are an important element of mitigating the risk of loss arising from a credit event (Impairment and provisioning policies are presented in more detail in 6.2.5 Notes to Financial Statements). As at 31 December 2006 SID Bank recorded impairment and provisions totalling SIT 3.4 billion (EUR 14.0 million), which is SIT 285.0 million (EUR 1.2 million) more than a year before, based on data prepared under IFRS. Impairment and provisions are derived from losses assessed individually or on the group basis, whereas losses arising from credit exposure classified in credit quality categories C, D or E are assessed individually. The ratio of total provisions and impairment and total exposure classified into all categories is 1.85%.

Additional credit risk which occurs in cases when the debtor is from another country classified into higher country risk category is mitigated by SID Bank with additional provisions and impairment and higher collateral requirements. A large portion of exposure, 92%, refers to debtors from Slovenia, and the remaining 8% mostly concerns debtors from the countries of former Yugoslavia and Russia.

SID credit portfolio by debtor's country as at 31 December 2006:

Country	in SIT million	in EUR million	Share
Slovenia	205,651	858.2	92.1%
Croatia	6,024	25.1	2.7%
Russia	4,594	19.2	2.1%
Other countries	7,098	29.6	3.2%
Total	**223,391**	**932.2**	**100.0%**

Issuer risk is linked to the portfolio SID manages with a view to ensuring liquidity and asset-liability management. SID does not conduct trading transactions. The Bank mitigates credit risk by setting limits as to the credit rating of the issuer and by monitoring market values of securities concerned.

Securities portfolio by credit rating of issuer as at 31 December 2006:

Credit rating (S&P)	in SIT million	in EUR million	Share
AA or higher	6,048	25.2	71.3%
BBB- to A+	1,390	5.8	16.4%
Slovene banks, unrated	894	3.7	10.5%
Other investments	155	0.6	1.8%
Total	**8,486**	**35.4**	**100.0%**

Liquidity risk

Liquidity risk in the narrow sense is the risk which arises if SID Bank cannot cover its payment obligations with its liquid assets. Therefore, liquidity is the capacity of a company to hold and ensure sufficient resources to meet its (balance-sheet or off-balance-sheet) obligations when they come due. These obligations are normally settled from cash inflows, liquid assets and borrowed funds. The larger the mismatch of the principal and interest flows on the assets and the liabilities side and off-balance-sheet items, the larger liquidity risk.

In accordance with the adopted Liquidity Policy Statement SID Bank ensured that all its financial obligations were regularly and continuously met. Liquidity management is based on planning the inflows and outflows, which SID performs separately for its own account and for the contingency account.

SID monitors its exposure to liquidity risk by means of liquidity indicators (ratios between outflows and inflows over a month- and six-month periods), which the Bank of Slovenia sets at the minimum value of 1. Contrary to many banks, SID met these indicators for both domestic and foreign currencies. The value of indicators was normally over 2. High indicator values are a result of long maturity of liabilities and appropriate secondary liquidity.

Liquidity risk in its broader sense, that is the risk of the bank having to take out funding at increased interest rate (funding risk) and the risk that due to its liquidity needs the bank will have to sell non-monetary investments at discounted value (market liquidity risk), is low thanks to excess short-term liquidity position and appropriate secondary liquidity. Secondary liquidity contains a relatively high proportion of government and other securities of high quality and liquidity.

Currency risk

Currency risk management is aimed at determining the potential loss that would arise as a result of changes in exchange rates, through application of an open foreign currency position, that is the difference between the sum of all investments in foreign currency and all liabilities in foreign currency. Investments and liabilities in foreign currency include positions in currencies and positions in tolars indexed by exchange rate. The open foreign currency position is limited through internal limits, separately for euro positions, for which a higher limit was approved due to a viable plan for the adoption of the euro, and for positions in other currencies with lower limits. Furthermore, in accordance with the Decision of the Bank of Slovenia on Capital Adequacy of Banks and Savings Banks, the higher value of the sum of long positions or the sum of short positions is included in the risk-adjusted positions which need to be capital covered up to 8%.

Although positive trends in the growth of euro operations were maintained in 2006, foreign currency position was on the decline. At the end of the year, liabilities in euros (incl. liabilities indexed with euro exchange rate) exceeded investments by SIT 12,084 million (EUR 50.4 million), and US dollar investments recorded an excess over liabilities in the amount of SIT 875 million (3.7 million). Positions in other foreign currencies were negligible throughout the year and closed at the end of 2006. Capital requirements for foreign currency risks totalled SIT 59.4 million at the end of the year.

Balance sheet by currency structure as at 31 December 2006

	Assets			Liabilities			Gap		
	in SIT million	in EUR million	as % of total assets	in SIT million	in EUR million	as % of total assets	in SIT million	in EUR million	as % of capital
in SIT	32,216	134.4	16.7%	26,498	110.6	13.7%	5,717	23.9	35.7%
in SIT with EUR clause	5,504	23.0	2.8%	0	0,0	0.0%	5,504	23.0	34.4%
EUR	151,048	630.3	78.2%	163,132	680.7	84.4%	-12,084	-50.4	-75.5%
USD	4,496	18.8	2.3%	3,622	15.1	1.9%	875	3.7	5.5%
other currencies	0	0.0	0.0%	12	0.1	0.0%	-12	-0.1	-0.1%
Total	**193,264**	**806.5**	**100.0%**	**193,264**	**806.5**	**100.0%**	**0**	**0.0**	**0.0%**

** Note: Considered capital under the Regulation of the Bank of Slovenia on Capital Adequacy of Banks and Saving Banks*

A detailed presentation of balance sheet by currency structure as at 31 December 2006 is available under 6.9.2 Notes to Financial Statements.

Balance sheet by maturity as at 31 December 2006

	Assets			Liabilities			Gap	
Maturity class	in SIT million	in EUR million	as % of total assets	in SIT million	in EUR million	as % of total assets	in SIT million	in EUR million
on deposit	421	1.8	0.2%	10	0.0	0.0%	411	1.7
up to 1 month	10,536	44.0	5.5%	1,121	4.7	0.6%	9,415	39.3
1 to 3 months	10,483	43.7	5.4%	781	3.3	0.4%	9,702	40.5
3 months to 1 year	28,575	119.2	14.8%	9,350	39.0	4.8%	19,225	80.2
1 to 5 years	75,123	313.5	38.9%	78,753	328.6	40.7%	-3,630	-15.1
over 5 years	68,126	284.3	35.3%	103,249	430.9	53.4%	-35,123	-146.6
Total	**193,264**	**806.5**	**100.0%**	**193,264**	**806.5**	**100.0%**	**0**	**0.0**

Detailed presentation of assets and liabilities as at 31 December 2006 by maturity is available in 6.9.1 Notes to Financial Statements.

Interest rate risk

Business operations of SID Bank are linked to two types of interest rate risks. The first risk type arises from the difference between the lending interest rate applied by SID Bank and the borrowing interest rate, or interest rate sensitivity to changes in general market interest rates. The second risk derives from the interest rate sensitivity to income from investments funded from SID Bank capital.

SID Bank manages its exposure to interest rate risk by harmonising the methods of interest rate calculation on assets and liabilities. The highest share of assets and liabilities is represented by euro-denominated instruments with interest rates linked to Euribor, which only leaves residual risk arising from timing differences of repricing to the reference rate and incomplete coordination in selecting the reference interest rate (three- or six-month Euribor).

In addition to coordinating its interest rate calculations, SID also applied, in a limited extent, financial derivative instruments as an additional tool of interest rate risk mitigation.

The application of the fixed interest rate is limited in assets to short-term and medium-term credits and investments in securities, in the total amount of SIT 32.0 billion (EUR 133.4 million), only SIT 8.3 billion (EUR 34.7 million) with residual maturity of over 1 year. Fixed interest rate deposits are mostly short term, in the total amount of SIT 10.0 million (EUR 41.6 thousand).

Presentation of assets and investments by period remaining to interest rate repricing as at 31 December 2006

	Assets			Liabilities			Gap	
Maturity class	in SIT million	in EUR million	as % of total assets	in SIT million	in EUR million	as % of total assets	in SIT million	in EUR million
on deposit	958	4.0	0.5%	0	0.0	0.0%	958	4.0
up to 1 month	29,374	122.6	15.2%	31,655	132.1	16.4%	-2,281	-9.5
1 to 3 months	60,791	253.7	31.5%	64,277	268.2	33.3%	-3,486	-14.5
3 months to 1 year	93,259	389.2	48.3%	71,921	300.1	37.2%	21,338	89.0
1 to 2 years	3,162	13.2	1.6%	0	0.0	0.0%	3,162	13.2
2 to 5 years	1,252	5.2	0.6%	0	0.0	0.0%	1,252	5.2
over 5 years	4,468	18.6	2.3%	25,412	106.0	13.1%	-20,944	-87.4
Total	**193,264**	**806.5**	**100.0%**	**193,264**	**806.5**	**100.0%**	**0**	**0.0**

Operational risk

Operational risk refers to the operations of the company and depends on its internal organisation, operation of internal controls, effectiveness of internal and external audits and similar measures. The main factors of operational risk are human resources, business processes, information technology and other infrastructure, organisational structure and external events.

In view of the relatively high balance sheet total, the operational risk per employee is quite high, but SID Bank manages to control it through a system of decision-making and authorisations, by providing substitutions for times of absence, through suitable staff qualifications and investments in information technology. System risks inherent in information technology are increasing in line with the level of informatization. They were managed through additional measures such as implementation of continuous operation plans and other measures aimed at maximising information security.

Risk management in the SID Bank Group

Consolidated risk management observes the heterogeneity of the Group consisting of a parent institution, authorised and supervised under banking regulations, subsidiary insurance companies, authorised and supervised under the Insurance Supervision Agency, a factoring company, which assumes risks similar to those undertaken by the Bank but is not regulated, and PRO KOLEKT as a non-financial institution which does not assume greater financial risks.

In performance of their respective operations, business links have formed between these companies that affect the type and volume of consolidated risks. Special attention is paid to areas where the nature of transactions performed could lead to a concentration of the same risk, which is of particular relevance in concentrations of credit and insurance risks with regard to the same debtor (considering the links between risks/debtors).

Furthermore, all companies have in place an appropriate organisation structure that enables effective risk management by defining risk assumption processes, identifying, measuring and managing risks.

6.9. Information System

In 1995 SID embarked on a systematic development of its information system, which has since then been evolving as a document management system and as a system designed to facilitate communications of its users. To cope with the company's expansion of financing operations, monitoring of demanding credit operations and the process of obtaining a banking licence by the Bank of Slovenia, the information system of SID Bank has had to undergo several essential changes in its development and structure. The changes include implementation of additional control mechanisms and advanced transaction models, introduction and upgrade of security policy and preparation of new products.

In 2006 IT focused on carrying out all the activities necessary to ensure higher quality of the information system, compliant with the requirements of banking operations and banking regulations. Software upgrade needed to support banking operations was successfully completed. At the beginning of 2006, SID Bank introduced two CREDES business software applications which support the credit, deposit and guarantee transactions, and a new general ledger, which were all integrated into an information system linked to a common data module (data on business partners, statistical data, codes, etc.). All systems use uniform standards and codes.

An important activity carried out in 2006 that affected the entire SID Bank Group was the introduction of the euro in all IT applications. All activities in these fields were completed in time and efficiently.

Following a request from the Bank of Slovenia, the hardware and software owned by SID subsidiaries PKZ and PRO KOLEKT were separated from the hardware and software owned by SID Bank. The quality, accessibility and availability of data were enhanced through separate development, test and production environments and through increased control of the system and application software and hardware installed (introduction of Systems Management Server to exercise control over the introduction of changes in the Windows environment). In introduction of new projects and realization of tasks (application development), SID Bank has adopted the project-based work method with all the corresponding work procedures and documentation.

The IT Department worked intensively on the implementation of the security policy and regular updating of overall IT documentation in compliance with ISO 1779. Formation of an information protection committee has further improved internal control as well as transparency and oversight of the operation and development of the integral SID information system.

In 2006 the operation of the information system was subject to several audits carried out both by the Bank of Slovenia (acquisition of the banking licence, changeover to the euro) and by independent certified auditors.

The development of the company information system and information technology depends largely on the fundamental business strategy of the company, its future orientations and all the acts required either by various standards or external institutions. Evolution of the system of financing and export insurance and introduction of new SID Bank products and services have created the need for organisation changes, which in turn bring new challenges to efficient data management. In order to facilitate efficient management and decision-making processes, basic integration of data was ensured in 2006, and will remain one of essential IT tasks in the future.

Introduction of new business activities will strengthen the need for construction and implementation of information support which will be based on new software and hardware technologies. In response to these needs, IT Department puts rationalization of business processes at the centre of its activities by increasing the information flow between various information sources.

6.10. Personnel

Human resources policy

With regard to education and development, SID Bank began implementing the key goals stated in the human resources policy, based on the SID Bank's strategy for the period 2006-2010:

- to enhance employee identification with the new mission statement and strategy of the Bank,
- to upgrade specialist knowledge and to develop and acquire specialist knowledge on new bank activities (also by hiring new staff),
- to put in place»learning organization« and »knowledge management« models, and
- to ensure innovative transfer of good practice.

The Action Strategy as a set of basic principles of SID Bank operations defines the following values that the employees embrace and demonstrate in their daily work, relations with colleagues and contacts with customers and other interest groups:
identification and satisfaction of the needs of customers and the environment,
responsibility,
openness and creativity,
professionalism and teamwork,
trust and transparency, and
cooperation and sustainable development.

Employee development

Employee development was at the centre of attention also in 2006. Promoting employee development is one of the key conditions and elements of corporate development, as only a company with qualified and competent staff can be competitive in the global market. Annual appraisal interviews and semi-annual interviews to determine the achievement of set goals were conducted with all employees.

Annual appraisal interviews are the basis for the assessment of an individual's development potential, identification of key personnel (managers and specialists - responsible for development of new activities) and preparation of an annual training plan, since they can point to the needs for new knowledge, facilitate targeted training and education for individuals and employee groups.

A reward and recognition scheme has been designed to reward and motivate high-performing personnel and utilize their capabilities to achieve ambitious business plans.

Training

Considering the need for expert knowledge in the area of financing and insurance of business transactions, SID Bank gave special attention to acquiring and transferring knowledge, in particular in insurance, financing, treasury, legal matters, information technology, accounting and internal audit. Training took the form of in-house training and participation in conferences, workshops, seminars, postgraduate studies and the like, both in Slovenia and abroad.

Employees also acquired certain general skills, especially with regard to foreign languages, computing, goal setting, time management, business etiquette, etc., and specific knowledge, e.g. key account management, corporate financial analyses, insurance of bank investments, business negotiations, project funding, integration of Slovenia into the European Union, international financial reporting standards, payment systems, public procurement, etc.

In 2006 sixty-four employees (94.1% of all employees) attended various forms of training. The number of hours spent on training averaged at 48.71 per employee.

Project work

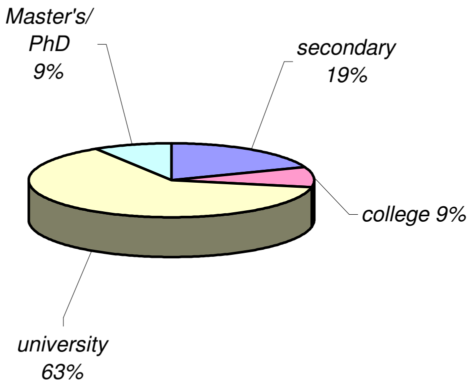
The year 2006 was marked by the project of transforming SID into a bank, which included over two thirds of all SID employees. In parallel with this key project, several other projects were underway, with the project of changeover to the euro as the most important one.

Recruitment (structure and trends)

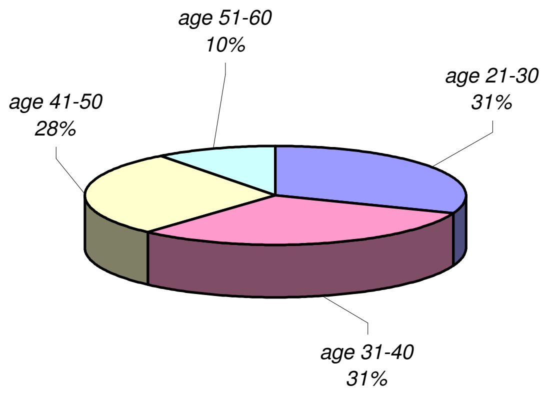
Personnel recruitment in 2006 was conducted in accordance with the approved business policy and recruitment plan. In the year 2006, ten employees were engaged, all with university degrees, five of them were engaged as trainees.

SID Bank ended the year with 68 employees (46 women and 22 men) with the average number of employees in 2006 totalling 65.

Personnel structure by education level as at 31 December 2006



Personnel structure by age as at 31 December 2006



Labour costs

Payment of salaries and allowances complies with the provisions of existing legislation and the Collective Agreement of Banks and Savings Banks of Slovenia.

In 2006 SID covered part of the premium for the voluntary supplementary pension insurance and the premiums for the voluntary supplementary health insurance for all employees.

Absenteeism

In accordance with the Internal Orders, SID applies flexible working time which allows effective time management fully adapted to the needs and requirements of work processes.

In 2006 the number of working hours totalled 129,584, of which 11,888 hours were used as annual paid leave, 280 hours as special leave and 192 hours as study leave.

Sick leave in 2006 averaged at 2.15%. Maternity leave was quite high, totalling 5.32%, which is a result of the high percentage of women employees in SID (67.65%).

Trade union

The majority of SID employees are members of the company trade union, which is part of the Trade Union of Banks and Savings Banks of Slovenia. With respect to the rights and obligations of the employees, SID fully complies with the provisions of the Collective Agreement for Banks and Savings Banks of Slovenia, and by means of an annual contribution of funds SID also makes possible the activities of the company trade union (sports and recreation activities, cultural and other events).

Working environment

SID shows a special concern for optimum working conditions. In accordance with the Occupational Health and Safety Act and the implemented Statement of Safety with Risk Assessment, SID organised training of employees for safe and healthy work and protection against fire risk and provided preventive and periodical medical examinations.

Internal communication

Internal exchange of information and communication is ensured through numerous well-established tools and applications, such as: e-mail, internal e-newsletter and access to a number of databases (e.g. memos on business meetings, minutes and decisions of corporate bodies, internal rules and regulations, expert library, descriptions of work procedures, proposals and ideas).

In 2006 we conducted a questionnaire on evaluating the work of superiors, in which special attention was given to the communications between superiors and colleagues, to information-sharing, task delegation, feedback, mutual relations, motivation, etc. The response from employees was very good as 80.5% of all employees filled out their questionnaires. The average mark given was 3.5, which shows that the employee satisfaction was 70% concerning the statements given in the questionnaire. In line with SID strategic goals, management skills will remain at the focus of company's attention.

6.11. Internal Audit

In 2006 Internal Audit provided audit assurances and advisory services consistent with The International Standards for the Professional Practice of Internal Auditing, code of internal auditing principles, code of professional ethics of internal auditors and relevant provisions of the Banking Act.

The primary objectives of internal audit operation in 2006 were:

- to complete the supervision system of the future SID Bank with emphasis on the supervision of the internal control
- system with planned further improvements,
- to maximize the efficiency of risk management control,
- to control the required implementation of internal and external regulations with emphasis on the implementation of
- the recommendations made by the Bank of Slovenia,

all with an aim to maximize the positive effects on the objectives stated in the current business policy of SID and the adopted SID Bank Action Strategy.

Pursuant to the Banking Act, internal audit activities in 2006 involved the following:

- monitoring and evaluation of the effectiveness of risk management systems and assistance in risk management matters,
- reviews, evaluations and testing of the efficiency of internal control systems,
- assessments of the reliability of the information system
- assessments of the reliability and integrity of accounting records and financial statements, internal controls and accounting procedures,
- verification of the completeness, reliability and timeliness of reporting in accordance with the regulations,
- checking the compliance of SID actions with internal and external regulations,
- oversight of implementation of recommendations made in 2006 by the Bank of Slovenia and auditor's recommendations.

Internal audit reviews were focused on the following issues:

- organisation changes caused by the company's transformation into a bank
- transition to the International Financial Reporting Standards
- introduction of new software solutions in analytical bookkeeping and the general ledger
- changeover to the euro.

Throughout 2006, internal audit conducted 27 reviews. The findings of each review were reported directly to the Management Board. All the recommendations made by the internal audit were adopted by the Management Board. Internal audit also prepared quarterly reports and an annual report on internal audit operations. All reports were discussed at the regular meetings of the Management Board and the Supervisory Board.

In terms of organisation structure and human resources, internal audit closely follows the requirements of the Banking Act. Internal audit employs two people, namely the Director of Internal Audit, who is a certified auditor, and an internal auditor, who holds the professional title of auditor.

7. Review of SID Bank Group Operations in 2006

7.1. Financial review of SID Bank Group operations

The consolidated statements of the SID Bank Group include PKZ according to the full consolidation method and the PRVI FAKTOR Group according to the proportional consolidation method. Owing to its insignificant impact on the financial position and business results of the SID Bank Group, the PRO KOLEKT Group is not included in the consolidation.

Consolidated income statement

	2006	2005	2006	2005
	in SIT thousand		in EUR thousand	
Net interest	2,500,406	2,250,914	10,436	9,393
Net income from insurance	1,174,030	998,198	4,900	4,165
Net non-interest income	1,058,249	997,065	4,417	4,161
Labour, general and administrative costs	-2,201,026	-1,648,467	-9,186	-6,879
Depreciation	-128,777	-112,737	-537	-470
Impairments and provisions	-392,318	497,269	-1,637	2,075
- insurance technical provisions	-418,228	-296,101	-1,746	-1,236
Pre-tax profit	2,010,564	2,982,242	8,391	12,445
Corporate income tax	-354,567	-755,740	-1,480	-3,154
Net profit	1,655,997	2,226,502	6,911	9,291

In 2006 pre-tax profit of the SID Bank Group amounted to SIT 2.0 billion (EUR 8.4 million).

Net interest totalled SIT 2.5 billion (EUR 10.5 million) in 2006, rising 11.1% on the previous year. Net income from insurance climbed 17.6% reaching SIT 1.2 billion (EUR 4.9 million). Non-interest income, made up mainly of fees and commissions from credits and guarantees, factoring and treasury transactions and income from reimbursement SID receives from the state subject to the Agreement on the regulation of mutual relationships concerning implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions (ZZFMGP), amounted to SIT 497.3 million (EUR 2.1 million). Net non-interest income was SIT 1.1 billion (EUR 4.4 million) and remained at the 2005 level.

In 2006 operating costs totalled SIT 2.3 billion (EUR 9.7 million), an increase of 32.3% from the prior year, mostly due to higher costs of labour related to an increase in employee numbers. In the structure of operating costs, labour costs accounted for 58.5%, cost of services 33.5%, depreciation 5.5% and cost of materials 2.4%. Operating costs relative to total assets lowered from 1.21% in 2005 to 1.19% in 2006.

Consolidated balance sheet

	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	in SIT thousand		in EUR thousand	
Bank loans	187,072,639	130,675,661	780,640	545,446
Loans from non-banks	38,009	1,413,799	159	5,901
Liabilities from factoring	1,374,127	883,578	5,734	3,688
Provisions	5,178,676	4,193,488	21,610	17,504
- insurance technical provisions	4,390,556	3,259,194	18,321	13,604
Other liabilities	2,273,098	2,521,532	9,485	10,525
Capital	28,685,443	27,405,557	119,702	114,392
Total liabilities	**224,621,992**	**167,093,615**	**937,331**	**697,457**
Contingency reserve	24,611,935	22,311,917	102,704	93,131
IREP	350,003	0	1,461	0
Off-balance-sheet items	65,200,306	74,167,474	272,076	309,579

As at 31 December 2006, consolidated total assets of the SID Bank Group stood at SIT 224.6 billion (EUR 937.3 million), showing a year-on-year increase of 34.4%. Contingency reserves for insurance carried out on behalf of and for the account of the state (including the corresponding liabilities) rose by 10.3% in 2006 to SIT 24.6 billion (EUR 102.7 million).

There was a 43.2% increase in bank loans, making up SIT 187.1 billion (EUR 780.7 million) or 83.3% of total liabilities. Strong growth in factoring transactions led to a considerable rise of 55.5% in liabilities from factoring, totalling SIT 1.4 billion (EUR 5.7 million) at the end of 2006.

Capital of the SID Bank Group stood at SIT 28.7 billion (EUR 119.7 million), recording an increase of 4.7% through generated net profit. Capital accounted for 12.8% of total liabilities, compared with 16.4% of total liabilities as at 31 December 2005.

	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	in SIT thousand		in EUR thousand	
Financial assets available for sale	13,089,117	10,791,202	54,620	45,043
Loans to banks	144,707,914	109,632,634	603,855	457,612
Loans to non-bank sectors	39,261,083	33,803,353	163,834	141,097
Receivables from factoring	22,220,711	9,223,835	92,725	38,501
Tangible fixed assets and intangible long-term assets	1,604,797	945,883	6,697	3,948
Long-term investments in equity SID Bank Group companies	6,892	2,100	29	9
Other receivables	3,731,478	2,694,608	15,571	11,247
- reinsurance contracts	3,415,410	2,469,257	14,252	10,307
Total assets	**224,621,992**	**167,093,615**	**937,331**	**697,457**
Investments from contingency reserve	24,611,935	22,311,917	102,704	93,131
Investments from IREP	350,003	0	1,461	0

In 2006 growth of total assets again resulted from intensive financing of international business transactions and a rise in factoring services. Loans to banks increased by 32.0% to SIT 144.7 billion (EUR 603.8 million). Loans to non-bank sector were up by 16.1% totalling SIT 39.3 billion (EUR 163.8 million). The year-on-year increase was highest in acquired receivables, rising 140.9% to SIT 22.2 billion (EUR 92.7 million):

Key figures of SID Bank Group operations

	2006	2005
Shares		
- number of shareholders	87	87
- number of shares	932,354	932,354
- par value of a share	10	10
- book value of a share (in SIT thousand)	30.69	28.34
Profitability:		
- interest margin	1.28%	1.54%
- financial intermediation margin	1.82%	2.23%
- return on assets before taxation	1.03%	2.05%
- return on equity before taxation	7.17%	11.28%
- return on equity after taxation	5.90%	8.43%
Operating costs		
- operating costs / average assets	1.19%	1.21%
Number of employees in SID Bank Group The figure includes all employees of the PRVI FAKTOR Group (76 as at 31 Dec 2006 and 47 as at 31 Dec 2005).	188	143

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

In 2006 SID – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter PKZ) was successful in increasing significantly the volume of existing contracts and premiums and managed to acquire new insurance contracts. The company's second year of operation was a success in terms of financial results. The volume of short-term credit insurance contracts entered into by PKZ in 2006 was SIT 898.5 billion (EUR 3.75 billion), a 24% increase on the business volume generated in short-term export credit insurance in 2005.

Gross premiums written reached SIT 2.7 billion (EUR 11.2 million), rising by 20% on the year 2005, which is largely due to the growth of business insured with existing clients (a result of higher GDP and exports growth) and new persons insured. Claims paid amounted to SIT 1.1 billion (EUR 4.8 million), accounting for 42.6% of premiums written (40.5% in 2005). However, at SIT 208 million (EUR 0.9 million), recoveries (paid to PKZ) accounted for 18% of the paid claims (15% in 2005).

Insurance technical provisions increased SIT 127 million (EUR 0.5 million) year-on-year to reach SIT 4.1 billion (EUR 17.1 million). Owing to a change in the regulations governing the calculation of equalization provisions in

2005, equalization provisions continue to decrease whereas other items of insurance technical provisions remain on the increase.

Gross profit was SIT 637 million (EUR 2.7 million), equity as at 31 December 2006 stood at SIT 2.0 billion (EUR 8.4 million) and total assets amounted to SIT 6.9 billion (EUR 29.0 million).

In 2007 PKZ will continue to provide domestic and export credit insurance against commercial and non-commercial risks. By monitoring sales of the insured in their respective domestic and foreign markets, by carefully checking their buyers and though prompt processing of claims PKZ will provide its customers with unparalleled support in their financial receivables risk management. In addition, the insurance company will continue to look for new clients and present its services through personal visits and presentations as well as by providing information over the phone, mail and via the Internet.

The market penetration in the segment of credit insurance covered by PKZ has already exceeded the European average. That is why in 2007 PKZ will start implementation of active reinsurance transactions, as enabled by the change in legislation adopted in 2006. First arrangements have already been made with partners in Macedonia, Bosnia and Herzegovina and Serbia. Together with other companies of the SID Bank Group, PKZ will strive to secure its presence and growth in these and other South European markets. PKZ will continually study the market possibilities for new and upgraded credit insurance products and these will be the focus of its research and development activities**.** The existing information system will be upgraded to include several applications enabling additional analyses. PKZ will also continue developing its support system for on-line business with the insured (PKZ-Net).

To ensure better efficiency of business operations with regard to contracts for excluded transactions, PKZ has transferred several activities onto SID Bank. In terms of ownership and business performance, the operations of PKZ remain an inseparable part of the SID Bank Group, which ensures that regardless of legal changes the synergy effects of complementary facilities will be maintained.

7.3. PRO KOLEKT Group

In 2006 the business operations of PRO KOLEKT, Ljubljana were focused on ensuring further growth of business volumes and on developing a network of subsidiaries in the territory of former Yugoslavia.

In three years of its operation, PRO KOLEKT managed to set up a network of debt collection agencies in 72 states. In 2006, the company acquired 537 collection claims with a total value of SIT 3.4 billion (EUR 14.5 million) and recovered SIT 527 million (EUR 2.2 million) of receivables, which was 33% more than in the previous year. Additionally, the company acquired several new foreign clients so that foreign clients account for 32% of the company's turnover. In the future, we expect a rise in the demand from foreign debt collection agencies, with whom PRO KOLEKT has already been doing business, and from members of the Berne Union.

Its 2006 PRO KOLEKT, Ljubljana generated income in an amount of SIT 85.0 million (EUR 0.3 million), a 55% rise from the prior year. The company closed the financial year with a loss totalling SIT 4.0 million (EUR 16.9 thousand).

PRO KOLEKT, Ljubljana intends to continue expansion of its activities in 2007. In accordance with the Action Plan on the Expansion of the PRO KOLEKT Group to the markets of South Eastern Europe, drawn up on the basis of guidelines stated in the Action Strategy of Slovenska izvozna družba d.d. or SID Bank for the period 2006-2010, PRO KOLEKT will start the procedures for establishment of subsidiaries in this area.

7.4. PRVI FAKTOR Group

In 2005, the intensive growth of the PRVI FAKTOR Group continued. The company purchased SIT 119.9 billion (EUR 500.4 million) worth of accounts receivable, an increase of 136.7% on the year 2005. PRVI FAKTOR, Zagreb acquired SIT 51.8 billion (EUR 213.4 million) of receivables, PRVI FAKTOR, Ljubljana purchased SIT 44.1 billion (EUR 184.0 million) and PRVI FAKTOR, Belgrade purchased SIT 23.9 million (EUR 99.7 million) worth of accounts receivable. The PRVI FAKTOR subsidiaries in Zagreb and Belgrade contributed nearly 63% of the total Group turnover, and the share of subsidiaries in the consolidated business result is even higher.

Business volume growth led to an increase in consolidated total assets which stood at SIT 51.8 billion (EUR 216.1 million) as at 31 December 2006, showing a year-on-year rise of 123.3%. In terms of balance sheet total, the largest company in the PRVI FAKTOR Group is PRVI FAKTOR, Zagreb whose balance sheet total came to SIT 24.3 billion (EUR 101.5 million).

The growth in business volumes is also evident in business results. Net profit of the PRVI FAKTOR Group amounted to SIT 558.6 million (EUR 22.3 million), showing a rise of 173.1% on the prior year. The highest profit in the amount of SIT 302.2 million (EUR 1.3 million) was generated by PRVI FAKTOR, Belgrade, which was founded in the beginning of 2005. Total assets of PRVI FAKTOR, Ljubljana were SIT 16.8 billion (EUR 70.3 million) as at 31 December 2006, rising 47.3% on the year 2005. Net profit of the Group totalled SIT 44.2 million (EUR 0.2 million) in 2006, and was down 15% from the year 2005.

The primary objectives of the PRVI FAKTOR Group are to ensure further growth of the company, strengthen its market position with existing clients and enter new markets. The Group plans to acquire accounts receivable in the amount of EUR 677 million in 2006 and generate pre-tax profit of EUR 2.4 million. In 2007 a PRVI FAKTOR subsidiary in Macedonia is expected to start operation, and PRVI FAKTOR, Sarajevo will operate at full capacity.

8. Appendices

8.1. Management Bodies of SID Bank as at 31 December 2006

General Meeting of Shareholders

Simon Oblak, MSc. – Chairperson
Metod Zaplotnik – Deputy Chairperson

Supervisory Board

- Dr. Andrej Bajuk – Chairperson, Minister of Finance
  Ministry of Finance
- Helena Kamnar, MSc. - Deputy Chairperson
  University of Ljubljana
- Gonzalo Caprirolo, MSc.
  Ministry of Finance
- Dr. Božo Cerar
  Ministry of Foreign Affairs
- Jožko Čuk, MSc.
  Chamber of Commerce and Industry
- Dr. Andrej Kitanovski
  Ministry of Economy
- Dr. Mojmir Mrak
  Faculty of Economics, University of Ljubljana

International Trade Promotion Commission

- Sabina Koleša, MSc. – Chairperson
  Ministry of Economy
- Janko Burgar, MSc. – Deputy Chairperson
  Ministry of Economy
- Dr. Robert Kokalj
  Ministry of Foreign Affairs
- Janez Košak, MSc.
  Bank of Slovenia
- Cveto Stantič, MSc.
  Chamber of Commerce and Industry
- Stanislava Zadravec Caprirolo, MSc.
  Ministry of Finance

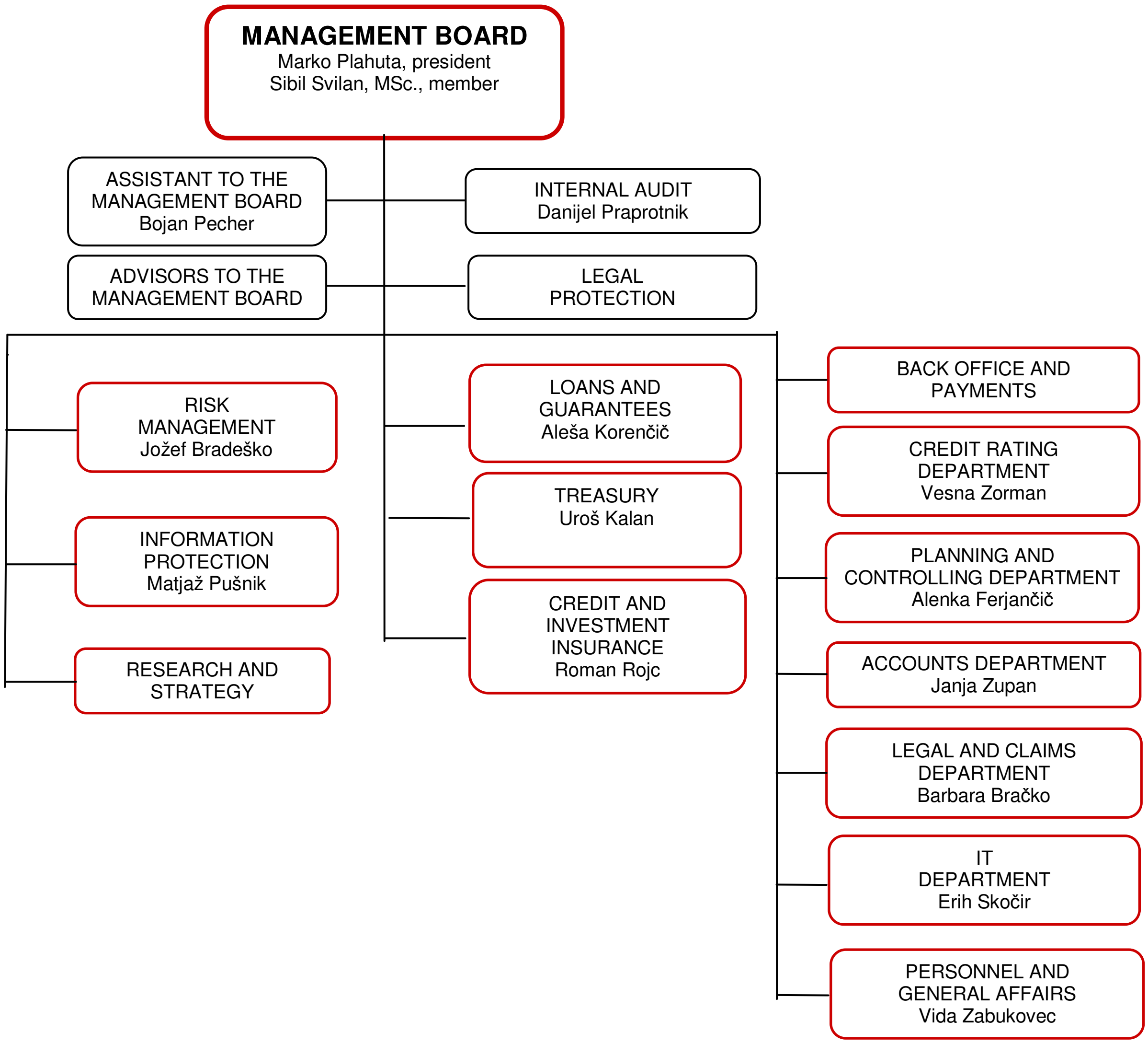
Management Board

- Marko Plahuta, President
- Sibil Svilan, MSc., Member

Since 1 January 2007 SID Bank has been managed by the Management Board in the following composition:

- Sibil Svilan, MSc., President
- Jožef Bradeško, Member
- Marko Plahuta, Member

8.2. Organisation Chart of SID Bank as at 31 December 2006



II. Financial statements of SID bank

Contents

Statement of the Management Board on financial statements of SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana

On 9 March 2007, the Management Board approved the financial statements of Slovenska izvozna in razvojna banka, d.d., Ljubljana for the year ended 31 December 2006. The financial statements have been compiled in accordance with the International Financial Reporting Standards as adopted by the EU. The accounting policies and calculation methods applied were the same as those used in the preparation of opening balances as at 1 January 2005.

The Management Board is fully responsible for appropriate accounting, the adoption of adequate measures for protection of property and assets and confirms that the financial statements, together with notes, have been prepared on the basis of the assumptions of going concern and in line with the applicable legislation as well as the International Financial Reporting Standards as adopted by the EU.

Ljubljana, 9 March 2007

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of Slovenska razvojna in izvozna banka, d.d., Ljubljana (the 'Bank'), which comprise the balance sheet as of December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have reviewed the Business Report.

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

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

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

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

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the financial position of the Bank as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU.

The Bank is the parent company of Slovenska izvozna in razvojna banka, d.d., Ljubljana, group (the 'Group') - the consolidated financial statements of the Group, prepared in accordance with International Financial Reporting Standards, as adopted by EU, have been issued separately. The consolidated financial statements of the Group as of and for the year ended 31.12.2006 were audited by us and our report dated 30.03.2007 expressed an unqualified opinion.

The Business Report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Andreja Bajuk Mušič
Certified Auditor
Andreja Bajuk Mušič

Yuri Sidorovich
Partner

Ljubljana, March 30, 2007

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

1. Balance sheet as at 31 December 2006

in thousands of SIT	Note	31.12.2006	1.1.2006	31.12.2005 *
Cash and balances with the central bank		0	4	4
Financial assets held for trading	6.6.1.	37,626	21,698	0
Available-for-sale financial assets	6.6.2.	8,485,919	6,432,778	6,220,814
Loans	6.6.3.	181,771,129	141,931,425	138,354,011
Interest on financial assets		8	8	0
Property, plant and equipment	6.6.4.	1,234,642	604,832	602,514
Intangible fixed assets	6.6.5.	145,847	163,718	182,001
Long-term investments in equity of subsidiaries, associates and joint ventures	6.6.6.	1,515,112	1,510,320	1,970,795
Corporate income tax assets	6.6.7.	13,158	51,850	0
Other assets	6.6.8.	60,694	90,742	129,161
TOTAL ASSETS OF SID BANK		**193,264,135**	**150,807,375**	**148,709,120**
INVESTMENTS FROM CONTINGENCY RESERVES	6.6.9.	**24,611,935**	**22,311,917**	**22,242,712**
INVESTMENTS - INTEREST RATE EQUALISATION PROGRAMME (IREP)	6.6.10.	**350,003**	**0**	**0**
Financial liabilities held for trading	6.6.11.	38,942	78,725	0
Financial liabilities measured at amortised cost	6.6.12.	166,404,815	124,196,816	123,605,337
Provision	6.6.13.	417,524	714,672	3,188,143
Corporate income tax liabilities	6.6.14.	612,948	883,683	0
Other liabilities	6.6.15.	771,966	189,381	766,828
Equity	6.6.16.	9,323,540	9,323,540	9,323,540
Capital reserves	6.6.17.	6,621,427	6,621,427	6,621,427
Revaluation surplus	6.6.18.	31,100	52,668	0
Reserves from profit (including retained profit)	6.6.19	9,285,410	8,336,320	4,793,702
Own stakes	6.6.20.	(317,390)	0	0
Net profit for the period		73,853	410,143	410,143
TOTAL LIABILITIES OF SID BANK		**193,264,135**	**150,807,375**	**148,709,120**
LIABILITIES FOR CONTINGENCY RESERVES	6.6.21.	**24,611,935**	**22,311,917**	**22,242,712**
INTEREST RATE EQUALISATION PROGRAMME (IREP)	6.6.22.	**350,003**	**0**	**0**
OFF-BALANCE SHEET ITEMS	6.6.23.	**61,401,114**	**72,180,735**	**72,133,848**

* Balance sheet compiled in line with the SAS.

Accounting policies and the pertaining notes form an integral part of these financial statements.

2. Income statement for 2006

in thousands of SIT	Note	2006	2005
Interest income		6,550,063	4,487,107
Interest expense		(4,752,913)	(2,688,872)
Net interest	6.7.1.	1,797,150	1,798,235
Dividend income	6.7.2.	8,019	0
Fees and commissions received		80,416	246,146
Fees and commissions paid		(20,047)	(44,996)
Net fees and commissions	6.7.3.	60,369	201,150
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	6.7.4.	(7,906)	(340)
Net profits/losses from financial assets and liabilities held for trading	6.7.5.	31,252	(89,905)
Fair value adjustments in hedge accounting		4,722	0
Net foreign exchange gains/losses	6.7.6.	(115,484)	88,489
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	6.7.7.	(1,344)	0
Other net operating profits/losses	6.7.8.	624,560	555,114
Revenues and expenses from financing and operating activities		**2,401,338**	**2,552,743**
Administrative costs	6.7.9.	(1,142,355)	(946,785)
Depreciation, amortisation	6.7.10.	(103,612)	(97,567)
Provision	6.7.11.	291,357	(447,846)
Impairments	6.7.12.	(617,041)	1,466,953
Profit on ordinary activities		829,687	2,527,498
Corporate income tax on ordinary activities	6.7.13.	(221,810)	(632,718)
Deferred taxes		4,923	8,235
Net profit on ordinary activities		612,800	1,903,015
Net profit for the period		**612,800**	**1,903,015**

Accounting policies and the pertaining notes form an integral part of these financial statements.

3. Cash flow statement for 2006

in thousands of SIT	2006	2005
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Net profit before tax	829,687	2,527,498
Depreciation, amortisation	103,612	97,567
Impairments of property, plant and equipment, investment property, intangible assets and other assets	(3,160)	0
Net foreign exchange (gains)/losses	115,484	0
Net (gain)/loss on sale of property, plant and equipment and investment property	1,344	0
Other (profit) or loss from financing	8,019	0
Net unrealised profit in capital revaluation adjustment on available-for-sale financial assets (excluding the effect of deferred tax)	54,462	0
Other adjustments of net profit or loss before tax	(291,357)	1,030,385
Cash flows from operating activities before changes in operating assets and liabilities	**818,091**	**3,655,540**
b) (Increase)/Decrease in operating assets	**(34,820,899)**	**(39,014,501)**
Net (increase)/decrease in financial assets recognised at fair value through profit or loss	0	(9,768)
Net (increase)/decrease in financial assets available for sale	(2,052,435)	(2,246,087)
Net (increase)/decrease in loans	(32,798,571)	(35,192,740)
Net (increase)/decrease in deferred expenses	730	0
Net (increase)/decrease in other assets	29,377	(1,565,906)
c) (Increase)/Decrease in trade liabilities	**41,226,958**	**31,730,451**
Net increase/(decrease) in financial liabilities held for trading	(39,783)	78,725
Net increase/(decrease) in deposits, loans and debt securities measured at amortised cost	41,860,854	33,459,765
Net increase/(decrease) in deferred revenues	14,322	0
Net increase/(decrease) in other liabilities	(608,436)	(1,808,039)
d) Cash flows from (used in) operating activities (a+b+c)	**7,224,149**	**(3,628,600)**
e) (Paid)/refunded corporate income tax	**(824,320)**	**0**
f) Net cash flows from (used in) operating activities (d+e)	**6,399,829**	**(3,628,600)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Inflows from investing activities	**64,576**	**2,216**
Proceeds from sale of property, plant and equipment and investment property	15,782	0
Proceeds from sale of intangible fixed assets	48,794	0
Other inflows from investing activities	0	2,216
b) Outflows from investing activities	**(779,525)**	**(151,675)**
(Outflows for acquisition of property, plant and equipment and investment property)	(716,626)	(70,201)
(Outflows for acquisition of intangible fixed assets)	(58,107)	(81,474)
(Outflows for acquisition of equity investments in subsidiaries, associates and joint ventures)	(4,792)	0
c) Net cash flows from (used in) investing activities (a-b)	**844,101**	**(153,891)**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Inflows from financing activities	**0**	**0**
b) Outflows from financing activities	**(317,390)**	**0**
(Outflows from purchase of own shares)	(317,390)	0
c) Net cash flows from (used in) financing activities (a-b)	**317,390**	**0**
D. Effect of exchange rate fluctuations on cash and cash equivalents	**0**	**0**
F. Effect of fair value changes on cash and cash equivalents	**0**	**0**
F. Net increase in cash and cash equivalents (Ae+Bc+Cc)	**7,561,320**	**(3,474,709)**
G. Cash and cash equivalents at beginning of period	**1,865,964**	**5,340,673**
H. Cash and cash equivalents at end of period (D+E+F+G) *	**9,427,284**	**1,865,964**

* Cash and cash equivalents include cash in amount SIT 13.332 thousand and deposits due to 90 days in amount SIT 9,413,952 thousand.

Accounting policies and the pertaining notes form an integral part of these financial statements.

4. Statement of changes in equity

In 2006

in thousands of SIT	Share capital	Capital reserves	Reval. surplus	Reserves from profit	Retained profits	Own stakes	Net profit or loss for the period	**Total capital**
OPENING BALANCE FOR THE PERIOD (1 Jan. 2006)	**9,323,540**	**6,621,427**	**52,668**	**4,188,536**	**4,147,784**	**0**	**410,143**	**24,744,098**
Transfers to equity	**0**	**0**	**0**	**0**	**0**	**(317,390)**	**612,800**	**295,410**
Acquisition of own shares	0	0	0	0	0	(317,390)	0	(317,390)
Net profit or loss for the year	0	0	0	0	0	0	612,800	612,800
Transfers within equity	**0**	**0**	**0**	**949,090**	**0**	**0**	**(949,090)**	**0**
Allocation of net profit to reserves from profit	**0**	**0**	**0**	949,090	0	0	(949,090)	0
Transfers from equity	**0**	**0**	**(21,568)**	**0**	**0**	**0**	**0**	**(21,568)**
Decrease in capital revaluation from:								0
- available-for-sale financial assets	0	0	(21,568)	0	0	0	0	(21,568)
CLOSING BALANCE FOR THE PERIOD (31 Dec. 2006)	**9,323,540**	**6,621,427**	**31,100**	**5,137,626**	**4,147,784**	**(317,390)**	**73,853**	**25,017,940**
BALANCE-SHEET PROFIT FOR THE YEAR							**4,221,637**	

In 2005

in thousands of SIT	Share capital	Capital reserves	Reval. surplus	Reserves from profit	Retained profits	Net profit or loss for the period	**Total capital**
OPENING BALANCE FOR THE PERIOD (1 Jan. 2005)	**9,323,540**	**6,621,427**	**0**	**2,739,818**	**3,885,341**	**308,576**	**22,878,702**
Transfers to equity	**0**	**0**	**52,668**	**0**	**0**	**1,903,015**	**1,955,683**
Increase in capital revaluation from:							0
- available-for-sale financial assets	0	0	52,668	0	0	0	52,668
Net profit or loss for the year	0	0	0	0	0	1,903,015	1,903,015
Transfers within equity	**0**	**0**	**0**	**1,539,005**	**262,443**	**(1,801,448)**	**0**
Transfer of net profit or loss	**0**	**0**	**0**	1,539,005	262,443	(1,801,448)	0
Transfers from equity	**0**	**0**	**0**	**(90,287)**	**0**	**0**	**(90,287)**
Decrease in capital revaluation from:							0
- available-for-sale financial assets							0
Corporate income tax 2003	**0**	**0**	**0**	(90,287)	0	0	(90,287)
CLOSING BALANCE FOR THE PERIOD (1 Jan. 2006)	**9,323,540**	**6,621,427**	**52,668**	**4,188,536**	**4,147,784**	**410,143**	**24,744,098**
BALANCE-SHEET PROFIT FOR THE YEAR						**4,557,927**	

* In 2005, the Special Tax Office carried out a review of regularity and timeliness of accounting for taxes and contributions for the year 2003. Due to excessive technical provisions, SID had to pay an extra corporate income tax in the amount of SIT 90,287 thousand. The liability was settled within the period prescribed.

Accounting policies and the pertaining notes form an integral part of these financial statements.

5. Balance sheet profit

in thousands of SIT	2006	2005
Net profit for the year	612,800	1,903,015
Share of net profit allocated to reserves for own stakes	(317,390)	0
Share of net profit allocated to statutory reserves	(147,705)	(820,286)
Share of net profit allocated to other reserves from profit	(73,852)	(410,143)
Transfer to retained profit	0	(262,443)
Undistributed net profit for the financial year 2006	73,853	410,143
Retained profit	4,147,784	4,147,784
Balance sheet profit	4,221,637	4,557,927

When compiling the Annual Report, the Management Board - out of net profit which totalled SIT 612,800 thousand - allocated SIT 317,390 thousand to reserves for own stakes, SIT 147,705 thousand to statutory reserves and SIT 73,852 thousand to other reserves from profit, in accordance with the Article 230(1) of the Companies Act (ZGD-1).

Balance sheet profit as at 31 December 2006 stood at SIT 4,221,637 thousand, comprised of undistributed profit for 2006 in the amount of SIT 73,853 thousand and retained profit of SIT 4,147,784 thousand arising from the transition to the International Financial Reporting Standards in 2006. The Management Board and the Supervisory Board propose to the General Meeting of Shareholders of SID Bank that a portion of the 2006 balance sheet profit, which consists of the 2006 net profit in the amount of SIT 73,853 thousand, be allocated to other reserves from profit, while the portion of the balance sheet profit, which consists of retained profit in the amount of SIT 4,147,784 thousand, remains unallocated.

6. Notes to financial statements

Items 1-4 of this Report represent the balance sheet as at 31 December 2006, income statement for the financial year 2006, cash flow statement for the financial year 2006 and capital flow statement for the financial year 2006 of Slovenska izvozna in razvojna banka, d.d., Ljubljana (separate financial statements). Data comparative to those presented are the data as at 1 January 2006 and the data for the financial year 2005, and in the balance sheet also data as at 31 December 2005 according to SAS.

Additional notes to the presented separate financial statements:

- item 1 of APPENDIX 1 presents the balance sheet comprising liabilities and investments from own sources and from sources backed by the guarantee of the Republic of Slovenia (trading for own account)
- item 2 of APPENDIX 2 presents the income statement relating to the trading for own account
- item 3 presents the cash flow statement relating to the trading for own account

Financial statements are given in thousands of SIT. Assets and liabilities denominated in foreign currencies are translated into tolars at the mean exchange rate of the Bank of Slovenia as at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into tolars at the exchange rate of the Bank of Slovenia as at the day they occur or are recorded.

6.1. Basic information

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

SID Bank was founded on 22 October 1992 as a special private-law financial institution for securing and financing exports. Its share capital amounts to SIT 9,323,540 thousand and is divided into 932,354 no-par value shares issued through several issues. The majority shareholder of the company is the Republic of Slovenia (91.15%). Other shareholders include banks, insurance companies, Chamber of Commerce and Industry of Slovenia, and numerous other Slovene companies (at 31 December 2006, SID had 87 shareholders).

SID Bank **on its own behalf** performs mainly the following activities:

- provides financing of preparations for international commercial operations and of international commercial operations and international commercial co-operation;
- issues guarantees;
- concludes business with the instruments of the monetary, currency and capital market and the market of derivative financial instruments;
- prepares credit rating and other credit information.

On behalf of the Republic of Slovenia SID Bank as an authorised export-credit agency provides:

- insurance of short-term export credit against non-commercial and other non-marketable risks;
- insurance of investments against non-commercial risks;
- insurance of medium-term export credit against commercial and/or non-commercial risks;
- interest equalisation programme for financing international transactions; and
- other tasks under special authorisations.

The said division of operations of SID Bank is made according to the Act Governing Insurance and Financing of International Commercial Transactions (ZZFMGP), which entered into force on 14 February 2004 and regulates the bulk of operations of SID Bank.

The activities conducted by SID Bank for its own account are financed by its own sources, whereas international commercial operations are according to the ZZFMGP financed by borrowing on foreign financial markets in its own name and on its own behalf and by the guarantee of the Republic of Slovenia. The operations of SID Bank for its own account and financed by its own sources and the operations other than insurance operations which are not regulated by the ZZFMGP are governed by banking regulations.

Given the above, the financial statements of SID Bank comprise assets and liabilities and the results of operations on its own behalf, while the operations on behalf of the Republic of Slovenia are presented in separate financial statements (more in item 6.3). Moreover, the company compiles separate financial statements for operations financed by own sources and those international commercial operations financed according to the ZZFMGP (these statements form Attachment 5).

As at 31 December 2006 SID Bank employed 68 persons.

According to the criteria defined in Article 55 of the Companies Act-1 SID Bank is a large company.

6.2. Accounting policies

Financial statements of SID Bank have been compiled in accordance with the International Financial Reporting Standards and notes thereto, as adopted by the European Union (hereinafter: IFRS), and in line with the regulations of the Bank of Slovenia.

In compiling these financial statements the basic accounting assumptions were taken into account:
- accrual basis;
- going concern;
- true and fair presentation in the situation of constantly changing value of SIT and other prices, but not hyperinflation.

Accounting policies may change only if the change:
- is required by a standard or an interpretation; or
- results in the financial statements providing more reliable and more relevant information.

Major accounting policies providing the measurement basis used in the compilation of financial statements and other accounting policies relevant for understanding of financial statements are the following:

6.2.1. Cash and cash equivalents

Cash assets include cash and cash equivalents. Cash comprises cash in hand, cash in business accounts with banks and cash in transit. Cash assets are disclosed separately in the domestic and foreign currency.

In the balance sheet cash in hand is a constituent part of item A.I. Cash and balances with the central bank. Cash in business accounts with banks and cash in transit are included in item A.V. Loans.

Cash and cash equivalents in the cash flow statement comprise individual items with less then three months' maturity as of the day of acquisition: all cash assets, bank deposits and treasury bills.

All items of cash equivalents represent short-term, highly liquid investments which are simply and readily convertible to known amounts of cash.

6.2.2. Derivatives

The company in its own name and on its own behalf concludes contracts on derivatives which represent a small initial investment compared to the nominal value of the contract. Derivates comprise mainly currency forward contracts and interest swaps, used especially as hedging against currency and interest rate risk that the company is daily exposed to when operating on financial markets.

After initial recognition at amortised cost the derivatives are carried at fair value, which is - depending on the instrument - determined either based on quoted market prices or by using discounted cash flow models. Profit or loss from derivatives is included in the income statement under profit or loss from financial assets and in the balance sheet as assets, if the derivatives' fair value is positive, or liabilities, if the derivatives' fair value is negative.

Individual derivatives, in spite of efficient hedge against risks, do no meet all criteria for hedge accounting treatment specified in special rules of IAS 39 and are accounted for as held-for-trading financial assets.

Changes in fair value of derivatives are reported in net profit or loss from held-for-trading financial assets and liabilities.

6.2.3. Available-for-sale financial assets

In accordance with IAS 39 SID Bank classifies its securities investments as "available-for-sale financial assets", purchased with the aim of managing current liquidity.

Available-for-sale financial assets therefore comprise both debt instruments and equity instruments.

According to IAS 39 available-for-sale financial assets are upon initial recognition measured at fair value which usually equals the purchase price. Purchase costs are incremental costs that are directly attributable to the acquisition and increase the procurement value. On the day of concluded transaction, which is usually different from the settlement date, the available-for-sale financial asset is recorded in the off-balance sheet and on the settlement date written off the books. A uniform method is used consistently for all acquisitions and disposals of financial assets belonging to the category of available-for-sale financial assets.

Upon initial recognition, the amortised cost of debt instruments (bonds) is calculated using the effective interest rate method, with revenues evenly distributed throughout the entire period of possession of the debt instrument, namely from the acquisition to the due date - calculation based on return until maturity.

Following initial recognition, debt instruments are carried at fair value based on quoted market prices. The difference between fair value and amortised cost (unrealised profit) is disclosed under a special capital element - revaluation surplus. There is a possibility of positive differences or negative differences, increasing or decreasing the revaluation surplus respectively. If the differences are of permanent nature, their amount increases loss/decreases profit.

Exchange gains or losses on debt instruments are disclosed in the income statement, and exchange gains or losses from revaluation to fair value in the revaluation surplus.

6.2.4. Loans

The item comprises loans to banks and clients other than banks, and bank deposits.

Loans and deposits are recognised when funds are provided to the client. They are carried at amortised cost, which equals the initial principal value reduced by any repayments and increased by interest charged for the period and loan approval fees.

Revenues from loan approval fees are equally distributed over the entire loan repayment period. The management is of the opinion that even distribution of revenues from the said fees over the loan repayment period is a good approximation to recognition of these revenues by using the effective interest rate method.

6.2.5. Impairment of loans and guarantees

Financial assets under this item include loans to banks, loans to clients other than banks, bank deposits, and guarantees.

The company classifies financial assets as assets subject to individual or group impairment. Balance and off-balance sheet items subject to individual impairment are the following:

- non-risk balance sheet items;
- exposures to banks and savings banks in zone A countries, other than domestic banks, and other banks with minimum AA credit rating according to S&P or Aa according to Moody's;
- exposures to other clients where there is objective evidence of impairment for at least one financial asset and the total impairment amount for an individual client is greater than in the event of group impairment.

Total exposures not subject to individual impairment are classified into the following groups:

- exposure to guarantees to domestic legal entities other than banks, including balance sheet items arising from commissions charged for these transactions (DG group);
- other risky balance and off-balance sheet items relating to non-bank residents which are not subject to individual impairment and that do not have a minimum AA credit rating according to S&P or Aa according to Moody's (DP group);
- risky balance and off-balance sheet exposures to domestic banks (DB group);
- exposures to non-residents are classified into separate groups by country (XX groups, with XX representing the two-digit code of a country according to the ISO 3166 standard).

If within the scope of an individual assessment of a financial asset there is objective evidence of impairment, the recoverable value of such financial asset has to be assessed. The impairment is measured for every financial asset that is individually significant. Impairment of financial assets that are not individually significant is measured on a group basis.

When calculating the losses arising from credit risk of an individually significant financial asset the company considers prime and suitable security as well as other collateral which fully meets the criteria stated in item 7 of the Regulation of the Bank of Slovenia on the Assessment of Credit Risk Losses of Banks and Savings Banks.
The recoverable amount of individually impaired financial assets is calculated by decreasing the cash flow from principal repayment by no less than the percentage of impairment used when losses are estimated on a group basis.

If financial assets are assessed individually and the impairment is not necessary and consequently not recognised, these assets are subject to additional group assessment in the full amount.

Impairments of financial assets from non-residents are calculated on a group basis, with the impairment level equalling the sum of impairment level applied to a group of comparable domestic financial assets and the impairment level for country risks. Impairments based on country risks are calculated taking into account the premium rates for loan collateralisation against country risks provided by SID on behalf of the RS.

Loss estimate for collective impairment of guarantees is made on the basis of average loss from paid guarantees, with consideration of opportunity costs of delays in collection of receivables arising from paid guarantees, and the actual (concluded deals) and assessed recoveries (non-concluded deals).

Loss estimate for collective impairment of other exposures to residents is based on the estimate of the three-year average loss arising from financial assets in individual group.

6.2.6. Property, plant and equipment

Tangible fixed assets (property, plant and equipment) comprise real estate, equipment, and small tools.

An item of tangible fixed assets (property, plant and equipment) is recorded at its cost of purchase upon initial measurement. It comprises its purchase price, including import duties and non-refundable purchase taxes, as well as directly attributable costs of bringing the asset to working condition for its intended use. Any subsequent expenses related to tangible fixed assets are posted as maintenance costs or increase in the asset's cost of purchase. The purpose of such costs is disclosed as repair and maintenance of tangible fixed assets. Subsequently incurred costs related to a tangible fixed asset are disclosed as an increase in the cost of purchase if their expenditure increases future economic benefits related to the underlying asset.

The cost model is used subsequent to initial recognition, whereby fixed assets are disclosed at their cost of purchase less any accumulated depreciation and any accumulated impairment losses.

Land and buildings are accounted for separately, even when they are acquired together.

The depreciation of the items of property, plant and equipment begins on the first day of the month in which the item has become available for its intended use. Straight-line depreciation method is applied. The company uses the following depreciation rates:

Land	0.0%
Buildings	5.0%
Computer equipment	50.0%
Cars	12.5%
Computer software	20.0%
Various machinery and inventory	25.0%
Furniture	11.0-15.0%
Small tools	25.0-100.0%

Tangible assets are impaired when their carrying amount exceeds their recoverable amount. Losses resulting from impairment of assets are recognised as expenses in profit or loss. At the end of each financial year, as at the balance sheet cut-off date, the existence of the indicator that an asset might be impaired is assessed. In case such indicator exists, the asset's recoverable amount is assessed, equalling:

- fair value reduced by costs of sale; or
- value in use, whichever is higher.

The carrying amount of an individual item of tangible fixed assets is derecognised upon disposal and if no future economic benefits are expected from its use or disposal.

6.2.7. Intangible fixed assets

Intangible fixed assets comprise investments in software and property rights. Useful life of an intangible asset is estimated as definite. If it is definite, the useful life is assessed and the intangible asset amortised at a 20% rate. Straight-line amortisation method is applied. Intangible assets with indefinite useful life are not amortised. At least at each financial year-end, the company tests the intangible asset for impairment by comparing their recoverable amount with their carrying amount.

Intangible assets are after initial recognition using the cost model carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation ceases at the earlier of the date that the asset is classified as held-for-sale asset and the date the asset is derecognised.

Intangible assets are impaired when their carrying amount exceeds their recoverable amount. Losses resulting from impairment of assets are recognised as expenses in profit or loss. At the end of each financial year, as at the balance sheet cut-off date, the existence of the indicator that an asset might be impaired is assessed. In case such indicator exists, the asset's recoverable amount is assessed, equalling:

- fair value reduced by costs of sale; or
- value in use, whichever is higher.

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

In the parent company's financial statements the investments in equity of subsidiaries and associates are carried at cost.

Subsidiaries comprise companies in which SID Bank has, directly or indirectly, more than half of voting rights or control over their operations in any other way. The accounting policies of subsidiaries are aligned so as to comply with the accounting policies of the parent company.

Associates are the companies in which the parent company directly or indirectly holds between 20% and 50% of voting rights. The accounting policies of associates are also aligned so as to comply with the accounting policies of the parent company.

If evidence arises indicating the necessity of impairment of an investment in subsidiary or associate, the recoverable amount is estimated for each investment separately.

Dividends received are disclosed as dividend revenue in the income statement.

6.2.9. Financial liabilities measured at amortised cost

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

Items are carried at amortised cost, which equals the initial principal value reduced by any repayments and increased by interest charged for the period and any expenses arising from loan approval fees.

The latter are evenly distributed over the loan repayment period. The management believes that even distribution of expenses over the loan repayment period is a good approximation to recognition of these expenses by using the effective interest rate method.

6.2.10. Provision

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

a) Provisions for guarantees, approved undrawn credit facilities and credit lines

These include impairments of guarantees calculated according to procedures specified in item 5.2.3. herein.

b) Provision for anniversary bonuses

These provisions were calculated based on bonuses specified in the applicable collective agreement as at 31 December 2006. In the calculation, account is taken of differentiation between the period for which the bonus was already earned, and the period which has to elapse until the conditions for payout of the anniversary bonus are fulfilled. The calculation was made under the assumption that at the moment of eligibility for the bonus payout, all employees will still be employed at SID Bank. The amounts of bonuses were discounted to the present value, whereby consideration was taken of the time distribution of the anticipated payouts of anniversary bonuses and the average interest rate on government debt securities published by the Ministry of Finance for the purpose of calculation of the yield of voluntary supplementary pension insurance. Included was the full interest rate calculated in such a manner (3.6%). The applied input parameters: anniversary bonuses for 10 years: SIT 83 thousand, anniversary bonuses for 20 years: SIT 124 thousand, anniversary bonuses for 30 years: SIT 166 thousand.

c) Provision for severance pay in case of retirement

These provisions were calculated according to the collective agreement, contribution rates of employers and retirement conditions as at 31 December 2006, under the assumption that all employees will be eligible for retirement while still employed at SID Bank and that they will first meet the retirement age condition and utilise it. In the calculation, account was taken of the differentiation between the period for which the bonus was already earned, and the period which has to elapse until retirement requirements are fulfilled. The amounts of the severance pay were discounted to the present value, whereby consideration was taken of the time distribution of the anticipated payouts and of the average interest rate on government debt securities published by the Ministry of Finance for the purpose of calculation of yield of voluntary supplementary pension insurance. Included was the full interest rate calculated in such a manner (3.6%). The applied input parameters: amount under the Employment Relationship Act (two average monthly salaries of the employee for the past three months), increased by salary growth in the banking sector in the last five years; period of service upon retirement: 40 years - men, 38 years - women.

d) Pursuant to the Slovene legislation the company pays social security and pension contributions for employees from gross salaries and accounts them under expenses for the period.

Short-term compensated absences (paid annual leave) are included in expenses for the period.

6.2.11. Capital

Capital is comprised of share capital, capital reserves, profit reserves, surplus from revaluation of financial assets, capital revaluation - own shares and net profit for the year with retained profits.

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

Capital reserves include paid-in capital surplus and reserves from general capital revaluation adjustment. Capital reserves may be according to the law used for covering losses and for capital increase. Profit reserves are disclosed when formed by the body who compiled the annual report or on the basis of the resolution of the competent body, and used as prescribed by the By-Laws and the law. Statutory reserves may be used by the company to cover net loss for the year, loss brought forward, increase in share capital and assets of the company, establishment of reserves for own shareholdings and elimination of major damage arising from operations and extraordinary business events. Other reserves from profit are intended for strengthening the capital adequacy of the company.

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

Revaluation surplus includes revaluation related to available-for-sale financial assets.

6.2.12. Off-balance sheet receivables/liabilities

Disclosed in the off-balance sheet records are issued guarantees, undrawn approved loans and credit lines, undrawn raised loans and derivatives.

Financial obligations assumed under issued guarantees - both financial and performance - represent the company's irrevocable commitment to payment, should the client fail to meet their obligations to a third party.

The basic purpose of assumed and irrevocable liabilities from approved undrawn credit facilities and credit lines is to provide funds to the company's client according to the concluded agreement.

The risks related to contingent liabilities and assumed financial obligations are estimated based on applicable regulations (IFRS and in line with the policies of the Bank of Slovenia), and described in detail in chapter 6.2.5.

6.2.13. Interest income and interest expense

Interest income and interest expense items include income and expenses for interest on granted and raised loans, interest on available-for-sale financial assets, and other interest.

In the income statement the interest income and interest expenses from granted and raised loans and other interest are recognised in the relevant period using the effective interest rate method.

Under available-for-sale financial assets the interest income is evenly distributed over the period of possession of a security based on the amortised cost calculated using the effective interest rate method.

6.2.14. Commissions received and paid

Commission income comprises mainly commissions from granted loans and issued guarantees. As stated in item 6.2.4. income from charged loan approval fees is equally distributed over the entire loan repayment period.

Commission expenses include chiefly fees for raised foreign loans. These expenses are also evenly distributed over the entire loan repayment period.

6.2.15. Impairments of loans measured at amortised cost

Losses arising from impairment of loans are recognised if there is objective evidence that the client will not be able to repay the entire approved loan amount and interest. Loss amount equals the difference between the carrying amount and recoverable amount of the loan; the latter comprising projected future payments including the amounts recovered from guarantees and collateral discounted at the interest rate applicable as at the day the loan is raised.

Loans are impaired mainly based on the credit rating and performance of the borrower, taking into account the value of received security and guarantees of third parties.

6.2.16. Taxation

Corporate income tax is accounted based on the revenue and expenses reported in the income statement and according to the applicable legislation. The applicable tax rate is 25% of the taxable base.

Deferred corporate income tax is provided in full, using the liability method based on the balance sheet, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred corporate income tax is determined using tax rates that have been enacted as at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

SID has deferred tax assets arising from long-term provision for anniversary bonuses and severance pay in case of retirement, and accrued costs arising from the collection of the amount claimed by a former employee through court. Deferred tax liabilities arise from capital revaluation adjustment for available-for-sale financial assets.

The effects of transition from SAS to IFRS are recorded as retained profit which is taxed at a 25% rate. In accordance with applicable regulations a liability has to be discharged in three tax periods at the latest, but at least one third in the first period.

6.2.17. Effect of changes in foreign exchange rates

The functional currency used in presenting the financial statements is the Slovene tolar (SIT).

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

At each balance sheet date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items which are carried at historical cost denominated in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items which are carried at fair value denominated in a foreign currency are translated using the exchange rate at the date of determining fair value.

Exchange differences arising from the settlement of monetary items or the translation of monetary items by using exchange rates other than those used for initial recognition in the period or presentation in the preceding financial statements, are recognised in profit or loss for the period in which they appear, under profit or loss on exchange differences.

6.2.18. Significant amounts

Significant items in the balance sheet are the items which as at the balance sheet date exceed 1% of total assets or SIT 1,933 thousand in the balance sheet as at 31 December 2006. Significant items in the income statement are the items exceeding 0.5% of total assets or SIT 966 thousand in the income statement for the year 2006.

6.2.19. Cash flow statement

Cash flow statement (indirect method) consists of data from the balance sheet as at 31 December 2006 and the balance sheet as at 1 January 2006 and of data from the income statement for the year 2006 plus any other data required for the adjustment of inflows and outflows and for adequate breakdown of significant items. Cash flow statement is presented on a form issued by the Bank of Slovenia and aligned with IAS 7.

6.2.20. Statement of changes in equity

Statement of changes in equity presents changes in individual capital elements in the accounting period. The statement's form is based on requirements under IAS 1.96. The form discloses separately changes in each item of capital in the balance sheet.

6.2.21. Adoption of new and revised standards

The management board anticipate that the adoption of new Standards and Interpretations (MSRP 7, 8, 9, 10, 11 and 12) in future periods will have no material financial impact on the financial statements of the Company.

6.3. Transactions under authorisation

6.3.1. Insurance against non-marketable risks

As stated in item 6.1 herein, SID Bank, as an authorised export-credit agency provides, on behalf of the Republic of Slovenia, mainly insurance of short-term export credit against non-commercial and other non-marketable risks, insurance of investments against non-commercial risks, and insurance of medium-term export credit against commercial and/or non-commercial risks.

The funds for insurance on behalf of the state have been provided to SID Bank by the Republic of Slovenia in the form of cash assets allocated to contingency reserves used for covering obligations to the insureds arising from insurance against medium-term commercial risks, short-term non-commercial and non-marketable commercial risks provided by SID Bank on behalf of the state.

Article 4 of the Act Governing Insurance and Financing of International Commercial Transactions (ZZFMGP) regulates operations with contingency reserves and specifies that these reserves are established by using paid premiums, fees and commissions, recourse and other revenues which an authorised institution representing the state generates in insurance, reinsurance, retrocession and other transactions and services, whereby the participants in international trade are provided cover against non-marketable risks. Contingency reserves are formed also from the funds which the authorised institution obtains from managing these assets and assumed risks, the budget of the Republic of Slovenia, but also from other sources and assets. Contingency reserves are used for settling obligations to the insureds, payment of costs arising from the prevention and reduction of future or already incurred losses, for covering losses from these operations and managing of these assets and risks, as well as for payment of expenses related to the provision of services of an authorised institution performed on the basis of the said Act.

Pursuant to the said Act SID on 1 December 2004 signed with the Ministry of Finance the agreement regulating mutual relations arising from the implementation of Chapter II of the Act Governing Insurance and Financing of International Commercial Transactions.

In line with the said legal provisions and the agreement concluded with the Ministry of Finance, SID Bank, in its books of account, reports the operations on behalf of the state completely separately from its other operations. The operations of SID Bank in the name of and on behalf of the state are accounted for in a separate income statement which according to the accrual principle includes all revenues and expenses from these operations. The company compiled also a separate balance sheet disclosing these operations. Contingency reserves, investments from these reserves and the pertaining items are disclosed also under a special item in the balance sheet of SID Bank (notes 6.6.9. and 6.6.21.).

The agreement concluded with the Ministry of Finance regulating mutual relations regarding the implementation of Chapter II of the Act Governing Insurance and Financing of International Commercial Transactions dated 1 December 2004 specifies the fee for the provision of services according to this Act and the above-mentioned agreement. This fee is charged as of 1 January 2005. The agreement is concluded for an indefinite period, but for no more than until the authorisations are granted to the authorised institution selected on the basis of Article 11 of the said Act.

6.3.2. Interest equalisation programme

On the basis of the agreement on the implementation of the interest equalisation programme and management of IEP reserve funds concluded with the Ministry of Finance on 24 November 2006, the reserve funds of the interest equalisation programme were formed on 29 December 2006.

The programme is presented in item 6.6. of the business section of the report.

6.4. SID Bank Group

6.4.1. Group companies

The SID Bank Group is comprised of:

- SID – Prva kreditna zavarovalnica d.d., Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia (PKZ Ljubljana)
- PRO KOLEKT, družba za izterjavo, d.o.o., Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia (PRO KOLEKT Ljubljana), the founder of:
    - PRO KOLEKT d.o.o., Savska cesta 41, 10144 Zagreb, Croatia (registered on 1 February 2006)
    - PRO KOLEKT d.o.o., Bulevar Goce Delčev 11, 1000 Skopje, Macedonia (registered on 20 June 2006)
    - PRO KOLEKT d.o.o. Zmaj Jovina 13/I, 11000 Belgrade, Serbia (registered on 18 December 2006)

- The associated company PRVI FAKTOR, faktoring družba, d.o.o., Slovenska cesta 17, Ljubljana, Slovenia (PRVI FAKTOR Ljubljana), in which SID holds a 50% stake and which has four daughter companies:
  - PRVI FAKTOR, faktoring društvo, d.o.o., Hektorovićeva 2/V,10144 Zagreb, Croatia (PRVI FAKTOR Zagreb)
  - PRVI FAKTOR, faktoring d.o.o., Cara Dušana 43/1, 11000 Belgrade, Serbia and Montenegro (PRVI FAKTOR Beograd)
  - PRVI FAKTOR d.o.o., finansijski inžinjering, Zmaja od Bosne 14c, 71000 Sarajevo, Bosnia and Herzegovina (registered on 27 February 2006)
  - PRVI FAKTOR d.o.o., Skopje, Mito Hasivasilev - Jasmin 20, 9000 Skopje, Macedonia

In December 2004, SID founded SID – Prva kreditna zavarovalnica d.d., Ljubljana, Ulica Josipine Turnograjske 6, Slovenia (PKZ) and transferred onto it the portfolio of marketable insurance, which it provided for its own account until the end of the 2005 and which are as of 1 January 2005 provided only by PKZ.

SID in June 2004 established the collection company PRO KOLEKT d.o.o., which is under its sole ownership.

With the aim of supplementing the insurance and financing range and developing factoring, SID in 2002 acquired a 50% holding in LB Factors d.o.o. (now PRVI FAKTOR d.o.o.) on the basis of the agreement concluded with Nova Ljubljanska banka d.d. and LB Interfinanz AG Zurich. SID became a member of the company by increasing the company's capital by SIT 500,220 thousand on 15 October 2002.

Basic data about the companies in the SID Bank Group

In millions of SIT	SID banka	PKZ	PK Lj	PK Zg	PK Sk	PK Bg	PF Lj	PF Zg	PF Bg	PF Sa	PF Sk
SID ownership stake		100%	100%	100%	80%	100%	50%	50%	50%	50%	50%
Voting rights		100%	100%	100%	80%	100%	50%	50%	50%	50%	50%
Nominal investment		1,008.0	6.9	3.2	1.9	6.0	500.2	443.5	131.8	12.2	1.2
Audited data as at 31 Dec. 2005:											
Capital	24,744.1	1,534.4	2.3	-	-	-	918.5	127.2	59.7	-	-
Assets	150,807.4	6,714.4	19.9	-	-	-	11,440.6	10,494.7	3,759.4	-	-
Liabilities	126,063.3	5,180.0	17.6	-	-	-	10,522.1	10,367.6	3,699.6	-	-
Net revenues	2,548.6	1,061.9	54.9	-	-	-	561.4	565.1	126.9	-	-
Net profit	1,903.0	526.3	0.1	-	-	-	52.2	51.1	49.8	-	-
Number of employees	62	33	1	-	-	-	27	16	4	-	-
Audited data as at 31 Dec. 2006:											
Capital	25,017.9	2,020.3	3.1	(0.9)	1.8	6.0	797.8	692.6	500.3	15.5	1.2
Assets	193,264.1	6,943.0	28.9	879.8	1.8	6.0	16,846.7	24,560.0	12,493.5	659.9	1.2
Liabilities	168,246.2	4,922.7	25.8	880.7	0.0	0.0	16,048.8	23,867.4	11,993.2	644.4	0.0
Net revenues	2,392.7	1,413.8	85.0	5.4	0.8	0.0	342.7	909.2	1,090.8	18.7	0.0
Net profit	612.8	450.1	(4.0)	(4.1)	(0.6)	0.0	44.2	208.8	302.2	3.3	0.0
Number of employees	68	38	3	2	1	0	30	30	12	4	0

6.4.2. Consolidated financial statements of the SID Bank Group

SID Bank is the controlling company of the SID Bank Group. The consolidated financial statements as at 31 December 2006, which have been prepared, just as separate financial statements, in accordance with International Financial Reporting Standards as adopted by the EU, have been compiled and disclosed separately.

6.5. Transition to International Financial Reporting Standards

Taking into account the Decision of the Bank of Slovenia Determining the Beginning of Application of International Financial Reporting Standards for Banks and Savings Banks, SID Bank for the first time compiled financial statements according to IFRS for the business year commencing 1 January 2006. The date of transition to reporting according to IFRS is therefore 1 January 2005.

To provide for translation of comparative data, SID Bank has compiled the opening balance sheet according to IFRS as at 1 January 2005 on the basis of the balance sheet prepared in line with SAS as at 31 December 2004, which includes changes resulting from:

- transfer of credit insurance against marketable risks to the daughter company PKZ Ljubljana - Namely, the financial statements for 2004, which were presented in the Annual Report of SID Bank for 2004, comprised items referring to marketable insurance provided by SID by the end of 2004 in its own name, whereas in 2005 these operations and the insurance portfolio were transferred to the daughter company PKZ Ljubljana;
- changed disclosure method for operations of SID in the name of and on behalf of the Republic of Slovenia on the basis of the ZZFMGP and the agreement regulating mutual relations regarding the implementation of Chapter II of the ZZFMGP, concluded with the Ministry of Finance.

SID Bank has compiled also comparative financial statements according to IFRS for 2005.

Below we present, according to IFRS 1.38, the effects of transition to IFRS in the opening balance sheet as at 1 January 2005 and in comparative financial statements for 2005. Item 6.5.5. includes the restatement of total assets, net profit and capital accounted according to SAS to IFRS as at 1 January 2006, on the forms prescribed by the Bank of Slovenia in the Instructions on the Transition to International Financial Reporting Standards.

6.5.1. Opening balance sheet according to IFRS as at 1 January 2005

According to IFRS 1 SID Bank has upon the transition to IFRS prepared the opening balance sheet disclosing all assets and liabilities whose recognition is required by IFRS.

Opening balance sheet according to IFRS

in thousands of SIT	1.1.2005 SAS - adjusted	Restatements	1.1.2005 IFRS
Cash and balances with the central bank	42	0	42
Financial assets held for trading	0	31,466	31,466
Available-for-sale financial assets	4,186,691	0	4,186,691
Loans	107,172,945	1,310,374	108,483,319
Property, plant and equipment	630,948	0	630,948
Intangible fixed assets	83,497	0	83,497
Long-term investments in equity of subsidiaries and associates	1,434,597	75,723	1,510,320
Other assets	1,025,812	0	1,025,812
TOTAL ASSETS - SID	**114,534,532**	**1,417,563**	**115,952,095**
INVESTMENTS FROM CONTINGENCY RESERVES	**21,499,189**	**0**	**21,499,189**
Financial liabilities measured at amortised cost	90,737,080	0	90,737,080
Provision	3,478,319	(3,211,494)	266,825
Corporate income tax liabilities	0	1,348,555	1,348,555
Other liabilities	1,273,122	(552,189)	720,933
Equity	9,323,540	0	9,323,540
Capital reserves	1,337,489	5,283,938	6,621,427
Revaluation surplus	5,336,587	(5,336,587)	0
Reserves from profit (including retained profit)	2,739,819	3,885,340	6,625,159
Net profit for the period	308,576	0	308,576
TOTAL LIABILITIES - SID	**114,534,532**	**1,417,563**	**115,952,095**
LIABILITIES FOR CONTINGENCY RESERVES	**21,499,189**	**0**	**21,499,189**

6.5.2. Adjustments in the opening balance sheet as at 1 January 2005

a) Financial assets held for trading

According to SAS as at 1 January 2005	0
Change in the fair value of the derivative	31,466
According to IFRS as at 1 January 2005	31,466

The financial statements of the company prepared according to SAS did not disclose the fair value of the derivative financial instrument (interest swap), however, this change was according to IAS 39 accounted for in the opening balance compiled in line with IFRS.

b) Available-for-sale financial assets

The carrying amount of available-for-sale financial assets as at 1 January 2005 stood at SIT 4,186,691 thousand and their fair value equalled SIT 4,235,443 thousand.

c) Loans

According to SAS as at 1 January 2005	107,172,945
Decrease in value adjustments for impairments	1,310,374
According to IFRS as at 1 January 2005	108,483,319

Loan impairments as at 1 January 2005 were calculated with consideration of policies stated in item 6.2.5. of this report.

d) Long-term investments in equity of subsidiaries and associates

According to SAS as at 1 January 2005	1,434,597
Net effect of attributed loss or profit	39,780
Reversal of amortisation of non-posted goodwill from investment in PRVI FAKTOR d.o.o.	35,943
According to IFRS as at 1 January 2005	1,510,320

e) Provision

According to SAS as at 1 January 2005	3,478,319
Provisions for severance pays and anniversary bonuses	12,281
General provisions	(925,000)
Provisions for guarantees	(723,623)
Provisions for A-graded clients	(1,040,913)
Country risk provisions	(534,239)
According to IFRS as at 1 January 2005	266,825

As at 1 January 2005:

- provisions for severance pays and long-service awards were established in line with the policies stated in item 6.2.10. b and c) herein;
- general provisions in the amount of SIT 925,000 thousand were reversed;
- taking into account the policies stated in item 6.2.5. herein, the newly calculated provisions for guarantees were SIT 723,623 thousand lower;
- provisions for A-graded clients and country risk provisions were reversed.

Provisions as at 1 January 2005 according to SAS and IFRS

	1.1.2005 SAS - adjusted	Restatements	1.1.2005 IFRS
Provisions for severance pays and anniversary bonuses	0	12,281	12,281
General provisions	925,000	(925,000)	0
Provisions for guarantees	978,167	(723,623)	254,544
Provisions for A-graded clients	1,040,913	(1,040,913)	0
Country risk provisions	534,239	(534,239)	0
Total	3,478,319	(3,211,494)	266,825

f) Corporate income tax liabilities

According to SAS as at 1 January 2005	0
Transfer from the item Other liabilities	552,189
Tax account arising from the effect of transition to IFRS	796,366
According to IFRS as at 1 January 2005	1,348,555

Tax liability established in the 2004 tax account was transferred from the item Other liabilities. According to the Corporate Income Tax Act the tax liability arising from the entire effect of the transition to IFRS as at 1 January 2005 amounted to SIT 4,681,706 thousand.

g) Capital reserves

According to SAS as at 1 January 2005	1,337,489
Transfer from the item Revaluation surplus	5,283,938
According to IFRS as at 1 January 2005	6,621,427

General capital revaluation adjustment (i.e. balance of revaluation adjustment of equity as at 31 December 2001) was transferred to capital reserves.

h) Revaluation surplus

According to SAS as at 1 January 2005	5,336,587
Transfer to the item Capital reserves	(5,283,938)
Transfer to the item Retained profit	(52,649)
According to IFRS as at 1 January 2005	0

Special revaluation adjustment arising from revaluation of investments in subsidiaries at equity method was transferred to Retained profit.

i) Reserves from profit (including retained profit)

	1.1.2005 SAS - adjusted	Restatements	1.1.2005 IFRS
Reserves from profit	2,739,819	0	2,739,819
Retained profit	0	3,885,340	3,885,340
Total	2,739,819	3,885,340	6,625,159

Disclosed retained profit included the effects of transition to IFRS as at 1 January 2005 which are explained in transition items of this note.

j) Effect on capital
Summary of effects of the transition to IFRS on capital

Capital according to SAS	**19,046,011**
Derivatives	31,466
Loan impairments	1,310,374
Elimination of equity method	75,723
Provisions for severance pays and anniversary bonuses	(12,281)
General provisions	925,000
Provisions for guarantees	723,623
Provisions for A-graded clients	1,040,913
Country risk provisions	534,239
Deferred taxes	(796,366)
Capital according to IFRS	**22,878,702**

6.5.3. Adjustments in the income statement for 2005

Changes in the valuation of individual balance sheet items are reflected also in the income statement. Substance changes are in greater detail explained under individual balance sheet items (item 6.5.2). Below we present the effects of restatement to IFRS reflected in net profit for 2005:

Net profit according to SAS 2005	**1,640,572**
Derivatives	(71,140)
Loan impairments	1,140,287
Elimination of equity method	16,319
General provisions	(670,500)
Provisions for guarantees	(285,123)
Provisions for undrawn credit facilities	77,138
Provisions for A-graded clients	150,333
Country risk provisions	7,815
Provisions for severance pays and anniversary bonuses	(17,523)
Deferred taxes	(87,481)
Other	2,318
Total effect on net profit	**262,443**
Net profit according to IFRS 2005	**1,903,015**

Effects by individual item from income statement:

Net interest	17,353
Net profits/losses from financial assets and liabilities held for trading	(88,493)
Administrative costs	162
Depreciation, amortisation	2,318
Provision	(738,022)
Impairments	1,156,606
Corporate income tax on ordinary activities	(87,481)
Total effect on net profit	**262,443**

6.5.4. Adjustments in the cash flow statement for 2005

Effects by individual item from cash flow statement:

Net cash flows from operating activities	(8,637,832)
Net cash flows from investing activities	(1,005,448)
Net cash flows from financing activities	9,643,280
Total effect	0

The comparative cash flow statement for 2005 has been prepared on the basis of the balance sheet as at 1 January 2005 and 31 December 2005 (1 January 2006) and based on data from the income statement for the period between 1 January and 31 December 2005. Both statements have been adjusted to IFRS and therefore the effects of transition are included in the cash flow statement. The effect on items of net cash flows from operating, financing and investing activities is different. The differences result from changes in the value of loans (decrease in impairment) and consequently different operating results and different methodology of the form. Net cash flows from investing activities no longer include net cash flows from acquisitions and disposals of securities.

6.5.5. Restatement of total assets, net profit and capital according to SAS to IFRS as at 1 January 2006

Effect of transition to IFRS as at 1 January 2006 is presented in forms prescribed by the Bank of Slovenia in the Instructions on the Transition to International Financial Reporting Standards.

RESTATEMENT OF TOTAL ASSETS	
Total assets according to SAS as at 1 January 2006	**148,709,120**
Available-for-sale financial assets	52,668
Derivatives	53,083
Special provisions (value adjustments)	2,450,661
Elimination of equity method	(460,475)
Other	2,318
Total assets according to IFRS as at 1 January 2006	**150,807,375**
RESTATEMENT OF NET PROFIT	
Net profit according to SAS 2005	**1,640,572**
Derivatives	(71,140)
Provisions from balance sheet asset items and off-balance sheet (assumed) liabilities	1,090,450
Provisions for general banking risks	(670,500)
Employee compensation - anniversary bonuses and severance pays upon retirement	(17,523)
Deferred taxes	(87,481)
Elimination of equity method	16,319
Other	2,318
Net profit according to IFRS 2005	**1,903,015**
RESTATEMENT OF CAPITAL	
Capital according to SAS as at 1 January 2006	**21,148,812**
Available-for-sale financial assets	52,668
Derivatives	(39,674)
Provisions from balance sheet asset items and off-balance sheet (assumed) liabilities:	4,699,598
- for credit risks	4,157,544
- for country risks	542,054
Elimination of equity method	(460,475)
Provisions for general banking risks	254,500
Employee compensation - anniversary bonuses and severance pays upon retirement	(29,966)
Deferred taxes	(883,683)
Other	2,318
Capital according to IFRS as at 1 January 2006	**24,744,098**

The effects of transition to IFRS as at 1 January 2006 totalled SIT 4,147,784 thousand, the major of which were the effect of decrease in impairments in the amount of SIT 2,450,661 thousand, the effect of decrease in provisions for credit and country risks of SIT 2,248,938 thousand and the effect of increase in tax liability equalling SIT 883,683 thousand.

6.6. Notes to the balance sheet

(in thousands of SIT)

6.6.1. Financial assets held for trading

	31.12.2006	1.1.2006
Derivative financial instruments held for trading under forward contracts	7,732	0
Derivative financial instruments held for trading under swap contracts	29,894	21,698
Total	37,626	21,698

The item includes the valuation of two derivatives, interest swap in the amount of EUR 5,000,000 and currency forward of USD 1,000,000.

6.6.2. Available-for-sale financial assets

	31.12.2006	1.1.2006
Short-term debt securities	1,478,064	0
Long-term debt securities	7,007,855	6,432,778
Total	8,485,919	6,432,778

a) Short-term securities

	31.12.2006	1.1.2006
Treasury bills	1,478,064	0
Total	1,478,064	0

The disclosed balance of short-term securities includes accrued interest calculated at effective interest rate in the amount of SIT 29,549 thousand.

b) Long-term securities

	31.12.2006	1.1.2006
RS bonds, of which:	3,134,866	2,947,847
- with a nominal interest rate	2,325,687	2,114,375
- with a currency clause	809,179	833,472
Bank bonds, of which:	2,432,854	1,914,589
- with a nominal interest rate	1,682,725	1,650,217
- with a currency clause	484,059	239,576
- in foreign currency	266,070	24,796
Foreign-currency denominated bonds of foreign entities	1,318,533	1,089,015
Bonds of other financial organisations, of which:	121,602	481,327
- with a nominal interest rate	121,602	382,915
- with a currency clause	0	98,412
Total	7,007,855	6,432,778

The disclosed balance of long-term securities includes accrued interest calculated at effective interest rate in the amount of SIT 107,488 thousand.

c) Changes in debt securities not held for trading

	2006	2005
As at 1 December	6,432,778	4,258,228
Acquisitions, transfers	8,178,501	6,790,337
Disposals, cashing	(7,603,424)	(4,615,787)
As at 31 December	7,007,855	6,432,778

Debt securities comprise SIT 587,345 thousand of subordinated securities, namely bonds BDM11, NKBMFL09, NKBMFL49 and NLB13. Exposure to interest rate risk is presented in items 6.7.1. and 6.9.3., whereas exposure to currency risks is detailed in item 6.9.2.

Out of the entire portfolio only BDM11 bond amounting to SIT 166,670 thousand and MP Plus mutual fund amounting to SIT 62,755 thousand were not quoted on the stock exchange as at 31 December 2006.

6.6.3. Loans

	31.12.2006	1.1.2006
Loans to banks	142,387,936	107,852,921
Loans to non-bank clients	39,383,193	34,078,504
Total	181,771,129	141,931,425

a) Loans to banks

	31.12.2006	1.1.2006
Short-term loans	10,296,349	9,272,356
Long-term loans	120,315,713	91,661,236
Special-purpose deposits	11,762,542	6,831,369
Sight deposits	13,332	87,960
Total	142,387,936	107,852,921

Foreign-currency loans to banks amounted to EUR 453,769,520.48 and USD 22,064,693.94. Foreign-currency sight deposits totalled EUR 8,177,512.02.

Loans and special-purpose deposits were granted to and made with Slovene banks for financing and refinancing of export and other international commercial operations in line with the business policy of SID Bank for individual business years.

The rate of refinancing of tolar export bank credits was usually 50% to 90% of the value of the export credit. The rate of financing foreign-currency export bank credits and the provision of funds for financing foreign-currency export bank credits usually accounted for 100%.

SID Bank directly finances international commercial operations, usually by providing funds equalling 100% of the operation value or, according to OECD rules, up to 85% of the export operation.

a1) Short-term loans to banks

	31.12.2006	1.1.2006
Loans in SIT	9,581,197	8,714,817
Loans with a currency clause	0	365,258
Foreign-currency loans	715,152	192,281
Total	10,296,349	9,272,356

Short-term loans approved in a foreign currency amounted to EUR 2,984,275.39.

No value adjustments for impairments were made for short-term loans to banks.

a2) Long-term loans to banks

	31.12.2006	1.1.2006
Loans in SIT	4,237,600	7,060,918
Loans with a currency clause	4,051,724	4,705,998
Foreign-currency loans	112,040,437	79,974,426
Value adjustments of foreign-currency loans	(14,048)	(80,106)
Total	120,315,713	91,661,236

Long-term foreign-currency loans amounted to EUR 450,785,245.09 and USD 22,064,693.94.

a3) Special-purpose deposits to banks

	31.12.2006	1.1.2006
Short-term in SIT	9,063,949	578,015
Short-term in foreign currency	1,959,659	1,024,753
Short-term with a currency clause	0	1,994,038
Long-term in SIT	738,934	2,953,355
Long-term with a currency clause	0	281,208
Total	11,762,542	6,831,369

Short-term deposits in a foreign currency equalled EUR 8,177,512.02.

a4) Changes in loans to banks

	2006	2005
As at 1 January	107,852,921	84,408,355
New loans and deposits	737,862,348	679,548,168
Repayments	(703,327,333)	(656,103,602)
As at 31 December	142,387,936	107,852,921

a5) Changes in adjustments (impairment)

	2006	2005
As at 1 January	80,106	11,623
Value adjustments of loans	118,601	68,483
Reversal of value adjustments of loans	(184,659)	(0)
As at 31 December	14,048	80,106

a6) Interest rates on refinanced tolar loans

Interest rates on refinanced tolar loans were treated, depending on the selected loan maturity, on a case-by-case basis.

The interest rate on foreign-currency loans to banks comprises 3 or 6-month EURIBOR/LIBOR and the margin equalling between 0.25% p.a. and 1.4% p.a. Exposure to interest rate risk is presented in items 6.7.1. and 6.9.3., whereas exposure to currency risks is detailed in item 6.9.2.

b) Loans to non-bank clients

	31.12.2006	1.1.2006
Short-term loans	10,775,372	8,582,758
Long-term loans	28,260,064	24,942,410
Guarantees	347,757	553,336
Total	39,383,193	34,078,504

Foreign-currency loans to clients other than banks stood at EUR 169,120,841.73 and USD 4,016,343.83.

b1) Short-term loans to non-bank clients

	31.12.2006	1.1.2006
Foreign-currency loans to non-financial companies	4,243,525	3,174,458
Tolar loans to non-financial companies	4,514	0
Foreign-currency loans to financial companies	1,283,245	1,568,172
Foreign-currency loans to foreign entities	4,719,583	2,293,784
Other foreign-currency investments	1,051,834	1,976,386
Value adjustments of short-term loans	(527,329)	(430,042)
Total	10,775,372	8,582,758

Short-term foreign-currency loans amounted to EUR 46,036,517.92 and USD 1,462,070.52.

b2) Long-term loans to non-bank clients

	31.12.2006	1.1.2006
Foreign-currency loans to non-financial companies	22,208,275	20,769,784
Loans to non-financial companies with a currency clause	163,921	209,957
Foreign-currency loans to financial companies	2,901,699	0
Foreign-currency loans to foreign entities	4,850,657	5,476,315
Other foreign-currency investments	0	34,494
Value adjustments of long-term loans	(1,864,488)	(1,548,139)
Total	28,260,064	24,942,411

Long-term foreign-currency loans amounted to EUR 123,084,323.81 and USD 2,554,273.31.

b3) Guarantees given
The item includes receivables from paid guarantees totalling SIT 347,757 thousand, for which value adjustments equalling 62% were made.

b4) Changes in loans to non-bank clients

	2006	2005
As at 1 January	34,078,504	25,111,320
New loans and deposits	27,242,375	11,030,958
Repayment	(21,937,686)	(2,063,774)
As at 31 December	39,383,193	34,078,504

b5) Changes in adjustments (impairment)

	2006	2005
As at 1 January	2,310,949	3,854,542
Value adjustments of loans (impairments)	2,206,442	1,609,977
Reversal of value adjustments of loans (reversal of impairments)	(1,557,698)	(3,153,570)
As at 31 December	2,959,693	2,310,949

b6) Interest rates

Interest rates on loans to clients other than banks in direct financing of corporates range from 3 or 6-month EURIBOR/LIBOR + 0.50% p.a. to 6-month EURIBOR/LIBOR + 1.85% p.a.

Exposure to interest rate risk is presented in items 6.7.1. and 6.9.3., whereas exposure to currency risks is detailed in item 6.9.2.

6.6.4. Tangible fixed assets

Changes in tangible assets:

	Real estate	**Equipment**	**Total**
Cost			
Balance as at 1 January 2006	833,477	316,270	1,149,747
Transfer	48,794	0	48,794
Increase	652,481	15,351	667,832
Decrease	0	(15,782)	(15,782)
Balance as at 31 December 2006	1,534,752	315,839	1,850,591
Value adjustment			
Balance as at 1 January 2006	(330,997)	(213,918)	(544,915)
Depreciation	(39,356)	(40,232)	(79,588)
Increase	0	(7,228)	(7,228)
Decrease	0	15,782	15,782
Balance as at 31 December 2006	(370,353)	(245,596)	(615,949)
Residual value as at 1 January 2006	502,480	102,352	604,832
Residual value as at 31 December 2006	1,164,399	70,243	1,234,642

The increase in tangible assets is for the most part accounted for by the purchase of the 4th and 5th floor of the office building where SID Bank already has its registered office. The company bought the said office premises from Iskratel d.o.o., Kranj, under a preliminary agreement concluded in April 2005 and under the agreement made on 29 December 2006. The purchase price was EUR 2,722,755.87 and was paid on 5 January 2007.

As at 31 December 2006 trade payables for fixed assets stood at SIT 679,160 thousand. The largest item was the liability arising from the purchase of real estate in the amount of SIT 652,481 thousand.

6.6.5. Intangible fixed assets

	Under construction	**In use**	**Total**
Cost			
Balance as at 1 January 2006	120,070	68,035	188,105
Transfer	(163,240)	114,445	(48,795)
Increase	87,172	0	87,172
Decrease	(29,064)	0	(29,064)
Balance as at 31 December 2006	14,938	182,480	197,418
Value adjustment			
Balance as at 1 January 2006	0	(24,387)	(24,387)
Amortisation	0	(24,024)	(24,024)
Decrease	0	(3,160)	(3,160)
Balance as at 31 December 2006	0	(51,571)	(51,571)
Residual value as at 1 January 2006	120,070	43,648	163,718
Residual value as at 31 December 2006	14,938	130,909	145,847

In 2006, SID Bank put into use the software for analytical management of credit accounting, the software for keeping the general ledger, preparation of credit rating information and implementation of payment transactions.

The renovation of the 4th and 5th floor which was until the purchase agreement was concluded disclosed under investments in third-party fixed assets was transferred - upon the purchase - to tangible fixed assets.

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

	31.12.2006	1.1.2006
Investment in PKZ	1,008,000	1,008,000
Investment in PRO KOLEKT	6,892	2,100
Investment in PRVI FAKTOR	500,220	500,220
Total	1,515,112	1,510,320

Changes in long-term investments:

	2006	2005
As at 1 January	1,510,320	1,510,320
Increase	4,792	0
As at 31 December	1,515,112	1,510,320

6.6.7. Corporate income tax assets

	31.12.2006	1.1.2006
Tax assets arising from advance corporate income tax	0	43,615
Non-current deferred tax assets	13,158	8,235
Total	13,158	51,850

As at 31 December 2006, SID Bank had disclosed non-current deferred tax assets arising from impairment of securities, accrued costs arising from the collection of the amount claimed by a former employee through court and provisions for pensions and anniversary bonuses of its employees.

6.6.8. Other assets

	31.12.2006	1.1.2006
Commission receivables	5,035	3,077
Advances to suppliers for current assets	727	1,738
Trade receivable	6,508	16,153
Other receivables	17,925	434
Deferred costs and accrued revenues, excluding interest	30,499	69,340
Total	60,694	90,742

6.6.9. Investments from contingency reserves

	31.12.2006	1.1.2006
Loans to banks	16,397,345	12,477,380
Loans to non-bank clients	643,725	601,319
Securities	6,683,760	9,222,653
Other assets	887,105	10,565
Total	24,611,935	22,311,917

Other assets include a receivable due from PRO KOLEKT Zagreb in the amount of SIT 851,773 thousand.

6.6.10 Investments within the interest equalisation programme

	31.12.2006	1.1.2006
Loans	350,003	0
Total	350,003	0

6.6.11 .Financial liabilities held for trading

	31.12.2006	1.1.2006
Derivative financial instruments held for trading, forward contract valuation	0	30,194
Derivative financial instruments held for trading, swap contract valuation	38,942	48,531
Total	38,942	78,725

6.6.12. Financial liabilities measured at amortised cost

	31.12.2006	1.1.2006
Long-term bank loans	166,394,630	122,103,794
Short-term bank loans	0	1,700,283
Short-term loans to non-bank clients	10,185	386,989
Long-term loans to non-bank clients	0	5,750
Total	166,404,815	124,196,816

Foreign-currency bank loans equalled EUR 679,402,277 and USD 19,692,412.

a) Long-term bank loans

	31.12.2006	1.1.2006
In foreign currency	166,394,630	122,103,793
Total	166,394,630	122,103,793

Non-current liabilities to foreign banks refer to liabilities from loans raised in the international market of syndicated loans between 2000 and 2005, and bilateral credit lines gained in co-operation with KfW- Kredit fuer Wiederaufbau and the Council of Europe Development Bank, secured by the guarantee of the Republic of Slovenia. Long-term foreign-currency liabilities amounted to EUR 679,402,277 and USD 19,692,412.

b) Interest rates
Interest rates on long-term loans from foreign banks range between 3 or 6-month EURIBOR/LIBOR + 0.05% p.a. and 3 or 6-month EURIBOR/LIBOR + 0.225% p.a.

6.6.13. Provision

	31.12.2006	1.1.2006
Provisions for pensions and similar liabilities to employees	28,506	29,966
Provisions for off-balance sheet liabilities	389,018	684,706
Total	417,524	714,672

a) Provisions for pensions and similar liabilities to employees

	31.12.2006	1.1.2006
As at 1 January	29,966	12,281
Established provisions	0	17,685
Reversed and used provisions	(1,460)	(0)
As at 31 December	28,506	29,966

b) Provisions for off-balance sheet liabilities

The item includes special provisions for covering contingent losses arising from issued guarantees and undrawn overdraft credit facilities:

	31.12.2006	1.1.2006
Provisions for guarantees	223,275	574,879
Provisions for undrawn credit facilities	165,743	109,827
Total	389,018	684,706

Changes:

	31.12.2006	1.1.2006
As at 1 January	684,706	254,544
Established provisions	965,659	430,162
Exchange differences	(5,736)	0
Reversed provisions	(1,255,611)	(0)
As at 31 December	389,018	684,706

6.6.14. Corporate income tax liabilities

	31.12.2006	1.1.2006
Corporation tax	604,074	883,683
Non-current deferred tax liabilities	8,874	0
Total	612,948	883,683

6.6.15. Other liabilities

	31.12.2006	1.1.2006
Liabilities for advance payments received	0	157
Net salaries and net salary allowances of employees	22,257	20,065
Liabilities for meal and travel allowance	2,049	1,910
Payroll deductions	39,149	38,477
Suppliers	682,022	43,586
Other liabilities	7,720	47,138
Accrued costs and deferred revenues:	18,769	38,048
- accrued costs	*13,423*	*18,380*
- deferred revenues	*5,346*	*19,668*
Total	771,966	189,381

6.6.16. Share capital

Subscribed capital in the amount of SIT 9,323,540 thousand is divided into 932,354 of ordinary registered no-par value shares and has been paid up in full. The number of shares in 2006 remained the same.

Taking into account net profit of SIT 612,800 thousand and the number of ordinary registered shares, i.e. 913,909, earnings per share as at 31 December 2006 stood at SIT 670.30. Taking into account net profit of SIT 1,903,015 thousand and the number of ordinary registered shares, i.e. 932,354, earnings per share as at 1 January 2006 stood at SIT 2,041.09.

6.6.17. Capital reserves

	31.12.2006	1.1.2006
Payments exceeding nominal amounts of paid-up shares	1,337,489	1,337,489
Capital reserves arising from capital revaluation adjustment	5,283,938	5,283,938
Total	6,621,427	6,621,427

6.6.18. Revaluation surplus

	31.12.2006	1.1.2006
Surplus from revaluation of available-for-sale financial assets	31,100	52,668
Total	31,100	52,668

6.6.19. Reserves from profit (including retained profit)

	31.12.2006	1.1.2006
Legal reserves	1,891,803	1,891,803
Reserves for own shares	317,390	0
Statutory reserves	1,276,566	1,128,861
Other reserves from profit	1,651,867	1,167,872
Total reserves from profit	5,137,626	4,188,536
Retained profit from transition to IFRS	4,147,784	4,147,784
Total	9,285,410	8,336,320

6.6.20. Own stakes

	31.12.2006	1.1.2006
Redeemed own shares	(317,390)	0
Total	(317,390)	0

On the basis of a sale and purchase agreement SID Bank on 30 June 2006 redeemed from Factor banka, d.d., Ljubljana, 18,445 own shares worth SIT 317,390 thousand.

Profit for the 2006 financial year was allocated to reserves for own shares.

6.6.21. Translation of capital on the basis of the change in the euro exchange rate and the consumer price index

	Translation according to consumer price index (2.3%)	Translation according to the change in the euro exchange rate (0.027%)
Called up capital	214,441	2,517
Capital reserves	152,293	1,788
Reserves from profit (including retained earnings)	213,564	2,507
Capital revaluation adjustments	715	8
Own shares	(7,300)	(86)
	573,714	6,735

In case of revaluation of capital on the basis of consumer price index, the profit before tax would be lower by SIT 573,714 thousand.

In case of revaluation of capital according to SIT/EUR exchange rate it would be lower by SIT 6,735 thousand.

6.6.21. Liabilities for contingency reserves

	31.12.2006	1.1.2006
Contingency reserves	23,448,272	22,155,858
Surplus from revaluation of available-for-sale financial assets	(29,783)	69,205
Accrued costs and deferred revenues	1,193,446	86,854
Total liabilities for contingency reserves	24,611,935	22,311,917

Changes in contingency reserves:

	2006	2005
As at 1 January	22,155,858	21,499,182
Surplus of revenues over expenses	1,292,414	656,676
As at 31 December	23,448,272	22,155,858

Contingency reserves in 2006 rose by SIT 1,292,414 thousand, which equalled the surplus of revenues over operating expenses in the name of and on behalf of the state. Income statement and balance sheet presenting operations in the name of and on behalf of the state are included in Attachment 5.

6.6.22. Liabilities within the interest equalisation programme

	31.12.2006	1.1.2006
Financial liabilities measured at amortised cost	350,003	0
Total	350,003	0

6.6.23. Off-balance sheet items

	31.12.2006	1.1.2006
Debtors under guarantees	8,626,676	11,240,707
Approved undrawn loans	9,951,006	12,934,436
Raised undrawn loans	41,218,080	45,639,152
Debtors under derivatives	1,569,795	1,500,978
Repo	0	239,564
Other assumed financial liabilities	35,557	625,898
Total	61,401,114	72,180,735

a) Debtors under guarantees

The item includes issued guarantees. Issued guarantees by maturity

	31.12.2006	1.1.2006
Short-term	4,774,865	6,670,389
Long-term	3,851,811	4,570,318
Total	8,626,676	11,240,707

ssued guarantees by type

	31.12.2006	1.1.2006
Financial	239,705	8,473,017
Non-financial	8,386,971	2,767,690
Total	8,626,676	11,240,707

Guarantees by currency

	31.12.2006	1.1.2006
EUR	4,834,007	7,409,944
USD	40,609	75,549
HRK	629,776	138,764
EGP	5,950	6,402
SIT	3,116,334	3,610,048
Total	8,626,676	11,240,707

b) Assumed financial liabilities

	31.12.2006	1.1.2006
Approved undrawn loans	9,951,006	12,934,437
Total	9,951,006	12,934,437

The item comprises undrawn foreign-currency loans granted to domestic banks with the disbursement date in 2007.

c) Debtors under assumed financial liabilities

	31.12.2006	1.1.2006
Raised undrawn loans	41,218,080	45,639,152
Total	41,218,080	45,639,152

This item comprises approved undrawn foreign-currency loans raised abroad, guaranteed by the RS. The undrawn foreign-currency amount equals EUR 172 million.

d) Debtors under derivatives

	31.12.2006	1.1.2006
Foreign-currency forward contract	371,595	303,146
Foreign-currency swap contract	1,198,200	1,197,832
Total	1,569,795	1,500,978

Interest swap was concluded in November 2005 with Sumitomo – SMBC for securing the return on RS bond portfolio with a fixed interest rate. The principal is EUR 5,000,000 and the maturity 17 April 2008.

e) Other assumed financial liabilities

	31.12.2006	1.1.2006
Preliminary agreement - Iskratel d.o.o. Kranj	0	625,898
Total	0	625,898

6.7. Notes to the income statement

(in thousands of SIT)

6.7.1. Net interest

	2006		2005	
	Income	Expense	Income	Expense
Interest from financial assets held for trading	52,253	(58,768)	0	0
Interest from available-for-sale assets	331,391	0	204,919	(21,713)
Interest from granted loans and deposits made	6,165,554	(4,693,991)	4,248,295	(2,652,897)
Interest from other financial assets	865	(154)	33,893	(14,262)
Total	6,550,063	(4,752,913)	4,487,107	(2,688,872)
Net interest	1,797,150		1,798,235	

Revenues and expenses from revaluation of investments with a currency clause amounted to SIT 180,736 thousand and SIT 74 thousand respectively. Default interest income stood at SIT 21,335 thousand and default interest expenses at SIT 153 thousand.

Interest rate risk - realised interest rates:

		in %
	2006	2005
Assets		
SIT-denominated loans and deposits	3.51	3.65
Foreign-currency denominated loans and deposits	3.23	1.90
Securities	4.02	4.18
Liabilities		
SIT-denominated loans and deposits	3.23	3.74
Foreign-currency denominated loans and deposits	2.70	2.35
Securities (CD):	0	3.50

Interest rates are computed on the basis of interest income and expenses, and the average balance of individual interest-bearing asset and liabilities items. In 2005, the interest rates on deposits were higher than lending interest rates mainly because the company raised smaller amounts of funds usually for only a few days for liquidity purposes.

6.7.2. Dividend income

	2006	2005
Dividend income	8,019	0
Total	8,019	0

Disclosed dividend in the amount of SIT 8,019 thousand relates to the associate PRVI FAKTOR Ljubljana.

6.7.3. Net fees and commissions

	2006		2005	
	Income	Expenses	Income	Expenses
Commissions on banking services performed	0	(5,782)	0	(40,962)
Commissions on payment transactions	0	(935)	0	(792)
Commissions on credit transactions	33,886	(12,240)	155,635	0
Commissions on guarantee transactions	46,530	0	52,350	0
Commissions on credit rating information	0	0	38,161	0
Commissions on securities	0	(1,090)	0	(3,242)
Total	80,416	(20,047)	246,146	(44,996)
Net fees and commissions	60,369		201,150	

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

	2006		2005	
	Revenues	Expenses	Revenues	Expenses
Available-for-sale financial assets	16	(7,922)	0	(340)
Total	16	(7,922)	0	(340)
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss		(7,906)		(340)

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

	2006		2005	
	Revenues	Expenses	Revenues	Expenses
Derivative financial instruments under forward transactions	12,369	0	0	(35,962)
Derivative financial instruments under swap transactions	18,883	0	0	(53,943)
Total	31,252	0	0	0
Net profits/losses from financial assets and liabilities held for trading	31,252			(89,905)

6.7.6 Net foreign exchange gains/losses

	2006		2005	
	Revenues	Expenses	Revenues	Expenses
Exchange differences	1,111,243	(1,226,727)	918,751	(830,262)
Total	1,111,243	(1,226,727)	918,751	(830,262)
Net foreign exchange gains/losses		(115,484)	88,489	

6.7.7. Net profits/losses from derecognition of assets, excluding non-current assets held for sale

	2006		2005	
	Revenues	Expenses	Revenues	Expenses
Derecognition of property, plant and equipment	5,875	(7,219)	0	0
Total	5,875	(7,219)	0	0
Net profits/losses from derecognition of assets, excluding non-current assets held for sale		(1,344)		0

6.7.8. Other net operating profits/losses

	2006		2005	
	Revenues	Expenses	Revenues	Expenses
Revenues from non-banking services	590,177	0	553,342	0
Other operating revenues	53,541	0	34,418	0
Membership fees	0	(16,337)	0	(17,352)
Other operating expenses	0	(2,821)	0	(15,294)
Total	643,718	(19,158)	587,760	(32,646)
Other net operating profits/losses	624,560		555,114	

The bulk of revenues is accounted for by the service fee according to the Act Governing Insurance and Financing of International Commercial Transactions under the agreement concluded with the Ministry of Finance regulating mutual relations regarding the implementation of Chapter II of the said Act dated 1 December 2004 in the amount of SIT 497,340 thousand (2005: SIT 497,340 thousand).

6.7.9. Administrative costs

	2006	2005
Labour costs	(720,942)	(610,089)
General and administrative costs	(421,413)	(336,696)
Total	(1,142,355)	(946,785)

a) Labour costs

	2006	2005
Gross salaries	(486,527)	(402,174)
Pension contributions	(43,847)	(36,392)
Social security	(35,920)	(29,813)
Payroll taxes	(42,475)	(41,724)
Other labour costs	(112,173)	(99,986)
Total	(720,942)	(610,089)

The costs of pension insurance (SIT 43,847 thousand) and the costs of voluntary supplementary pension insurance (SIT 22,075 thousand) in 2006 totalled SIT 65,922 thousand.

In 2006, the company had on average 65 employees. As at 31 December 2006 the respective figure was 68, of which 13 employees had secondary school education, 6 higher education, 43 university education and 6 a master's degree.

Earnings of the Management Board members (Marko Plahuta and Sibil Svilan, MSc.) in 2006 amounted to SIT 54,779 thousand, whereas that of other employees employed under service contracts and the Supervisory Board members (Dr. Andrej Bajuk, Gonzalo Caprirolo, MSc., Dr. Božo Cerar, Jožko Čuk, MSc., Helena Kamnar, MSc., Dr. Andrej Kitanovski, Dr. Mojmir Mrak) equalled SIT 68,816 thousand and SIT 2,798 thousand respectively.

The company established no provisions from revaluation of salaries as at 31 December 2006.

b) General and administrative costs

	2006	2005
Costs of material	(33,912)	(33,305)
Costs of services	(387,501)	(303,391)
Total	(421,413)	(336,696)

In 2006, SID Bank posted the following auditor's costs: audit of the 2005 Annual Report (SIT 7,113 thousand), audit of the financial section of the report as at 31 March 2006 (SID Bank project) in the amount of SIT 25,386 thousand and other non-audit services (advising related to IFRS) equalling SIT 4,839 thousand.

6.7.10. Depreciation, amortisation

	2006	2005
Depreciation of property, plant and equipment	(79,588)	(85,661)
Amortisation of intangible fixed assets	(24,024)	(11,906)
Total	(103,612)	(97,567)

6.7.11. Provision

	2006	2005
Net changes in provisions for guarantees	345,146	318,412
- provision expenses	(314,223)	318,412
- income from reversal of provisions	659,369	0
Net change in provisions for undrawn loans	(54,593)	111,749
- provision expenses	(587,649)	111,749
- income from reversal of provisions	533,056	0
Net change in provisions for pensions and similar liabilities	804	17,686
- provision expenses	(697)	17,686
- income from reversal of provisions	1,501	0
Total	291,357	447,847

6.7.12. Impairments

	2006	2005
Impairments of loans and liabilities measured at amortised cost	2,306,029	1,679,825
Impairments of other assets	3,498	0
Income from reversal of impairments of loans and liabilities measured at amortised cost	(1,692,207)	(3,146,778)
Income from reversal of impairments of other assets	(279)	0
Total	617,041	(1,466,953)

6.7.13. Corporate income tax on ordinary activities

	31.12.2006	1.1.2006
Assessed tax		
- operations in 2006	226,733	640,953
- transition to IFRS	294,561	0
Total assessed tax for 2006	521,294	640,953
Deferred tax assets	4,923	8,235
Tax expense for 2006	516,371	632,718
Profit before taxes	829,687	2,527,498
Effective tax rate from tax expense *	26.73%	25.03%
Effective tax rate from assessed tax *	27.33%	25.36%

* for 2006, the effective tax rate was calculated only with consideration of assessed tax and tax expense for 2006

Assessed tax represents the tax amount which has to be paid according to the Corporate Income Tax Act at the prescribed tax rate. The tax rate for 2006 and 2005 was the same, i.e. 25%.

Not considering the tax liabilities arising from the transition to IFRS, the tax liability arising from revenues generated through ordinary activities totals SIT 221,810 thousand.

Corporate income tax advance for 2006 amounted to SIT 545,237 thousand, whereas the receivable due from the state arising from excess corporate income tax advance as at 31 December 2006 totalled SIT 28,866 thousand.

Deferred tax income or expense results from changed carrying amount of deferred tax assets and liabilities. The company's deferred tax assets amounted to SIT 4,923 thousand net.

On 31 December 2006, SID Bank had no outstanding tax liabilities.

6.8. Relations with related parties

6.8.1. Loans

	31.12.2006	1.1.2006
PRO KOLEKT Ljubljana		
EUR-denominated short-term loan	30,076	0
Value adjustment in EUR	(1,143)	0
Short-term loan in thousands of SIT	4,514	0
Value adjustment in thousands of SIT	(172)	0
Total principals in thousands of SIT	11,721	0
Total value adjustment in thousands of SIT	(445)	0
PRVI FAKTOR Ljubljana		
EUR-denominated short-term loan	5,356,158	9,545,624
Value adjustment in EUR	(166,041)	(362,734)
USD-denominated short-term loan	432,660	254,066
Value adjustment in USD	(16,352)	(9,655)
Total principals in thousands of SIT	1,362,264	2,338,329
Total value adjustment in thousands of SIT	(42,765)	(88,857)
PRVI FAKTOR Zagreb		
EUR-denominated short-term loan	11,147,960	7,027,248
Value adjustment in EUR	(954,081)	(633,858)
Total principal in thousands of SIT	2,671,497	1,683,557
Total value adjustment in thousands of SIT	(228,636)	(151,857)
PRVI FAKTOR Beograd		
EUR-denominated long-term loan	8,284,350	0
Value adjustment in EUR	(969,269)	0
Total principal in thousands of SIT	1,985,262	0
Total value adjustment in thousands of SIT	(232,276)	0
Total in thousands of SIT	5,526,622	3,781,172

6.8.2. Net interest

	2006		2005	
	Income	Expenses	Income	Expenses
PKZ Ljubljana	505	(7)	0	(12,379)
PRO KOLEKT Ljubljana	0	(44)	0	0
PRVI FAKTOR Ljubljana	63,622	0	28,095	0
PRVI FAKTOR Zagreb	104,324	0	30,511	0
PRVI FAKTOR Beograd	41,617	0	0	0
Total	210,068	(51)	58,606	(12,379)
Net interest	210,017		70,985	

Interest rate risk - realised interest rates

in %

	2006
PKZ Ljubljana	3.68
PRO KOLEKT Ljubljana	3.37
PRVI FAKTOR Ljubljana	3.22
PRVI FAKTOR Zagreb	3.89
PRVI FAKTOR Beograd	4.89

6.8.3. Dividend income

	2006	2005
PRVI FAKTOR Ljubljana	8,019	0
Total	8,019	0

6.8.4. Net fees and commissions

	2006		2005	
	Income	Expenses	Income	Expenses
PRVI FAKTOR Ljubljana	1,270	0	588	0
PRVI FAKTOR Zagreb	3,354	0	298	0
PRVI FAKTOR Beograd	4,912	0	0	0
Total	9,536	0	886	0
Net fees and commissions	9,536		886	

6.8.5. Other net operating profits/losses

	2006		2005	
	Revenues	Expenses	Revenues	Expenses
Revenues from non-banking services:				
PKZ Ljubljana	94,931	0	38,834	0
PRO KOLEKT Ljubljana	8,044	0	12,812	0
Total	102,975	0	51,646	0
Other net operating profits/losses	102,975		51,646	

The bulk of revenues from non-banking services relates to charged rent for business premises, services rendered for the preparation of credit rating information and IT support services.

6.8.6. Administrative costs

	2006	2005
PKZ Ljubljana	(160)	(229)
PRO KOLEKT Ljubljana	(14)	0
PRO KOLEKT Zagreb	(1,499)	0
PRVI FAKTOR Zagreb	0	(23)
Total	(1,673)	(252)

The only major item is the charges of PRO KOLEKT Zagreb for the preparation of credit rating information.

6.9. Risk management

Notes with regards to risk management are provided in items 6.8 of the business section of the report.

6.9.1. Balance sheet by maturity as at 31 December 2006

in millions of SIT	Sight	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Above 5 years	Total
Cash and balances with the central bank	0	0	0	0	0	0	0
Financial assets held for trading	0	0	0	37	0	0	37
Available-for-sale financial assets	63	0	0	2,174	3,673	2,576	8,486
Loans	358	10,536	10,476	26,310	71,450	62,641	181,771
Property, plant and equipment	0	0	0	0	0	1,235	1,235
Intangible fixed assets	0	0	0	0	0	146	146
Long-term investments in equity of subsidiaries, associates and joint ventures	0	0	0	0	0	1,515	1,515
Corporate income tax assets	0	0	0	0	0	13	13
Other assets	0	0	7	54	0	0	61
TOTAL ASSETS OF SID BANK	**421**	**10,536**	**10,483**	**28,575**	**75,123**	**68,126**	**193,264**
INVESTMENTS FROM CONTINGENCY RESERVES	**30**	**4,567**	**759**	**4,627**	**9,502**	**5,127**	**24,612**
INVESTMENTS - INTEREST RATE EQUALISATION PROGRAMME (IREP)	**350**	**0**	**0**	**0**	**0**	**0**	**350**
TOTAL ASSETS	**801**	**15,103**	**11,242**	**33,202**	**84,625**	**73,253**	**218,226**
Financial liabilities held for trading	0	0	0	39	0	0	39
Financial liabilities measured at amortised cost	10	367	773	9,298	78,130	77,827	166,405
Provision	0	0	0	0	0	417	417
Corporate income tax liabilities	0	0	0	0	604	9	613
Other liabilities	0	754	0	13	5	0	772
Equity	0	0	0	0	0	9,324	9,324
Capital reserves	0	0	8	0	0	6,621	6,621
Revaluation surplus	0	0	0	0	14	9	31
Reserves from profit (including retained profit)	0	0	0	0	0	9,285	9,285
Own interest	0	0	0	0	0	(317)	(317)
Net profit for the year	0	0	0	0	0	74	74
TOTAL LIABILITIES OF SID BANK	**10**	**1,121**	**781**	**9,350**	**78,753**	**103,249**	**193,264**
LIABILITIES FOR CONTINGENCY RESERVES	**0**	**35**	**32**	**275**	**852**	**23,418**	**24,612**
INTEREST RATE EQUALISATION PROGRAMME (IREP)	**0**	**0**	**0**	**0**	**0**	**350**	**350**
TOTAL LIABILITIES	**10**	**1,156**	**813**	**9,625**	**79,605**	**127,017**	**218,226**
ASSETS LESS LIABILITIES	**791**	**13,947**	**10,429**	**23,577**	**5,020**	**(53,764)**	**0**

6.9.2. Exposure to currency risks as at 31 December 2006

in millions of SIT	SIT	SIT with a currency clause	USD	EUR	Other currencies	Total
Cash and balances with the central bank	0	0	0	0	0	0
Financial assets held for trading	0	0	7	30	0	37
Available-for-sale financial assets	5,608	1,293	0	1,585	0	8,486
Loans	23,640	4,211	4,489	149,431	0	181,771
Property, plant and equipment	1,235	0	0	0	0	1,235
Intangible fixed assets	146	0	0	0	0	146
Long-term investments in equity of subsidiaries, associates and joint ventures	1,515	0	0	0	0	1,515
Corporate income tax assets	13	0	0	0	0	13
Other assets	59	0	0	2	0	61
TOTAL ASSETS OF SID BANK	**32,216**	**5,504**	**4,496**	**151,048**	**0**	**193,264**
INVESTMENTS FROM CONTINGENCY RESERVES	**8,850**	**1,496**	**0**	**14,266**	**0**	**24,612**
INVESTMENTS - INTEREST RATE EQUALISATION PROGRAMME (IREP)	**350**	**0**	**0**	**0**	**0**	**350**
TOTAL ASSETS	**41,416**	**7,000**	**4,496**	**165,314**	**0**	**218,226**
Financial liabilities held for trading	0	0	0	39	0	39
Financial liabilities measured at amortised cost	1	0	3,583	162,821	0	166,405
Provision	96	0	39	270	12	417
Corporate income tax liabilities	613	0	0	0	0	613
Other liabilities	770	0	0	2	0	772
Equity	9,324	0	0	0	0	9,324
Capital reserves	6,621	0	0	0	0	6,621
Revaluation surplus	31	0	0	0	0	31
Reserves from profit (including retained profit)	9,285	0	0	0	0	9,285
Own stakes	(317)	0	0	0	0	(317)
Net profit for the year	74	0	0	0	0	74
TOTAL LIABILITIES OF SID BANK	**26,498**	**0**	**3,622**	**163,132**	**12**	**193,264**
LIABILITIES FOR CONTINGENCY RESERVES	**24,485**	**0**	**0**	**127**	**0**	**24,612**
INTEREST RATE EQUALISATION PROGRAMME (IREP)	**350**	**0**	**0**	**0**	**0**	**350**
TOTAL LIABILITIES	**51,333**	**0**	**3,622**	**163,259**	**12**	**218,226**
ASSETS LESS LIABILITIES	**(9,917)**	**7,000**	**874**	**2,055**	**(12)**	**0**

6.9.3. Exposure to interest rate risk as at 31 December 2006

in thousands of SIT	Total	Non-interest bearing	Total interest bearing	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years
Cash and balances with the central bank									
Financial assets held for trading	37,626	37,626	0	0	0	0	0	0	0
Available-for-sale financial assets	8,485,919	137,037	8,348,882	62,755	0	0	2,139,360	3,611,944	2,534,823
Loans	181,771,129	1,639,247	180,131,882	347,757	10,197,231	9,703,597	25,933,202	71,309,900	62,640,195
Interest from financial assets	8	8	0	0	0	0	0	0	0
Property, plant and equipment	1,234,642	1,234,642	0	0	0	0	0	0	0
Intangible fixed assets	145,847	145,847	0	0	0	0	0	0	0
Long-term investments in equity of subsidiaries, associates and joint ventures	1,515,112	1,515,112	0	0	0	0	0	0	0
Corporate income tax assets	13,158	13,158	0	0	0	0	0	0	0
Other assets	60,694	60,694	0	0	0	0	0	0	0
TOTAL ASSETS OF SID BANK	**193,264,135**	**4,783,371**	**188,480,764**	**410,512**	**10,197,231**	**9,703,597**	**28,072,562**	**74,921,844**	**65,175,018**
INVESTMENTS FROM CONTINGENCY RESERVES	**24,611,935**	**24,611,935**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
INVESTMENTS - INTEREST RATE EQUALISATION PROGRAMME (IREP)	**350,003**	**3**	**350,000**	**350,000**	**0**	**0**	**0**	**0**	**0**
TOTAL ASSETS	**218,226,073**	**29,395,309**	**188,830,764**	**760,512**	**10,197,231**	**9,703,597**	**28,072,562**	**74,921,844**	**65,175,018**
Financial liabilities held for trading	28,942	38,942	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	166,404,815	1,427,128	164,977,687	9,982	0	0	9,020,063	78,099,995	77,847,647
Provision	417,524	417,524	0	0	0	0	0	0	0
Corporate income tax liabilities	612,948	612,948	0	0	0	0	0	0	0
Other liabilities	771,966	771,966	0	0	0	0	0	0	0
Equity	9,323,540	9,323,540	0	0	0	0	0	0	0
Capital reserves	6,621,427	6,621,427	0	0	0	0	0	0	0
Revaluation surplus	31,100	31,100	0	0	0	0	0	0	0
Reserves from profit (including retained profit)	9,285,410	9,285,410	0	0	0	0	0	0	0
Own interest	(317,390)	(317,390)	0	0	0	0	0	0	0
Net profit for the period	73,853	73,853	0	0	0	0	0	0	0
TOTAL LIABILITIES OF SID BANK	**193,264,135**	**193,264,135**	**164,977,687**	**9,982**	**0**	**0**	**9,020,063**	**78,099,995**	**77,847,647**
LIABILITIES FOR CONTINGENCY RESERVES	**24,611,935**	**24,611,935**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
INTEREST RATE EQUALISATION PROGRAMME (IREP)	**350,003**	**350,003**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL LIABILITIES	**218,226,073**	**218,226,073**	**164,977,687**	**9,982**	**0**	**0**	**9,020,063**	**78,099,995**	**77,847,647**
Net exposure to interest rate risk		**(23,853,077)**	**23,853,077**	**750,530**	**10,197,231**	**9,703,597**	**19,052,499**	**(3,178,151)**	**(12,672,629)**
Cumulative exposure				**750,530**	**10,947,761**	**20,651,358**	**39,703,857**	**36,525,706**	**23,853,077**

6.10. Events after the balance-sheet date

On 1 January 2007 the management of SID Bank was taken over by the Management Board comprised of Sibil Svilan, MSc., President, and the members Jožef Bradeško and Marko Plahuta.

The capital of the daughter company PRO KOLEKT was according to the resolution of SID Bank's Management Board increased by EUR 390,000 on 30 January 2007. Capital increase took place in February 2007.

On 21 February 2007 SID Bank increased the equity of PRVI FAKTOR, Ljubljana by EUR 1 million, according to the resolution of the General Meeting passed on 13 February 2007. The stake of SID Bank in this company remained unchanged.

At the Supervisory Board session held on 23 March 2007 the members of the Supervisory Board passed a resolution based on which the General Meeting of Shareholders of SID Bank will be proposed to decide on the capital increase of SID Bank financed by the company's funds.

APPENDIX 1

7.1. Detailed balance sheet

in thousands of SIT	ASSETS	31.12.2006	1.1.2006
A.I.	**CASH AND BALANCES WITH THE CENTRAL BANK**	0	4
A.II.	**FINANCIAL ASSETS HELD FOR TRADING**	**37,626**	**21,698**
A.II.-1	Derivative financial instruments	37,626	21,698
A.IV.	**AVAILABLE-FOR-SALE FINANCIAL ASSETS**	**8,485,919**	**6,432,778**
A.IV.-1	Shares and stakes at fair value	62,755	59,561
A.IV.-3	Debt securities	8,423,164	6,373,217
A.V.	**LOANS**	181,771,129	141,931,425
A.IX.	**INTEREST ON FINANCIAL ASSETS**	8	8
A.X.	**PROPERTY, PLANT AND EQUIPMENT**	1,234,642	604,832
A.XII.	**INTANGIBLE FIXED ASSETS**	145,847	163,718
A.XIII.	**LONG-TERM INVESTMENTS IN THE CAPITAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**	1,515,112	1,510,320
A.XIV.	**CORPORATE INCOME TAX ASSETS**	**13,158**	**51,850**
A.XIV.-1	Corporate income tax assets	0	51,850
A.XIV.-2	Non-current deferred tax assets	13,158	0
A.XV.	**OTHER ASSETS**	60,694	90,742
	TOTAL ASSETS	**193,264,135**	**150,807,375**

in thousands of SIT	LIABILITIES	31.12.2006	1.1.2006
P.II.	**FINANCIAL LIABILITIES HELD FOR TRADING**	**38,942**	**78,725**
P.II.-1	Derivative financial instruments	38,942	78,725
P.IV.	**FINANCIAL LIABILITIES MEASURED AT AMORTISED COST**	**166,404,815**	**124,196,816**
P.IV.-1	Deposits	10,185	102,696
P.IV.-2	Loans	166,394,630	124,094,120
P.IX.	**PROVISIONS**	**417,524**	**714,672**
P.IX.-4	Provisions for pensions and similar liabilities to employees	28,506	29,966
P.IX.-5	Provisions for off-balance sheet liabilities	389,018	684,706
P.X.	**CORPORATE INCOME TAX LIABILITIES**	**612,948**	**883,683**
P.X.-1	Corporate income tax liabilities	604,074	883,683
P.X.-2	Non-current deferred tax liabilities	8,874	0
P.XI.	**OTHER LIABILITIES**	771,966	189,381
P.XIII.	**SUBSCRIBED CAPITAL**	9,323,540	9,323,540
P.XIV.	**CAPITAL RESERVES**	6,621,427	6,621,427
P.XVI.	**CAPITAL REVALUATION ADJUSTMENT**	**31,100**	**52,668**
P.XVI.-5	Capital revaluation adj. related to available-for-sale financial assets	31,100	52,668
P.XVII.	**RESERVES FROM PROFIT (including retained profit)**	9,285,410	8,336,320
P.XVIII.	**OWN STAKES**	(317,390)	0
P.XIX.	**NET PROFIT/LOSS FOR THE YEAR**	73,853	410,143
	TOTAL CAPITAL AND LIABILITIES	**193,264,135**	**150,807,375**
B.I.	**OFF-BALANCE SHEET LIABILITIES**	**61,401,114**	**72,180,735**
B.I.-2	Guarantees and pledged/mortgaged assets	8,626,677	11,240,707
B.I.-3	Assumed financial liabilities	51,169,085	58,573,588
B.I.-4	Derivative financial instruments	1,569,795	1,500,978
B.I.-5	Depositors and other recorded securities	35,557	0
B.I.-7	Other off-balance sheet liabilities	0	865,462
E.	**OFF-BALANCE SHEET DATA**	**2,973,739**	**2,398,249**
E.-0	**Value adjustments due to impairment of financial assets measured at amortised cost**	0	2,398,249
E.-2	Value adjustments of loans	2,973,739	2,393,076
E.-3	Value adjustments of other assets	0	5,173

7.2. Detailed income statement

in thousands of SIT			2006	2005
I.		**Revenues and expenses from financing and operating activities**		
		(1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9 + 10)	**2,401,338**	**2,552,743**
1.		**Net interest (1.1 - 1.2)**	**1,797,150**	**1,798,235**
1.1		Interest income (1.1.1 + 1.1.2 + 1.1.3 + 1.1.4 + 1.1.5 + 1.1.6 + 1.1.7 + 1.1.8)	6,550,063	4,487,107
	1.1.2	Interest from financial assets held for trading	52,253	0
	1.1.5	Interest from available-for-sale assets	331,391	204,919
	1.1.6	Interest from loans granted and deposits (including financial leasing)	6,165,553	4,279,682
	1.1.7	Interest from held-to-maturity financial assets	850	1,796
	1.1.8	Interest from other financial assets	16	710
1.2		Interest expense (1.2.1 + 1.2.2 + 1.2.3 + 1.2.4 + 1.2.5 + 1.2.6)	4,752,913	2,688,872
	1.2.2	Interest for financial liabilities held for trading	58,768	0
	1.2.5	Interest for financial liabilities measured at amortised cost	4,693,992	2,666,930
	1.2.6	Interest for other financial liabilities (including financial leasing)	153	21,942
2.		**Dividend income (2.1 + 2.2 + 2.3 + 2.4)**	**8,019**	**0**
		Controlled companies, at cost method	8,019	0
3.		**Net fees and commissions (3.1 - 3.2)**	**60,369**	**201,150**
3.1		Fees and commissions received	80,416	246,146
3.2		Fees and commissions paid	20,047	44,996
4.		**Realised profits/losses from financial assets and liabilities not measured at fair value through profit or loss**		
		(4.1 - 4.2)	**(7,906)**	**(340)**
4.1		Realised profits (4.1.1 + 4.1.2 + 4.1.3 + 4.1.4 + 4.1.5)	16	0
	4.1.1	Profits from available-for-sale financial assets	16	0
4.2		Realised losses (4.2.1 + 4.2.2 + 4.2.3 + 4.2.4 + 4.2.5)	7,922	340
	4.2.1	Losses from available-for-sale financial assets	7,922	340
5.		Net profits/losses from financial assets and liabilities		
		held for trading (5.1 + 5.2 + 5.3 + 5.4 + 5.5 + 5.6)	31,252	(89,905)
5.4		Net profits/losses from derivatives	31,252	(89,905)
7.		Fair value adjustments in hedge accounting (7.1 + 7.2)	4,722	0
7.2		Net profit or loss from hedged items	4,722	0
8.		Net foreign exchange gains/losses (8.1 - 8.2)	(115,484)	88,489
8.1		Gains	1,111,243	918,751
8.2		Losses	1,226,727	830,262

(continued)

in thousands of SIT			2006	2005
9.		Net profits/losses from derecognition of assets, excluding non-current assets held for sale (9.1 - 9.2)	(1,344)	2,215
9.1		Profits	5,875	2,215
9.2		Losses	7,219	0
10.		Other net operating profits/losses (10.1 - 10.2)	624,560	552,899
10.1		Profits	643,718	552,899
10.2		Losses	19,158	0
II.		Administrative costs (1 + 2)	1,142,355	946,785
1.		Labour costs	720,941	610,247
2.		General and administrative costs	421,414	336,538
III.		Amortisation, depreciation (1 + 2 + 3)	103,612	97,567
1.		Depreciation of property, plant and equipment	79,588	85,661
2.		Amortisation of intangible fixed assets	24,024	11,906
IV.		**Provision**	(291,357)	447,846
V.		**Impairments (1 + 2)**	**617,041**	**(1,466,953)**
1.		Impairments of financial assets not measured at fair value through profit or loss (1.1 + 1.2 + 1.3 + 1.4)	613,821	(1,466,953)
1.3		Impairment of loans (including financial leasing) measured at amortised cost	613,821	(1,466,953)
1.4		Impairment of held-to-maturity financial assets measured at amortised cost	0	0
2.		Impairment of other assets (2.1 + 2.2 + 2.3 + 2.4 + 2.5)	3,220	0
2.3		Impairment of intangible fixed assets (2.3.1 + 2.3.2)	3,160	0
	2.3.2	Impairment of other intangible long-term assets	3,160	0
2.5		Impairments of other assets	60	0
IX.		**PROFIT/LOSS FROM ORDINARY ACTIVITIES** (I - II - III - IV - V + VI + VII + VIII)	829,687	2,527,498
X.		Corporate income tax on ordinary activities	216,887	624,483
XI.		**NET PROFIT/LOSS FROM ORDINARY ACTIVITIES** (IX - X)	612,800	1,903,015
XIII.		**NET PROFIT/LOSS FOR THE YEAR (XI + XII)**	**612,800**	**1,903,015**

7.3. Separate balance sheet disclosing the liabilities and investments from own sources and from sources backed by the guarantee of the Republic of Slovenia

Liabilities and investments from own sources		
in thousands of SIT	31.12.2006	1.1.2006
Cash and balances with the central bank	0	4
Financial assets held for trading	37,626	21,698
Available-for-sale financial assets	8,485,919	6,432,778
Loans	17,318,081	22,273,959
Interest on financial assets	8	8
Property, plant and equipment	1,234,642	604,832
Intangible fixed assets	145,847	163,718
of controlled companies	1,515,112	1,510,320
Corporate income tax assets	13,158	51,850
Other assets	60,694	90,742
TOTAL ASSETS	**28,811,087**	**31,149,909**
Financial liabilities held for trading	38,942	78,725
Financial liabilities measured at amortised cost	10,185	2,093,022
Provision	252,334	604,846
Corporate income tax liabilities	612,948	883,683
Other liabilities	2,878,738	2,745,535
Equity	9,323,540	9,323,540
Capital reserves	6,621,427	6,621,427
Revaluation surplus	31,100	52,668
Reserves from profit (including retained profit)	9,285,410	8,336,320
Own stakes	(317,390)	0
Net profit/loss for the year	73,853	410,143
TOTAL CAPITAL AND LIABILITIES	**28,811,087**	**31,149,909**
OFF-BALANCE SHEET LIABILITIES	**12,246,583**	**20,315,154**

Liabilities and investments from sources backed by the guarantee of the RS		
in thousands of SIT	31.12.2006	1.1.2006
Loans	164,453,048	119,657,465
Other assets	2,106,772	2,564,082
TOTAL ASSETS	**166,559,820**	**122,221,547**
Financial liabilities measured at amortised cost	166,394,630	122,103,793
Provision	165,190	109,826
Other liabilities	0	7,928
TOTAL CAPITAL AND LIABILITIES	**166,559,820**	**122,221,547**
OFF-BALANCE SHEET LIABILITIES	**49,154,531**	**51,865,582**

7.4. Separate income statements disclosing operations financed by own sources and operations backed by the guarantee of the RS

Operations financed by own sources	
in thousands of SIT	2006
Interest income	1,210,949
Interest expense	(64,253)
Net interest	1,146,696
Dividend income	8,019
Fees and commissions received	65,447
Fees and commissions paid	(10,159)
Net fees and commissions	55,288
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	(7,906)
Net profits/losses from financial assets and liabilities held for trading	31,252
Fair value adjustments in hedge accounting	4,722
Net foreign exchange gains/losses	(9,897)
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	(1,344)
Other net operating profits/losses	596,658
Revenues and expenses from financing and operating activities	**1,823,488**
Administrative costs	(1,142,355)
Depreciation, amortisation	(103,612)
Provision	347,228
Impairments	(575,727)
PROFIT/LOSS FROM ORDINARY ACTIVITIES *	**349,022**

Operations backed by the guarantee of the RS	
in thousands of SIT	2006
Interest income	5,339,114
Interest expense	(4,688,660)
Net interest	650,454
Fees and commissions received	14,969
Fees and commissions paid	(9,888)
Net fees and commissions	5,081
Net foreign exchange gains/losses	(105,587)
Other net operating profits/losses	27,902
Revenues and expenses from financing and operating activities	**577,850**
Provision	(55,871)
Impairments	(41,314)
PROFIT/LOSS FROM ORDINARY ACTIVITIES *	**480,665**

* disclosure only to gross profit; tax account is provided for total amount

7.5. Balance sheet disclosing insurance against non-marketable risks (on behalf of the Republic of Slovenia)

in thousands of SIT	31.12.2006	31.12.2005
Loans to banks	16,397,345	12,477,380
Loans to non-bank clients	643,725	601,319
Securities	6,683,760	9,222,653
Other assets	887,105	10,565
TOTAL INVESTMENTS FROM CONTINGENCY RESERVES	24,611,935	22,311,917
Contingency reserves	23,448,272	22,155,858
Surplus from revaluation of available-for-sale financial assets	(29,783)	69,205
Accrued costs and deferred revenues	1,193,446	86,854
TOTAL LIABILITIES FOR CONTINGENCY RESERVES	24,611,935	22,311,917

7.6. Profit or loss from insurance against non-marketable risks (on behalf of the Republic of Slovenia)

in thousands of SIT	2006	2005
Interest income	619,725	465,988
Interest expenses	0	0
Net interest	619,725	465,988
Technical items		
- insurance and reinsurance premiums	1,595,976	1,532,847
- reinsurance and processing fee	(105,314)	(13,919)
- claims	(238,093)	(777,056)
- recourse	19,454	16,123
- bonuses	0	(236)
Total technical items	1,272,023	757,759
Other net commissions	3,009	8,734
Net profit or loss from financial operations	(6,419)	20,529
Operating costs	(595,924)	(596,334)
Surplus of revenues over expenses	1,292,414	656,676

The contents and basis of operations of SID Bank on behalf of the Republic of Slovenia are described in items 6.3 and 6.5.1. herein.

III. Consolidated financial statements of the SID Bank Group

Contents

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

On 9 March 2007, the Management Board confirmed the consolidated financial statements of the SID Bank Group for the year ended 31 December 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The accounting policies and calculation methods applied were the same as those used in the preparation of opening balances as at 1 January 2005.

The Management Board is also responsible for appropriate accounting, the adoption of adequate measures for protection of property and other assets and confirms that the consolidated financial statements, together with notes, have been prepared on the basis of the assumptions of going concern and in line with the applicable legislation as well as the International Financial Reporting Standards as adopted by the EU.

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

Jožef Bradeško	Marko Plahuta	Sibil Svilan, MSc.
member	member	president

Ljubljana, 9 March 2007

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Slovenska razvojna in izvozna banka, d.d., Ljubljana, group (the 'Group'), which comprise the balance sheet as of December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have reviewed the Business Report.

Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU.

Without qualifying our opinion, we draw attention to 6.5.14. to the consolidated financial statements that discusses that due to a discrepancy between the Act Amending the Insurance Act (Zzavar - C) and International Financial Reporting Standards as adopted by the EU the subsidiary SID - Prva kreditna zavarovalnica d.d., Ljubljana, did not book equalisation provisions for credit insurance as required by the aforementioned Act in the amount of SIT 2,393,802 thousand in its separate financial statements, prepared in accordance with International Financial Reporting Standards as adopted by EU.

The Business Report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Andreja Bajuk Mušič
Certified Auditor
Andreja Bajuk Mušič

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

Yuri Sidorovich
Partner

Ljubljana, March 30, 2007

1. Consolidated balance sheet as at 31 December 2006

in thousands of SIT	Note	31.12.2006	01.01.2006
Cash and balances with the central bank	6.5.1.	396	90
Financial assets held for trading	6.5.2.	37,626	21,698
Available-for-sale financial assets	6.5.3.	13,089,117	10,791,202
Loans	6.5.4.	206,189,708	152,659,822
Interest on financial assets		8	8
Property, plant and equipment	6.5.4	1,328,026	654,302
Intangible assets	6.5.5.	276,771	291,581
Long-term investments in equity of associates and joint ventures	6.5.6.	6,892	2,100
Corporate income tax assets	6.5.7.	163,629	65,533
Other assets	6.5.8.	3,529,819	2,607,279
- reinsurance contracts		3,415,410	2,469,257
- other		114,409	138,022
TOTAL ASSETS OF THE SID BANK GROUP		**224,621,992**	**167,093,615**
INVESTMENTS IN CONTINGENCY RESERVES	6.5.9.	**24,611,935**	**22,311,917**
IREP (INTEREST RATE EQUALISATION PROGRAMME) INVESTMENTS		**350,003**	**0**
Financial liabilities held for trading	6.5.10.	38,942	78,725
Financial liabilities measured at amortised cost	6.5.11.	188,484,775	132,973,038
Provisions	6.5.12.	5,178,676	4,193,488
- bank provisions		389,018	684,706
- technical provisions		4,390,556	3,259,194
- other provisions		399,102	249,588
Corporate income tax liabilities	6.5.13.	891,225	1,760,443
Other liabilities	6.5.14.	1,342,931	682,364
Share capital	6.5.15.	9,323,540	9,323,540
Capital reserves	6.5.16.	6,621,427	6,621,427
Revaluation surplus	6.5.17.	59,638	127,393
Reserves from profit (including retained profit)	6.5.18.	12,105,729	11,024,960
Capital revaluation adjustment on consolidation		506	941
Own interests	6.5.19.	(317,390)	0
Net profit for the period		891,993	307,296
TOTAL LIABILITIES AND CAPITAL OF THE SID BANK GROUP		**224,621,992**	**167,093,615**
LIABILITIES FOR CONTINGENCY RESERVES	6.5.20.	**24,611,935**	**22,311,917**
INTEREST RATE EQUALISATION PROGRAMME (IREP)		**350,003**	**0**
OFF-BALANCE SHEET LIABILITIES	6.5.21.	**65,200,306**	**74,167,474**

Accounting policies and the pertaining notes form an integral part of these financial statements.

2. Consolidated income statement for 2006

in thousands of SIT	Note	2006	2005
Interest income		7,806,713	5,046,955
Interest expense		(5,306,307)	(2,796,041)
Net interest	6.6.1.	2,500,406	2,250,914
Income from insurance premiums		1,400,967	1,159,322
Expenses for insurance operations		(226,937)	(161,124)
Net insurance operations	6.6.2.	1,174,030	998,198
Fees and commissions received		695,264	613,038
Fees and commissions paid		(131,421)	(172,619)
Net fees and commissions	6.6.3.	563,843	440,419
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	6.6.4.	11,454	31,820
Net profits/losses from financial assets and liabilities held for trading	6.6.5.	31,252	(89,905)
Fair value adjustments in hedge accounting		4,722	0
Net foreign exchange gains/losses	6.6.6	(117,486)	90,890
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	6.6.7.	(1,344)	0
Other net operating profits/losses	6.6.8	565,808	523,841
Income and expenses from financing and operating activities		**4,732,685**	**4,246,177**
Administrative costs	6.6.9.	(2,201,026)	(1,648,468)
Depreciation and amortisation	6.6.10.	(128,777)	(112,737)
Provisions	6.6.11.	(277,846)	(848,609)
- bank provisions		290,553	(430,160)
- technical provisions		(418,228)	(296,101)
- other provisions		(150,171)	(122,348)
Impairment	6.6.12.	(114,472)	1,345,879
Profit on ordinary activities		2,010,564	2,982,242
Corporate income tax on ordinary activities	6.6.13.	(367,428)	(1,259,046)
Deferred taxes		12,861	503,307
Net profit on ordinary activities		1,655,997	2,226,503
Net profit for the year		**1,655,997**	**2,226,503**

Accounting policies and the pertaining notes form an integral part of these financial statements.

3. Consolidated cash flow statement for 2006

in thousands of SIT	2006	2005
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Net profit before tax	2,010,564	2,982,242
Depreciation and amortisation	128,777	112,737
Impairment/(reversal of the impairment) of held-to-maturity financial assets		
Impairments of property, plant and equipment, investment property, intangible assets and other assets	(3,160)	0
Pertaining (profit)/loss from equity investments in associates and joint ventures accounted using the equity method	0	
Net foreign exchange (gains)/losses	117,486	(90,890)
Net (gain)/loss on sale of property, plant and equipment and investment property	1,344	0
Other profit or loss from financing		
Net unrealised profit in capital revaluation adjustment on available-for-sale financial assets (excluding the effect of deferred tax)	111,808	
Other adjustments of net profit or loss before tax	(219,295)	(848,609)
Cash flows from operating activities before changes in operating assets and liabilities	**2,147,524**	**2,155,480**
b) (Increase)/decrease in operating assets	**(48,196,847)**	**(42,873,670)**
Net (increase)/decrease in financial assets recognised at fair value through profit or loss	0	9,768
Net (increase)/decrease in financial assets available for sale	(2,298,620)	(3,404,167)
Net (increase)/decrease in loans	(44,975,628)	(40,258,407)
Net (increase)/decrease in deferred expenses	(713,132)	(109,385)
Net (increase)/decrease in other assets	(209,467)	888,521
c) (Increase)/decrease in trade liabilities	**55,796,901**	**38,783,690**
Net increase/(decrease) in financial liabilities held for trading	(39,783)	78,725
Net increase/(decrease) in deposits, loans and debt securities measured at amortised cost	55,164,591	39,633,889
Net increase/(decrease) in deferred income	245,128	154,433
Net increase/(decrease) in other liabilities	426,965	(1,083,357)
d) Cash flows from (used in) operating activities (a+b+c)	**9,747,578**	**(1,934,500)**
e) (Paid)/refunded corporate income tax	**(479,989)**	**(2,339,782)**
f) Net cash flows from (used in) operating activities (d+e)	**9,267,589**	**(4,274,282)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Inflows from investing activities	**49,105**	**20,066**
Proceeds from sale of property, plant and equipment and investment property	19,941	0
Proceeds from sale of intangible fixed assets	29,164	0
Other inflows from investing activities	0	20,066
b) Outflows for investing activities	**(832,341)**	**(81,597)**
(Outflows for acquisition of property, plant and equipment and investment property)	(782,386)	0
(Outflows for acquisition of intangible fixed assets)	(45,163)	(81,597)
(Outflows for acquisition of equity investments in subsidiaries, associates and joint ventures)	(4,792)	0
c) Net cash flows from (used in) investing activities (a-b)	**(783,236)**	**(61,531)**
C. CASH FLOWS FROM FINANCING ACTIVITIES	**0**	**0**
a) Inflows from financing activities	**0**	**0**
b) Outflows for financing activities	**(317,390)**	**0**
(Outflows from purchase of own shares)	(317,390)	0
c) Net cash flows from (used in) financing activities (a-b)	**(317,390)**	**0**
D. Effect of exchange rate fluctuations on cash and cash equivalents	**0**	**0**
		0
F. Effect of fair value changes on cash and cash equivalents	**0**	
F. Net increase in cash and cash equivalents (Af+Bc+Cc)	**8,166,963**	**(4,335,813)**
G. Cash and cash equivalents at beginning of period	**2,206,173**	**6,541,986**
H. Cash and cash equivalents at end of period (D+E+F+G)	**10,373,136**	**2,206,173**

The items include cash in business accounts, cash on hand and deposits held with banks with maturity up to 90 days.

	31.12.2006	1.1.2006
Deposits held with banks for the period of up to 90 days	9,413,952	1,778,004
Cash on hand	396	87
Cash in business accounts held with banks	958,788	428,082
Total	10,373,136	2,206,173

Accounting policies and the pertaining notes form an integral part of these financial statements.

4. Consolidated statement of changes in equity

In 2006:

in thousands of SIT	Share capital	Capital reserves	Revaluation surplus	Reserves from profit	Own interests	Retained profit	Consolidation Adjustment	Net profit	**Total capital**
OPENING BALANCE AS AT 1.1.2006	**9,323,540**	**6,621,427**	**127,393**	**4,600,260**	**0**	**6,424,700**	**941**	**307,296**	**27,405,557**
Transfers to equity	**0**	**0**	**0**	**0**	**(317,390)**	**9,469**	**0**	**1,655,997**	**1,348,076**
Purchase of own shares	0	0	0	0	(317,390)	0	0	0	(317,390)
Net profit for the year	0	0	0	0	0	0	0	1,655,997	1,655,997
Other transfers to equity	0	0	0	0	0	9,469	0	0	9,469
Transfers within equity	**0**	**0**	**0**	**1,299,258**	**0**	**(227,958)**	**0**	**(1,071,300)**	**0**
Transfer of net profit	0	0	0	1,299,258	**0**	(227,958)	0	(1,071,300)	0
Transfers from equity	**0**	**0**	**(67,755)**	**0**	**0**	**0**	**(435)**	**0**	**(68,190)**
Decrease in capital revaluation from available-for-sale financial assets	0	0	(67,755)	0	0	0	0	0	(67,755)
Other transfers from equity	0	0	0	0	0	0	(435)	0	(435)
CLOSING BALANCE AS AT 31.12.2006	**9,323,540**	**6,621,427**	**59,638**	**5,899,518**	**(317,390)**	**6,206,211**	**506**	**891,993**	**28,685,443**

In 2005:

in thousands of SIT	Share capital	Capital reserves	Revaluation surplus	Reserves from profit	Retained profit	Consolidation adjustment	Net profit	**Total capital**
OPENING BALANCE AS AT 1.1.2005	**9,323,540**	**6,621,427**	**60,506**	**2,753,338**	**6,137,218**	**819**	**308,576**	**25,205,424**
Transfers to equity	**0**	**0**	**66,887**	**0**	**0**	**122**	**2,226,503**	**2,293,512**
Increase in capital revaluation from available-for-sale financial assets	0	0	66,887	0	0	0	0	66,887
Other transfers to equity	0	0	0	0	0	122	0	122
Net profit for the year	0	0	0	0	0	0	2,226,503	2,226,503
Transfers within equity	**0**	**0**	**0**	**1,940,301**	**287,482**	**0**	**(2,227,783)**	**0**
Transfer of net profit	0	0	0	1,940,301	287,482	0	(2,227,783)	0
Transfers from equity	**0**	**0**	**0**	**(93,379)**	**0**	**0**	**0**	**(93,379)**
Other transfers from equity	0	0	0	(3,092)	0	0	0	(3,092)
Corporate income tax for 2003*	0	0	0	(90,287)	0	0	0	(90,287)
CLOSING BALANCE AS AT 31.12.2005	**9,323,540**	**6,621,427**	**127,393**	**4,600,260**	**6,424,700**	**941**	**307,296**	**27,405,557**

* In 2005, the Special Tax Office carried out a review of regularity and timeliness of tax and contributions accounting as well as accounting of contributions for the year 2003. Due to excessive technical provisions, SID had to pay an extra corporate income tax in the amount of SIT 90,287 thousand. The liability was settled within the period prescribed.

Accounting policies and the pertaining notes form an integral part of these financial statements.

5. Consolidated distributable profit

In thousands of SIT	2006	2005
Net profit for the year	1,655,997	2,226,503
Part of net profit allocated to settlement of losses	0	(25,039)
Part of net profit allocated to legal reserves	(22,506)	(26,314)
Part of net profit allocated to reserves for own interests	(317,390)	0
Part of net profit allocated to statutory reserves	(350,256)	(1,070,276)
Part of net profit allocated to other reserves from profit	(73,852)	(535,136)
Transfer to retained profit	0	(262,443)
Unallocated net profit for the year	891,993	307,296
Retained profit	6,206,211	6,424,700
Distributable profit	7,098,204	6,731,996

6. Notes to consolidated financial statements

Items 1 to 4 herein include the following consolidated financial statements of the SID Bank Group:
- consolidated balance sheet as at 31 December 2006,
- consolidated income statement for 2006,
- consolidated cash flow statement for 2006, and
- consolidated statement of changes in equity for 2006.

Data comparative to those presented are the data as at 31 December 2005, i.e. the data for the year 2005.

The consolidated financial statements are given in thousands of SIT. Assets and liabilities denominated in foreign currency are translated into tolar countrevalue using the mean exchange rate of the Bank of Slovenia on the balance sheet date. Income and expenses denominated in foreign currency are translated into tolar countervalue using the exchange rate of the Bank of Slovenia on the date of the business event or recording.

The consolidated financial statements are the Group's financial statements which have been presented as financial statements of a single economic entity.

6.1. Corporate profile

The SID Bank Group is comprised of:

- **The controlling company**

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

SID Bank was founded on 22 October 1992 as a special private-law financial institution for securing and financing exports. Its share capital amounts to SIT 9,323,540 thousand and is divided into 932,354 no-par value shares issued through several issues. The majority shareholder of the company is the Republic of Slovenia (91.15%). Other shareholders include banks, insurance companies, Chamber of Commerce and Industry of Slovenia, and numerous other Slovene companies (at 31 December 2006, SID had 87 shareholders).

On its own behalf, SID Bank performs mainly the following activities:
- provides financing of preparations for international commercial operations and of international commercial operations and international commercial co-operation;
- issues guarantees;
- concludes transactions with the instruments of the monetary, currency and capital market and the market of derivative financial instruments;
- prepares credit rating and other credit information.

On behalf of the Republic of Slovenia, SID Bank as an authorised export-credit agency provides:
- insurance of short-term export credit against non-commercial and other non-marketable risks;
- insurance of investments against non-commercial risks;
- insurance of medium-term export credit against commercial and/or non-commercial risks;
- Interest Rate Equalisation Programme (IREP) in financing international business transactions; and
- other transactions on special authorisations.

The said division of operations of SID Bank is made according to the Act Governing Insurance and Financing of International Commercial Transactions (ZZFMGP), which entered into force on 14 February 2004 and regulates the bulk of operations of SID Bank.

The activities conducted by SID Bank for its own account are financed by its own sources, whereas international commercial operations are according to the ZZFMGP financed by borrowing on foreign financial markets in its own name and on its own behalf and by the guarantee of the Republic of Slovenia. The operations of SID Bank for its own account and financed by its own sources and the operations other than insurance operations which are not regulated by the ZZFMGP are governed by banking regulations.

Given the above, the financial statements of SID Bank comprise assets and liabilities and the results of operations on its own behalf, while the operations on behalf of the Republic of Slovenia are presented in separate financial statements (more in item 6.3).

As at 31 December 2006, SID Bank employed 68 persons.

According to the criteria defined in Article 55 of the Companies Act-1, SID Bank is a large company.

- **Subsidiaries:**

- SID – Prva kreditna zavarovalnica d.d., Ljubljana, in which SID Bank holds a 10% ownership interest, has the registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia (hereinafter: PKZ).

- PRO KOLEKT, družba za izterjavo, d.o.o. Ljubljana, in which SID Bank holds a 100% ownership interest, has the registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia (hereinafter: PRO KOLEKT Ljubljana). The company has three subsidiaries:
  - PRO KOLEKT d.o.o. Zagreb, which has the registered office at Savska cesta 41, 10000 Zagreb, Croatia (hereinafter: PRO KOLEKT Zagreb),
  - PRO KOLEKT d.o.o. Skopje , which has the registered office at Bulevar Goce Delčev 11, 91000 Skopje, Macedonia (hereinafter: PRO KOLEKT Skopje),
  - PRO KOLEKT, društvo za izterjavo dolga, d.o.o. Beograd, which has the registered office at Ul. Zmaj Jovine 13/I, 11000 Beograd, Republic of Serbia (hereinafter: PRO KOLEKT Beograd).

- **Joint ventures:**
- PRVI FAKTOR, faktoring družba, d.o.o.,Ljubljana, in which SID Bank holds a 50% ownership interest, has the registered office at Slovenska cesta 17, Ljubljana, Slovenia (hereinafter: PRVI FAKTOR Ljubljana). The company has four subsidiaries:
  - PRVI FAKTOR, faktoring društvo, d.o.o., Zagreb has the registered office at Hektorovićeva 2/V, 10000 Zagreb, Croatia (hereinafter: PRVI FAKTOR Zagreb),
  - PRVI FAKTOR - faktoring d.o.o., Beograd has the registered office at Cara Dušana 43/1, 11000 Beograd, Serbia (hereinafter: PRVI FAKTOR Beograd),
  - PRVI FAKTOR, finančni inženiring, d.o.o., Sarajevo has the registered office at Ul. Zmaj od Bosne 14c, 71000 Sarajevo, Bosnia and Herzegovina (hereinafter: PRVI FAKTOR Sarajevo),
  - PRVI FAKTOR d.o.o. Skopje has the registered office at Mito Hasivasilev-Jasmin 20,91000 Skopje, Macedonia (hereinafter: PRVI FAKTOR Skopje).

Basic information about companies in the SID Group:

In SIT million	SID Bank	PKZ	PK Lj	PK Zg	PK Sk	PK Bg	PF Lj	PF Zg	PF Bg	PF Sa	PF Sk
SID's ownership interest		100%	100%	100%	80%	100%	50%	50%	50%	50%	50%
Voting rights		100%	100%	100%	80%	100%	50%	50%	50%	50%	50%
Investment in nominal terms		1,008.0	6.9	3.2	1.9	6.0	500.2	443.5	131.8	12.2	1.2
Audited data as at 31.12.2005:											
Equity	24,744.1	1,534.4	2.3	-	-	-	918.5	127.2	59.7	-	-
Assets	150,807.4	6,714.4	19.9	-	-	-	11,440.6	10,494.7	3,759.4	-	-
Liabilities	126,063.3	5,180.0	17.6	-	-	-	10,522.1	10,367.6	3,699.6	-	-
Net income	2,548.6	1,061.9	54.9	-	-	-	561.4	565.1	126.9	-	-
Net profit	1,903.0	526.3	0.1	-	-	-	52.2	51.1	49.8	-	-
Number of employees	62	33	1	-	-	-	27	16	4	-	-
Audited data as at 31.12.2006:											
Equity	25,017.9	2,020.3	3.1	(0.9)	1.8	6.0	797.8	692.6	500.3	15.5	1.2
Assets	193,264.1	6,943.0	28.9	879.8	1.8	6.0	16,846.7	24,560.0	12,493.5	659.9	1.2
Liabilities	168,246.2	4,922.7	25.8	880.7	0.0	0.0	16,048.8	23,867.4	11,993.2	644.4	0.0
Net income	2,392.7	1,413.8	85.0	5.4	0.8	0.0	342.7	909.2	1,090.8	18.7	0.0
Net profit	612.8	450.1	(4.0)	(4.1)	(0.6)	0.0	44.2	208.8	302.2	3.3	0.0
Number of employees	68	38	3	2	1	0	30	30	12	4	0

- **Companies included in consolidation**

The companies are included in the financial statements using:

- the full consolidation method:
  - the controlling company – SID Bank,

- a subsidiary – PKZ, in which SID Bank holds a 100% ownership interest.

- the proportionate consolidation method: the PRVI FAKTOR Group. SID Bank holds a 50% ownership interest in the company PRVI FAKTOR Ljubljana, which is the parent company of the PRVI FAKTOR Group. The company PRVI FAKTOR Ljubljana prepares the consolidated financial statements of the PRVI FAKTOR Group. The PRVI FAKTOR Group is comprised of:
  - PRVI FAKTOR Ljubljana
  - PRVI FAKTOR Zagreb
  - PRVI FAKTOR Beograd
  - PRVI FAKTOR Sarajevo

- **Companies excluded from consolidation**

Due to insignificant effect on true and fair presentation of the financial position, income statement, cash flows and changes in equity, the following companies were excluded from consolidation by SID Bank:
- PRO KOLEKT Ljubljana
- PRO KOLEKT Zagreb
- PRO KOLEKT Skopje
- PRO KOLEKT Beograd

Total assets of all the companies in the PRO KOLEKT Group account for less than 1% of the SID Bank's total assets. SID Bank has a controlling (100%) influence over the controlling company PRO KOLEKT Ljubljana. The investment in the subsidiary company PRO KOLEKT Ljubljana is valued in the consolidated financial statements using the cost method.

6.2. Accounting policies

Financial statements of the SID Bank Group have been compiled in accordance with the International Financial Reporting Standards and notes thereto, as adopted by the European Union (hereinafter: IFRS), and in line with the regulations of the Bank of Slovenia.

The following fundamental accounting assumptions have been used for the preparation of the financial statements:

- accrual basis;
- going concern;
- true and fair presentation in the situation of constantly changing value of SIT and other prices, but not hyperinflation.

Accounting policies may change only if the change:

- is required by a standard or an interpretation; or
- results in the financial statements providing more reliable and more relevant information.

Major accounting policies providing the measurement basis used in the compilation of financial statements and other accounting policies relevant for understanding of financial statements are the following:

6.2.1. Cash and cash equivalents

Cash assets include cash and cash equivalents. Cash comprises cash in hand, cash in business accounts with banks and cash in transit. Cash assets are disclosed separately in the domestic and foreign currency.

In the balance sheet cash in hand is a constituent part of item A.1. Cash and balances with the central bank. Cash in business accounts with banks and cash in transit are included in item A.V. Loans.

Cash and cash equivalents in the cash flow statement comprise individual items with less then three months' maturity as of the day of acquisition: all cash assets, bank deposits and treasury bills.

All items of cash equivalents represent short-term, highly liquid investments which are simply and readily convertible to known amounts of cash.

6.2.2. Derivatives

The company in its own name and on its behalf concludes contracts on derivatives which represent a small initial investment compared to the nominal value of the contract.

Derivates comprise mainly currency forward contracts and interest swaps, used especially as hedging against currency and interest rate risk that the company is daily exposed to when operating on financial markets.

After initial recognition at amortised cost the derivatives are carried at fair value, which is - depending on the instrument - determined either based on quoted market prices or by using models of discounted future cash flows. Profit or loss from derivatives is included in the income statement under profit or loss from financial assets and in the balance sheet as assets, if the derivatives' fair value is positive, or liabilities, if the derivatives' fair value is negative.

Individual derivatives, in spite of efficient hedge against risks, do no meet all criteria for hedge accounting treatment specified in special rules of IAS 39 and are accounted for as held-for-trading financial assets.

Changes in fair value of derivatives are reported in net profit or loss from held-for-trading financial assets and liabilities.

6.2.3. Available-for-sale financial assets

In accordance with IAS 39, the SID Bank Group classifies its securities investments as "available-for-sale financial assets", purchased with the aim of managing current liquidity.

Available-for-sale financial assets therefore comprise both debt instruments and equity instruments.

According to IAS 39, available-for-sale financial assets are upon initial recognition measured at fair value which usually equals the purchase price. Purchase costs are incremental costs that are directly attributable to the acquisition and increase the procurement value. On the day of concluded transaction, which is usually different from the settlement date, the available-for-sale financial asset is recorded in the off-balance sheet and is written off the books on the settlement date. A uniform method is used consistently for all acquisitions and disposals of financial assets belonging to the category of available-for-sale financial assets.

Upon initial recognition, the amortised cost of debt instruments (bonds) is calculated using the effective interest rate method, with income evenly distributed throughout the entire period of possession of the debt instrument, namely from the acquisition to the due date - calculation based on return until maturity.

Following initial recognition, debt instruments are carried at fair value based on quoted market prices. The difference between fair value and amortised cost (unrealised profit) is disclosed under a special capital element - revaluation surplus. There is a possibility of positive differences or negative differences, increasing or decreasing the revaluation surplus respectively. If the differences are of permanent nature, their amount increases loss/decreases profit.

Foreign exchange differences on debt instruments are disclosed in the income statement, and foreign exchange differences from revaluation to fair value in the revaluation surplus.

6.2.4. Loans

The item comprises loans to banks and clients other than banks, bank deposits, and repurchased receivables (factoring).

Loans and deposits are recognised when funds are provided to the client. They are carried at amortised cost, which equals the initial principal value reduced by any repayments and increased by interest charged for the period and loan approval fees.

Income from loan approval fees are equally distributed over the entire loan repayment period. The Management Board is of the opinion that an even distribution of income from the said fees over the loan repayment period is a good approximation to recognition of this income by using the effective interest rate method.

6.2.5. Impairments

a) Impairment of loans and guarantees

Financial assets under this item include loans to banks, loans to clients other than banks, bank deposits, and guarantees.

The company classifies financial assets as assets subject to individual or group impairment. Balance and off-balance items subject to individual impairment are the following:

- non-risk balance sheet items;
- exposures to banks and savings banks in zone A countries, other than domestic banks, and other banks with minimum AA credit rating according to S&P or Aa according to Moody's;
- exposures to other clients where there is objective evidence of impairment for at least one financial asset and the total impairment amount for an individual client is greater than in the event of group impairment.

Total exposures not subject to individual impairment are classified into the following groups:

- exposure to guarantees to domestic legal entities other than banks, including balance sheet items arising from commissions charged for these transactions (DG group);
- other risky balance and off-balance sheet items relating to non-bank residents which are not subject to individual impairment and that do not have a minimum AA credit rating according to S&P or Aa according to Moody's (DP group);
- risky balance and off-balance sheet exposures to domestic banks (DB group);
- exposures to non-residents are classified into separate groups by country (XX groups, with XX representing the two-digit code of a country according to the ISO 3166 standard).

If within the scope of an individual assessment of a financial asset there is objective evidence of impairment, the recoverable value of such financial asset has to be assessed. The impairment shall be measured for every financial asset that is individually important. Impairment of financial assets that are not individually significant is measured on a group basis.

When calculating the losses arising from credit risk of an individually significant financial asset the company considers prime and suitable security as well as other collateral which fully meets the criteria stated in item 7 of the Regulation of the Bank of Slovenia on the Assessment of Credit Risk Losses of Banks and Savings Banks.

The recoverable amount of individually impaired financial assets is calculated by decreasing the cash flow from principal repayment by no less than the percentage of impairment used when losses are estimated on a group basis.

If financial assets are assessed individually and the impairment is not necessary and consequently not recognised, these assets are subject to additional group assessment.

Impairments of financial assets from non-residents are calculated on a group basis, with the impairment level equalling the sum of impairment level applied to a group of comparable domestic financial assets and the impairment level for country risks. Impairments based on country risks are calculated taking into account the premium rates for loan collateralisation against country risks provided by SID Bank on behalf of the RS.

Loss estimate for collective impairment of guarantees is made on the basis of average loss from paid guarantees, with consideration of opportunity costs of delays in collection of receivables arising from paid guarantees, and the actual (concluded deals) and assessed recoveries (non-concluded deals).

Loss estimate for collective impairment of other exposures to residents is based on the estimate of the three-year average loss arising from financial assets in individual group.

b) Impairment of factoring receivables

Impairment of financial assets arising from factoring (repurchased receivables, bills of exchange, receivables from supplier factoring – hereinafter: factoring receivables) is performed when the company estimates that certain receivables cannot be realised in line with contractual provisions and that loss can be expected as a result.

The company classifies factoring receivables as individually or collectively impaired receivables. Individually significant receivables include receivables exceeding EUR 50 thousand per individual transaction or other receivables deemed significant by the management. Impairment of individually significant receivables is performed on the basis of the estimated recoverable amount of a receivable.

In case of collectively impaired receivables, impairment is calculated according to delays in payment:

Number of days overdue	Allowance in %
31-90 days	10%
91-180 days	25%
181-360 days	50%
over 361 days	100%

6.2.6. Property, plant and equipment

Tangible fixed assets comprise real estate, equipment, and small tools.

Items of property, plant and equipment is recorded at its cost of purchase upon initial recognition. Cost comprises its purchase price, import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any subsequent expenses related to tangible fixed assets are posted as maintenance costs or increase in the asset's cost of purchase. The purpose of such costs is disclosed as repair and maintenance of tangible fixed assets. Subsequently incurred costs related to a tangible fixed asset are disclosed as an increase in the cost of purchase if their expenditure increases future economic benefits related to the underlying asset.

The cost model is used subsequent to initial recognition, whereby fixed assets are disclosed at their cost of purchase less any accumulated depreciation and any accumulated impairment losses.

Land and buildings are accounted for separately, even when they are acquired together.

The depreciation of the items of property, plant and equipment begins on the first day of the month in which the item has become available for its intended use. Straight-line amortisation method is applied. The company uses the following depreciation rates:

Land	0.0%
Buildings	5.0%
Computer equipment	50.0%
Personal vehicles	12.5%
Computer software	20.0%
Machinery and inventory	25.0%
Furniture	11.0-15.0%
Small tools	25.0-100.0%

Tangible assets are impaired when their carrying amount exceeds their recoverable amount. Losses resulting from impairment of assets are recognised as expenses in profit or loss. At the end of each financial year, as at the balance sheet cut-off date, the existence of the indicator that an asset might be impaired is assessed. In case such indicator exists, the asset's recoverable amount is assessed, equalling:

- fair value reduced by costs of sale; or
- value in use, whichever is higher.

The carrying amount of an individual item of tangible fixed assets is derecognised upon disposal and if no future economic benefits are expected from its use or disposal.

6.2.7. Intangible assets

a) Intangible long-term assets with definite useful lives

This item comprises investments in software and property rights. Useful life of an intangible asset is estimated as definite. If it is definite, the useful life is assessed and the intangible asset amortised at a 20% rate. Straight-line amortisation method is applied. At least at each financial year-end, the company tests the intangible asset for impairment by comparing its recoverable amount with its carrying amount.

Intangible assets are after initial recognition using the cost model carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation ceases at the earlier of the date that the asset is classified as held-for-sale asset and the date the asset is derecognised.

Intangible assets are impaired when their carrying amount exceeds their recoverable amount. Losses resulting from impairment of assets are recognised as expenses in profit or loss. At the end of each financial year, as at the balance sheet cut-off date, the existence of the indicator that an asset might be impaired is assessed. In case such indicator exists, the asset's recoverable amount is assessed, equalling:

- fair value reduced by costs of sale; or
- value in use, whichever is higher.

b) Intangible long-term assets with indefinite useful lives

This item comprises goodwill arising from the purchase of ownership share of PRVI FAKTOR, Ljubljana.

At the end of each financial year, i.e. on the balance sheet cut-off date, the company tests goodwill for impairment by comparing the entire carrying amount of the investment, which consists of a share in equity and of goodwill, with its recoverable amount, in the process of which value in use is also considered. The value in use represents the present value of future cash flows calculated using a discount rate which reflects the required rate of return on the investment. Future cash flows represent expected dividends.

6.2.8. Long-term investments in equity of subsidiaries

In the consolidated financial statements, the investments in equity of the subsidiary excluded from consolidation are carried at cost.

If evidence arises indicating the necessity of impairment of an investment in subsidiary, the recoverable amount is estimated for each investment separately.

6.2.9. Other assets – reinsurance contracts

The item includes:
a) reinsurers' share in unearned premiums (item 6.2.12 of the Accounting Policies)
b) reinsurers' share in claims provisions (item 6.2.12 of the Accounting Policies)
c) reinsurers' share in provisions for bonuses and rebates (item 6.2.12 of the Accounting Policies)
d) receivables

Receivables are recognized as an asset at amounts recorded in the relevant documents under the assumption that they will be paid. Initial receivables can be subsequently increased or, regardless of any payments received or any other types of settlement, decreased by a contract-based amount. On the balance sheet date, fair value, i.e. realisable value of various types of receivables (recourse receivables on one hand and the remaining receivables on the other) is tested using different methods. If there is objective evidence that an impairment loss has been incurred on a receivables carried at amortised costs, such receivables is disclosed as part of revaluation operating expenses relating receivables. The carrying amount of the receivable is decreased by restating it in the allowance account.

Fair value, i.e. realisable value of receivables, is estimated on the basis of individual assessment of solvency. Allowances for receivables are formed differently for separate groups of receivables. Increase in allowances in the current year is charged under expenses from revaluation which represent a part of other net technical expenses. Since individual receivables do not denote a material item, the movement of their flat-rate allowance is not presented.

- Receivables due from policyholders arising from insurance premiums and credit reports, and other receivables

Fair value, i.e. realisable value of such receivables and their allowances, is estimated on the basis of individual assessment of the policyholder's solvency, in view of the policyholder's financial position and depending on how the policyholder has discharged obligations to the insurance company in the past. Receivables due from the insured are not insured, thus this aspect is not taken into account when assessing allowances.

- Recourse receivables

Recourse receivables are recorded as exercised when the insurance money is paid to the extent to which it can be reasonably expected to result in receipts. The difference between this amount and the paid benefit is disclosed in off-balance sheet records until the final completion of the recourse event. Allowances for recourse receivables are formed on the basis of individual assessment of realisable value. In order to assess allowances, recourse receivables are divided into three groups according to the cause of loss due to which they occurred and are assessed (individually) within these groups according to the criteria defined.

Winding-up procedures:
- In case of bankruptcy, the assessment of the realisable value of recourse receivable can be no more than 1%, which is based on experience with past legal bankruptcy proceedings;
- in case of other insolvency proceedings (e.g. »Administrative Receivership, Administration, Liquidation«) the assessment is created on the basis of concrete written information received by PKZ from the debtor or from the administrative receiver; if such information is not available, the assessed realisable value may not exceed 5%.

Rehabilitation procedures:
In such procedures, the assessment can be formed on the basis of concrete written information; if such information is not available, the assessment of the realisable value can be formed at the level of no more than 20%.

Payment of insurance money due to extended delay in payment:
- In case of recourse receivables arising due to payment of insurance money in case of extended delay in payment, the following criteria is taken into account for the assessment of the realisable value:
- assessment of recourse receivable must not exceed 50%, except in the case of a final court decision and favourable assessment of the debtor's/guarantor's credit rating,
- the debtor's credit rating,
- the debtor's country,
- assessment of collectability of receivables, which is provided by a collection agency or attorney dealing with collection,
- age of receivable.

Due to the provisions of insurance contracts, recourse receivables are disclosed by the individual insured, whilst, for the assessment of allowance for individual receivables, previously presented facts for individual debtors (risks or buyers of the insured) are taken into account.

6.2.10. Financial liabilities measured at amortised cost

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

Items are carried at amortised cost, which equals the initial principal value reduced by any repayments and increased by interest charged for the period and any expenses arising from loan approval fees.

The latter are evenly distributed over the loan repayment period. The management believes that even distribution of expenses over the loan repayment period is a good approximation to recognition of these expenses by using the effective interest rate method.

6.2.11. Bank provisions

Provisions are established for potential losses related to risks arising from off-balance sheet items (guarantees, approved undrawn credit facilities and credit lines), and calculated according to the procedures indicated in item 6.2.5 herein.

6.2.12. Technical provisions

- Unearned premiums

Unearned premium provisions represent the unearned portions of the premiums charged. They are calculated for each insurance company separately (limit) under the assumption of equal distribution of the probability of the occurrence of the insured event during the term of insurance coverage. Provisions have not been reduced by the costs of acquisition. Reinsurers' share in unearned premiums is disclosed in item Other assets – reinsurance contracts.

- Claims provisions

Provisions for outstanding claims comprise provisions for already incurred and reported but not yet solved claims and provisions for incurred but not yet reported claims. Direct appraisal costs were already taken into account in the total statistical assessment of total provisions for outstanding claims, while the provisions for indirect appraisal costs were created separately.

Provisions for already reported but not yet solved claims were formed on the basis of the listing, separately for every loss event based on anticipated amounts of claim payments. Provisions for already incurred but unreported claims have been calculated as the difference between claims provisions calculated based on the statistical method and claims according to the inventory, containing actual unreported claims, claims reported in insufficient amount, direct costs of solving claims and reasonable safety factors. These have been assessed on the basis of previous experience using the Chain Ladder method. Development factors have been determined as an average of the two most significant development factors in the year. Provisions for indirect appraisal costs have been calculated by multiplying the provisions for incurred and reported claims and the provisions for incurred and unreported claims with a quotient representing a ratio between indirect appraisal costs in the year and claims settled in the year. The reinsurers' share in provisions for indirect appraisal costs has been calculated based on a ratio between the reinsurance fee and gross operating costs for the year. Reinsurers' share in claims provisions is disclosed in item Other assets – reinsurance contracts.

Owing to a short business cycle, claims provisions are not discounted. Claims provisions are also not decreased by any recourse arising from losses considered in claims provisions. The assessed and expected recourses from claims settled have been disclosed as receivables.

- Provisions for bonuses

Provisions for bonuses are set aside for contracts with those insured with the clause on reimbursement of a part of premium in case of low loss ratio or when the insured do not file claims within the deadline defined by their contracts at all. The basic criterion for inclusion of such articles in contracts is past experience with a specific insured.

Provisions for bonuses are calculated individually by including in the calculation all contracts with the bonus clause and verifying for each of the contracts meeting of contractual provisions for obtaining the right to a bonus by the date of the statements. The calculation includes a premium written, claims settled, claims reported and potential claims as at 31 December 2006. In performing calculations it is also assumed that the part of a bonus relating to an unearned bonus is included in the unearned premium, leading to a corresponding decrease in bonus provisions.

Reinsurers' share in provisions for bonuses is disclosed in item Other assets – reinsurance contracts.

6.2.13. Other provisions

- Provisions for long-service awards

These provisions were calculated based on awards specified in the applicable collective agreement as at 31 December 2006. The calculation considers the deferral during the period for which the award has been earned and the period yet to elapse for the conditions for payment of the long-service award to be met. The calculation was made under the assumption that once the conditions for payment of the long-service award are fulfilled, all employees will still be employed in companies in the SID Bank Group. The amounts of awards were discounted to the present value, whereby consideration was taken of the time distribution of the anticipated payouts of long-service awards and the average interest rate on government debt securities published by the Ministry of Finance for the purpose of calculation of the yield of voluntary supplementary pension insurance. Included was the full interest rate calculated in such a manner (3.6%). Applied input parameters: 10-year long-service award: SIT 83 thousand, 20-year long-service award: SIT 124 thousand, 30-year long-service award: SIT 166 thousand.

- Provisions for severance pay upon retirement

These provisions were calculated according to the collective agreement, contribution rates of employers and retirement conditions as at 31 December 2006, under the assumption that all employees will be eligible for retirement while still employed in companies in the SID Bank Group and that they will first meet the retirement age condition, which they will enforce. The calculation was made considering the deferral during the period for which the award has been earned and the period yet to elapse for the retirement conditions to be met. The amounts of the severance pay were discounted to the present value, whereby consideration was taken of the time distribution of the anticipated payouts and of the average interest rate on government debt securities published by the Ministry of Finance for the purpose of calculation of yield of voluntary supplementary pension insurance. Included was the full interest rate calculated in such a manner (3.6%). Applied input parameters: amount based on the Employment Relationship Act (two average monthly salaries of the employee for the past three months), increased by salary growth in the banking sector in the last five years; period of service upon retirement: 40 years - men, 38 years - women.

Pursuant to the Slovene legislation the companies in the SID Bank Group pay social security and pension contributions for employees from gross salaries and account them under expenses for the period.

Short-term compensated absences (paid annual leave) are included in expenses for the period.

- Long-term accrued costs and deferred income arising from deferred income from reinsurance commissions

In the reinsurance contract, PKZ has defined a floating scale commission rate. The minimum rate amounts to 24.5% (unless the provision on participation in extremely bad loss ratio has to be applied). Temporarily, reinsurers pay commissions at a rate of 33% which is subject to final account. The first final account for the year 2006 will be made in 2008. PKZ has temporarily deferred the difference between calculations at both rates and disclosed it under the long-term provision for deferred income.

Provisions are reduced directly by the costs for which they were created, i.e. paid long-service awards and severance pay upon retirement. Long-term accrued costs and deferred income are transferred to the income for the year upon settling reinsurance contract commissions. The differences between created provisions and long-term accrued costs and deferred income for individual years and the utilisation of such provisions is settled to the debit/credit of the profit or loss for the year. The difference arising from provisions results either in a smaller change in provisions (to the extent that the provisions created exceeded the amount of utilisation) or costs of long-service awards or severance pay on retirement accounted for additionally (to the extent that the provisions were lower than the costs incurred). The difference arising from long-term accrued costs and deferred income is reflected in increased/decreased income from reinsurance commissions for the year. The provisions or liabilities underlying the provisions and long-term accrued costs and deferred income bear no interest and are not exposed to currency or market risks. Provisions for long-service awards and severance pay upon retirement are exposed to the risk of legal change in the amounts and in the eligibility requirements for payout of such provisions, as well as to the risk of changes in the collective agreement and the risk of fluctuation or mortality that is different than those envisaged. Long-term accrued costs and deferred income arising from deferred income from reinsurance commissions are associated with the loss experience and the insurance risk arising therefrom.

6.2.14. Other liabilities

On initial recognition, liabilities are valued at amounts recorded in relevant documents containing information of their inception. Specifically, such documents provide proof of receipt of a product, service or work performed, or costs, expenses in share in the profit or loss accounted for. Subsequently, liabilities can be increased or, regardless of any payments received or any other types of settlement, decreased provided that this is agreed by creditors. Long-term debts expressed in a foreign currency are translated into local currency on the balance sheet date.

The liabilities from reinsurance operations are settled according to the reinsurance contracts, usually by the end of the first or second quarter following the quarter in which the invoice was issued. According to the provisions from the reinsurance contract, only the balance from the reinsurance contract is paid, so that the receivables due from an individual reinsurer are set off against its liabilities.

The liabilities bear no interest.

6.2.15. Reinsurance contracts and reinsurers' shares

Concluded reinsurance contracts falling within the operations of the subsidiary company PKZ transfer significant insurance risk onto reinsurance companies and meet the conditions stated in IFRS for being classified among insurance contracts. As a result, they are evaluated, recognised and disclosed as such in financial statements.

The reinsurers' shares in technical provisions are calculated based on reinsurance contract and disclosed as reinsurance assets of the cedant. Upon reporting, the insurance company (cedant) performs an impairment test for assets subject to reinsurance; if impairment is confirmed, the carrying amount of these assets is decreased and an impairment loss is disclosed in the income statement.

The reinsurers' share of written premiums, claims paid and bonuses are accounted on the basis of the reinsurance contract and recognised in the income statement in the same period and as the shares stipulated by the contracts referring to the written gross premiums and claims paid that are covered by reinsurance.

The reinsurance contract provides for consideration of paid recourses in reinsurance accounts. Estimated accounted recourses are recognised in the income statement under income. Therefore, due to the principle of matching income and expenses regardless of the reinsurer's contract, the income statement contains the calculated shares of reinsurers in accounted recourses; liabilities to reinsurers arising from accounted, but not yet paid recourses are disclosed separately from the reinsurer's account.

The reinsurance contract contains a provision on reinsurance fee, which depends on the loss ratio. Reinsurers at quarterly accounts pay PKZ a fee of 33%. PKZ disclosed under income the lowest provision from the floating scale (24.5%), which is in line with the assessed loss ratio for the current year provided in the claims provisions. The difference between the fee under reinsurance accounts and the PKZ fee disclosed in income is until the first reconciliation (in the second year following the year of completion of the reinsurance contract), posted to provisions for deferred income.

6.2.16. Liability adequacy test

At each balance sheet date it is assessed whether the recognised liabilities are adequate given the existing insurance contracts. The insurance company does not disclose deferred acquisition costs and intangible assets acquired in a portfolio transfer, which is why these two items are not considered in the test. Any deficit is immediately recognised in the income statement as loss and provisions are made based on the liability adequacy test (provisions for unexpired risks).

- Calculation of provisions for unexpired risks as at 31 December 2006

Data for calculating provisions for unexpired risks		in SIT thousand
Net earned premiums	1	991,091
Net claims incurred	2	648,910
Net bonuses and rebates	3	119,381
Net operating costs	4	100,230
Net unearned premium	5	96,916
Provisions for unexpired risks	6=max((2+3+4)/5-1;0)	0

The calculation reveals that there was no need to create provisions for unexpired risks in 2006.

By conducting an adequacy test for unearned premium provisions, the company checked whether its unearned premium provisions as at 31 December 2006 were appropriate. The provisions relate to future liabilities for claims arising from risks for which a premium was accounted for in the previous and already completed accounting period while the risk expires in the next accounting period. Unearned premiums have been calculated using the premiums written in the period, which is why a premium adequacy test was performed which indicated that insurance contract premiums for 2006 were appropriate.

Claims provisions have been created in the amount corresponding to estimated liabilities arising from insurance contracts. In creating claims provisions, the insurance company took into account liabilities arising from insurance contracts in respect of which an insurance case had already taken place before the end of the period (irrespective of whether an insurance case had already been reported, including the costs that are charged to the insurance company as a result of these contracts) and potential future liabilities that have been prudently assessed by considering all the factors that could influence the amount of a liability according the current estimates.

In respect of each year covered by a contract, the reported and unsolved claims as at 31 December 2006 have been valued. Using the Chain Ladder method and based on the previous experience, the unreported and incurred claims as at 31 December 2006 have been assessed by the insurance company, considering special cases by to the years covered by a contract (information on potential and significant claims arising from security assurance). Development factors have been considered at levels containing a sufficient prudence margin, and the possibility of subsequent reporting of claims was also taken into account.

Provisions for bonuses and rebates are based on the assessment of liabilities arising from insurance contracts as at 31 December 2006, while taking account of contractual provisions. The amount of provisions depends on the loss ratio and, as a result, on the changes in claims and claims provisions that have been created prudently in order to ensure the fulfilment of future liabilities arising from insurance companies.

6.2.17. Equity

Capital is comprised of share capital, capital reserves, profit reserves, surplus from revaluation of financial assets, capital revaluation - own shares and net profit for the year with retained profits.

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

Capital reserves include paid-in capital surplus and reserves from general capital revaluation adjustment. Capital reserves may be used in compliance with the act governing loss covering and capital increasing. Reserves from profit are recognised when formed by the body preparing the Annual Report or by a resolution of the competent body; they are utilised in compliance with the By-laws and the law. Statutory reserves may be used to cover net loss for the year and loss brought forward, increase nominal capital by the Corporation's assets, to set aside reserves for own interests and eliminate serious losses arising from operations or extraordinary business events. Other reserves from profit are intended to strengthen the Corporation's capital adequacy.

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

Revaluation surplus includes revaluation related to available-for-sale financial assets.

6.2.18. Off-balance sheet receivables/liabilities

Disclosed in the off-balance sheet records are issued guarantees, undrawn approved loans and credit lines, undrawn raised loans and derivatives.

Financial obligations assumed under issued guarantees - both financial and performance - represent the company's irrevocable commitment to payment, should the client fail to meet their obligations to a third party.

The basic purpose of assumed and irrevocable liabilities from approved undrawn credit facilities and credit lines is to provide funds to the company's client according to the concluded agreement.

The risks related to contingent liabilities and assumed financial obligations are estimated based on applicable regulations (IFRS and in line with the policies of the Bank of Slovenia), and described in detail in chapter 6.2.5.

6.2.19. Interest income and interest expense

Interest income and interest expense items include income and expenses for interest on granted and raised loans, interest on available-for-sale financial assets, and other interest.

In the income statement the interest income and interest expenses from granted and raised loans and other interest are recognised in the relevant period using the effective interest rate method.

Under available-for-sale financial assets the interest income is evenly distributed over the period of possession of a security based on the amortised cost calculated using the effective interest rate method.

6.2.20. Net insurance operations

- Net written premiums

Premiums are disclosed under income upon invoicing of third parties and already decreased by tax on insurance contracts. Gross insurance premiums are reduced by reinsurers' shares according to reinsurance contract.

- Expenses for insurance operations

Accounted losses contain benefits paid to policyholders due to the occurrence of a loss event (gross amounts decreased by the reinsurers' shares according to reinsurance contract). The amounts of net accounted losses are decreased by enforced recourse claims (for method of their assessment see item on recourse claims) (gross amounts reduced by accrued reinsurers' shares - see item Reinsurance contracts and shares of reinsurers). Accounted bonuses represent bonuses paid to policyholders in the current year (gross amounts less reinsurers' shares according to reinsurance contract).

6.2.21. Fees and commissions received and paid

Income from fees and commissions comprises mainly fees and commissions from granted loans and issued guarantees. As stated in item 6.2.4., income from charged loan approval fees is equally distributed over the entire loan repayment period.

Expenses for fees and commissions include chiefly fees and commissions for raised foreign loans. These expenses are also evenly distributed over the entire loan repayment period.

6.2.22. Impairments of loans measured at amortised cost

Losses arising from impairment of loans are recognised if there is objective evidence that the client will not be able to repay the entire approved loan amount and interest. Loss amount equals the difference between the carrying amount and recoverable amount of the loan; the latter comprising projected future payments including the amounts recovered from guarantees and collateral discounted at the interest rate applicable as at the day the loan is raised.

Loans are impaired mainly based on the credit rating and performance of the borrower, taking into account the value of received security and guarantees of third parties.

6.2.23. Taxation

Corporate income tax is accounted based on the income and expenses reported in the income statement and according to the applicable legislation. The applicable tax rate is 25% of the taxable base.

Deferred corporate income tax is provided in full, using the liability method based on the balance sheet, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred corporate income tax is determined using tax rates that have been enacted as at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

The effects of transition from SAS to IFRS are recorded as retained profit which is taxed at a 25% rate. In accordance with applicable regulations a liability has to be discharged in three tax periods at the latest, but at least one third in the first period.

6.2.24. Effect of changes in foreign exchange rates

The functional currency used in presenting the financial statements is the Slovene tolar (SIT).

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

At each balance sheet date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items which are carried at historical cost denominated in a foreign currency are translated by using the exchange rate at the date of the transaction; and
- non-monetary items which are carried at fair value denominated in a foreign currency are translated by using the exchange rate at the date of determining fair value.

Exchange differences arising from the settlement of monetary items or the translation of monetary items by using exchange rates other than those used for initial recognition in the period or presentation in the preceding financial statements, are recognised in profit or loss for the period in which they appear, under profit or loss on exchange differences.

6.2.25. Material items

Material items in the balance sheet are the items which, on the balance sheet date, exceed 1% of total assets or SIT 2.2 billion in the balance sheet as at 31 December 2006. Material items in the income statement are the items exceeding 0.5% of total assets or SIT 1.1 billion in the income statement for the year 2006.

6.2.26. Cash flow statement

Cash flow statement (indirect method) consists of data from the balance sheet as at 31 December 2006 and the balance sheet as at 1 January 2006 and of data from the income statement for the year 2006 plus any other data required for the adjustment of inflows and outflows and for adequate breakdown of material items. Cash flow statement is presented on a form issued by the Bank of Slovenia and aligned with IAS 7.

6.2.27. Statement of changes in equity

Statement of changes in equity presents changes in individual capital elements in the accounting period. The statement's form is based on requirements under IAS 1.96. The form discloses separately changes in each item of capital in the balance sheet.

6.3. Transactions under authorisation

6.3.1. Insurance against non-marketable risks

As stated in item 6.1 herein, SID Bank, as an authorised export-credit agency provides, on behalf of the Republic of Slovenia, mainly insurance of short-term export credit against non-commercial and other non-marketable risks, insurance of investments against non-commercial risks, and insurance of medium-term export credit against commercial and/or non-commercial risks.

The funds for insurance on behalf of the state have been provided to SID Bank by the Republic of Slovenia in the form of cash assets allocated to contingency reserves used for covering obligations to the insureds arising from insurance against medium-term commercial risks, short-term non-commercial and non-market non-commercial risks provided by SID Bank on behalf of the state.

Article 4 of the Act Governing Insurance and Financing of International Commercial Transactions (ZZFMGP) regulates operations with contingency reserves and specifies that these reserves are established by using paid premiums, fees and commissions, recourse and other income which an authorised institution representing the state generates in insurance, reinsurance, retrocession and other transactions and services, whereby the participants in international trade are provided cover against non-marketable risks. Contingency reserves are also formed based on funds the authorised institution acquires from managing these assets and risks assumed from the budget of the Republic of Slovenia and also from other sources and funds. Contingency reserves are utilised to settle liabilities to the insured, pay costs of preventing and reducing future or existent losses, cover losses from these transactions and transactions of managing these assets and risks and to pay for costs related to the performance of transactions as the authorised institution, which the latter performs on the basis of this Act.

On 1 December 2004, SEC, pursuant to ZZFMGP, signed an agreement with the Ministry of Finance on regulation of mutual relations concerning implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions.

In line with the said legal provisions and the agreement concluded with the Ministry of Finance, SID Bank, in its books of account, reports the operations on behalf of the state completely separately from its other operations. The operations of SID Bank in the name of and on behalf of the state are accounted for in a separate income statement which according to the accrual principle includes all income and expenses from these operations. A separate balance sheet is also prepared for these transactions. Contingency reserves, investments from these reserves and the pertaining items are disclosed also under a special item in the balance sheet of SID Bank (notes 6.5.10. and 6.5.22.).

By way of the agreement with the Ministry of Finance on regulation of mutual relations concerning implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions dated 1 December 2004 the commission for the provision of services under ZZFMPG and this agreement has also been agreed upon and is charged since 1 January 2005. The agreement has been concluded for an indefinite period of time, but not for longer than till the day of granting authorisations to the authorised institution selected pursuant to Article 11 of ZZFMGP.

6.3.2. Interest equalisation programme

On the basis of the agreement on the implementation of the interest equalisation programme and management of IEP reserve funds concluded with the Ministry of Finance on 24 November 2006, the reserve funds of the interest equalisation programme were formed on 29 December 2006.

The programme is presented in item 6.6. of the business report.

6.4. Transition to International Financial Reporting Standards

Taking into account the Decision of the Bank of Slovenia Determining the Beginning of Application of International Financial Reporting Standards for Banks and Savings Banks, the SID Group for the first time compiled the consolidated financial statements according to IFRS for the business year commencing 1 January 2006. The date of transition to reporting according to IFRS is therefore 1 January 2005.

The company SID included the companies PKZ and PROKOLEKT in the consolidated financial statement prepared in accordance with SAS using the full consolidation method, while the company PRVI FAKTOR, Ljubljana was included using the equity method. As provided by IFRS, the subsidiary insurance company PKZ is included in the process of consolidation using the full consolidation method, while the PRVI FAKTOR Group is included using the proportionate consolidation method. Due to small amount of its operations, the company PRO KOLEKT has been excluded from the consolidation process. The effects of changing the consolidation method on the transition to IFRS are disclosed below.

In 2006, the insurance company PKZ and the PRVI FAKTOR Group prepared their consolidated financial statements in accordance with SAS; however, for the purpose of consolidation the companies also prepared their financial statements in accordance with IFRS for 2006 and 2005.

As indicated in item 6.5 in the notes to the financial statements of SID Bank, the Bank compiled the opening balance sheet according to IFRS as at 1 January 2005 on the basis of the balance sheet prepared in line with SAS as at 31 December 2004 to provide for translation of comparative data. The opening balance sheet includes changes resulting from:,

- transfer of credit insurance against marketable risks to the subsidiary company PKZ - namely, the financial statements for 2004, which were presented in the Annual Report of SID Bank for 2004, comprised items referring to marketable insurance provided by SID by the end of 2004 in its own name, whereas in 2005 these operations and the insurance portfolio were transferred to the subsidiary company PKZ;
- changed disclosure method for operations of SID in the name of and on behalf of the Republic of Slovenia on the basis of the ZZFMGP and the agreement regulating mutual relations regarding the implementation of Chapter II of the ZZFMGP, concluded with the Ministry of Finance.

Below, we indicate the effects of the transition to IFRS on the opening balance sheet as at 1 January 2005 and the comparative financial statements for 2005, as provided by IFRS 1.38.

6.4.1. Opening consolidated balance sheet in accordance with IFRS as at 1 January 2005

According to IFRS 1, the SID Bank Group has upon the transition to IFRS prepared the opening balance sheet disclosing all assets and liabilities whose recognition is required by IFRS.

Opening balance sheet in accordance with to IFRS:

	1.1.2005 SAS - adjusted	Adjustments	1.1.2005 IFRS
Cash and balances with the central bank	42	0	42
Financial assets held for trading	0	31,466	31,466
Available-for-sale financial assets	7,226,273	160,762	7,387,035
Loans	108,833,691	4,813,768	113,647,459
Property, plant and equipment	630,948	25,420	656,368
Intangible assets	83,497	126,487	209,984
Long-term investments in equity of subsidiaries and associates	424,280	(422,180)	2,100
Corporate income tax assets		4,573	4,573
Other assets	1,697,999	1,688,416	3,386,415
-reinsurance contracts	0	1,771,529	1,771,529
-other	1,697,999	(83,113)	1,614,886
TOTAL ASSETS	**118,896,730**	**6,428,710**	**125,325,440**
INVESTMENTS IN CONTINGENCY RESERVES	**21,499,189**	**0**	**21,499,189**
Financial liabilities measured at amortised cost	90,737,080	2,602,069	93,339,149
Provisions	7,511,721	(4,469,798)	3,041,924
-bank provisions	2,553,319	(2,298,776)	254,544
-technical provisions	4,033,402	(1,264,202)	2,769,200
-other provisions		18,180	18,180
-provisions for general banking risks	925,000	(925,000)	0
Corporate income tax liabilities	0	2,127,656	2,127,656
Other liabilities	1,601,918	9,370	1,611,288
Share capital	9,323,540	0	9,323,540
Capital reserves	1,337,489	5,283,938	6,621,427
Revaluation surplus	5,336,370	(5,275,864)	60,506
Reserves from profit (including retained profit)	2,739,830	6,150,727	8,890,557
Capital revaluation adjustment on consolidation	0	819	819
Net profit for the year	308,782	(206)	308,576
TOTAL CAPITAL AND LIABILITIES	**118,896,730**	**6,428,710**	**125,325,440**
CONTINGENCY RESERVES	**21,499,189**	**0**	**21,499,189**

6.4.2. Adjustments in the opening balance sheet as at 1 January 2005

a) Financial assets held for trading

According to SAS as at 1 January 2005	0
Change in the fair value of the derivative	31,466
According to IFRS as at 1 January 2005	31,466

As provided by IAS 39, changes in fair value of a derivative instrument (interest rate swap) were recognised in the opening balance sheet prepared in accordance with IFRS.

b) Available-for-sale financial assets

The carrying amount of available-for-sale financial assets as at 1 January 2005 stood at SIT 7,387,035 thousand and their fair value equalled SIT 7,435,787 thousand.

c) Loans

According to SAS as at 1 January 2005	108,833,691
Decrease in value adjustments for impairments	1,310,374
Change in consolidation method	3,503,394
According to IFRS as at 1 January 2005	113,647,459

Loan impairments as at 1 January 2005 were calculated with consideration of policies stated in item 6.2.5. of this report.

d) Property, plant and equipment

According to SAS as at 1 January 2005	630,948
Change in consolidation method	25,420
According to IFRS as at 1 January 2005	656,368

e) Intangible assets

According to SAS as at 1 January 2005	83,497
Change in consolidation method	126,487
According to IFRS as at 1 January 2005	209,984

f) Long-term investments in equity of subsidiaries and associates

According to SAS as at 1 January 2005	424,280
Change in consolidation method – PRVI FAKTOR	(424,280)
Change in consolidation method – PRO KOLEKT	2,100
According to IFRS as at 1 January 2005	2,100

g) Other assets – reinsurance contracts

According to SAS as at 1 January 2005	0
Reinsurers' share in provisions	1,771,529
According to IFRS as at 1 January 2005	1,771,529

h) Financial liabilities measured at amortised cost

According to SAS as at 1 January 2005	90,737,080
Change in consolidation method	2,602,069
According to IFRS as at 1 January 2005	93,339,149

i) Bank provisions

According to SAS as at 1 January 2005	2,553,319
Provisions for guarantees	(723,623)
Provisions for A-graded clients	(1,040,913)
Country risk provisions	(534,239)
According to IFRS as at 1 January 2005	254,544

As at 1 January 2005:
- taking into account the policies stated in item 6.2.5. herein, the newly calculated provisions for guarantees were lower by SIT 723,623 thousand;
- provisions for A-graded clients and country risk provisions were reversed.

Provisions for liabilities and costs as at 1 January 2005 according to SAS and IFRS:

	1.1.2005 SAS - adjusted	Adjustments	1.1.2005 IFRS
Provisions for guarantees	978,167	(723,623)	254,544
Provisions for A-graded clients	1,040,913	(1,040,913)	0
Country risk provisions	534,239	(534,239)	0
Total	2,553,319	(2,298,776)	254,544

j) Technical provisions

According to SAS as at 1 January 2005	4,033,402
Elimination of equalisation provisions	(3,035,731)
Reinsurers' share in provisions – transfer to receivables	1,771,529
According to IFRS as at 1 January 2005	2,769,200

k) Other provisions

According to the balance as at 1 January 2005, the provisions for severance pays and long-service awards in the amount of SIT 18,180 thousand were created in line with policies indicated in item 6.2.12 herein.

l) Provisions for general banking risks

Provisions in the amount of SIT 925,000 thousand were eliminated.

m) Corporate income tax liabilities

According to SAS as at 1 January 2005	0
Transfer from the item Other liabilities	552,189
Tax account arising from the effect of transition to IFRS	1,575,467
According to IFRS as at 1 January 2005	2,127,656

Tax liability established in the 2004 tax account was transferred from the item Other liabilities. According to the Corporate Income Tax Act the tax liability arising from the entire effect of the transition to IFRS as at 1 January 2005 was calculated.

n) Other liabilities

According to SAS as at 1 January 2005	1,601,918
Change in consolidation method	544,156
Deferral of fees and commissions	17,403
Transfer of corporate income tax liabilities	(552,189)
According to IFRS as at 1 January 2005	1,611,288

o) Capital reserves

According to SAS as at 1 January 2005	1,337,489
Change in consolidation method	(63,177)
Transfer from the item Revaluation surplus	5,347,115
According to IFRS as at 1 January 2005	6,621,427

General capital revaluation adjustment (i.e. balance of revaluation adjustment of equity as at 31 December 2001) was transferred to capital reserves.

p) Revaluation surplus

According to SAS as at 1 January 2005	5,336,370
Change in consolidation method	63,394
Transfer to the item Capital reserves	(5,347,115)
Transfer to the item Retained profit	(52,649)
Surplus from revaluation of securities	60,506
According to IFRS as at 1 January 2005	60,506

r) Reserves from profit (including retained profit)

	1.1.2005 SAS - adjusted	Adjustments	1.1.2005 IFRS
Reserves from profit	2,739,830	0	2,739,830
Retained profit	0	6,150,727	6,150,727
Total	2,739,830	6,150,727	8,890,557

Disclosed retained profit included the effects of transition to IFRS as at 1 January 2005 which are explained in transition items of this note.

s) Effect on capital

Summary of effects of the transition to IFRS on capital:

Capital according to SAS	**19,046,011**
Change in consolidation method	78,816
Derivatives	31,466
Valuation of securities	60,506
Loan impairments	1,310,374
Provisions for severance pays and long-service awards	(18,180)
Provisions for guarantees	723,623
Provisions for A-graded clients	1,040,913
Country risk provisions	534,239
Equalisation provisions	3,035,731
General provisions	925,000
Deferral of income and costs	12,393
Deferred taxes	(1,575,467)
Capital according to IFRS	**25,205,424**

6.4.3. Adjustments in the consolidated income statement for 2005

Changes in the valuation of individual balance sheet items are reflected also in the income statement. Substance changes are in greater detail explained under individual balance sheet items (item 6.4.2). Below we present the effects of restatement to IFRS reflected in net profit for 2005:

Net profit according to SAS 2005	**2,166,993**
Change in consolidation method	69,317
Derivatives	(71,140)
Loan impairments	1,140,287
Provisions for severance pays and long-service awards	(17,523)
Provisions for guarantees	(285,123)
Provisions for undrawn credit facilities	77,138
Provisions for A-graded clients	150,333
Country risk provisions	7,815
Technical provisions	(350,910)
Provisions for severance pays and long-service awards	(17,523)
General provisions	(670,500)
Deferred taxes	(3,439)
Other	13,255
Total effect on net profit	**59,510**
Net profit according to IFRS 2005	**2,226,503**

Effects by individual item from income statement:

Net interest	269,677
Net insurance operations	7,259
Net fees and commissions	258,141
Other net operating profits/losses	21,167
Net profits/losses from financial assets and liabilities held for trading	(88,493)
Administrative costs	(355,170)
Depreciation and amortisation	(11,354)
Provisions	(1,008,106)
Impairment	1,002,144
Corporate income tax on ordinary activities	(41,396)
Deferred taxes	5,641
Total effect on net profit	59,510

6.4.4. Adjustments in the consolidated cash flow statement for 2005

Effects by individual item from cash flow statement:

Net cash flows from operating activities	(8,637,832)
Net cash flows from investing activities	(1,005,448)
Net cash flows from financing activities	(9,643,280)
Total effect	0

The comparative cash flow statement for 2005 has been prepared on the basis of the balance sheet as at 1 January 2005 and 31 December 2005 (1 January 2006) and based on data from the income statement for the period between 1 January and 31 December 2005. Both statements have been adjusted to IFRS and therefore the effects of transition are included in the cash flow statement. The effect on items of net cash flows from operating, financing and investing activities is different. The differences result from changes in the value of loans (decrease in impairment) and consequently different operating results and different methodology of the form. Net cash flows from investing activities no longer include net cash flows from acquisitions and disposals of securities.

6.5. Notes to the consolidated balance sheet

(in thousands of SIT)

6.5.1. Cash and balances with the central bank

	31.12.2006	1.1.2006
Cash on hand	396	90
Total	396	90

6.5.2. Financial assets held for trading

	31.12.2006	1.1.2006
Derivative financial instruments held for trading under forward contracts	7,732	0
Derivative financial instruments held for trading under swap contracts	29,894	21,698
Total	37,626	21,698

The item includes the valuation of two derivatives, interest swap in the amount of EUR 5,000,000 and currency forward of USD 1,000,000.

6.5.3. Available-for-sale financial assets

	31.12.2006	1.1.2006
Short-term debt securities	2,843,330	1,068,340
Long-term debt securities	10,245,787	9,722,862
Total	13,089,117	10,791,202

a) Short-term securities

	31.12.2006	1.1.2006
Treasury bills	2,720,503	1,068,340
Foreign bonds	122,827	0
Total	2,843,330	1,068,340

The disclosed balance of short-term securities includes accrued interest calculated at effective interest rate in the amount of SIT 43,192 thousand.

b) Long-term securities

	31.12.2006	1.1.2006
RS bonds:	4,084,572	4,371,187
- with nominal interest rate	3,275,393	2,970,723
- with currency clause	809,179	1,400,464
Bank bonds:	3,315,854	2,664,381
- with nominal interest rate	1,914,674	1,885,947
- with currency clause	1,135,110	753,638
- in foreign currency	266,070	24,796
Bonds of foreign entities in foreign currency	2,166,387	1,647,751
Bonds in SIT	127,117	128,347
Bonds of other financial organisations:	551,857	911,196
- with nominal interest rate	348,426	603,094
- with currency clause	203,431	308,102
Total	10,245,787	9,722,862

The disclosed balance of long-term securities includes accrued interest calculated at effective interest rate in the amount of SIT 159,622 thousand.

c) Changes in debt securities not held for trading

	2006	2005
Balance as at 1 January	9,722,862	7,458,572
Acquisitions, transfers	8,197,165	9,226,548
Disposals, realisations	(7,674,240)	(6,912,258)
Balance as at 31 December	10,245,787	9,772,862

Debt securities include SIT 995,237 thousand in subordinated securities. Out of the entire portfolio as at 31 December 2006, only BDM11 bond (SIT 166,670 thousand), NLB22 bond (SIT 96,420 thousand), FB15 bond (SIT 48,123 thousand) and MP Plus mutual fund (SIT 62,755 thousand) were not quoted on the stock exchange.

Exposure to interest rate risk is presented in items 6.7.3. and 6.6.1., whereas exposure to currency risks is detailed in item 6.7.2.

6.5.4. Loans

	31.12.2006	1.1.2006
Loans to banks	144,707,914	109,632,634
Loans to non-banks	61,481,794	43,026,786
Total	206,189,708	152,659,822

a) Loans to banks

	31.12.2006	1.1.2006
Short-term loans	10,545,518	9,511,932
Long-term loans	120,315,713	91,661,236
Special-purpose deposits	12,887,895	8,031,384
Demand deposits	958,788	428,082
Total	144,707,914	109,632,634

Loans and special-purpose deposits were granted to and made with Slovene banks for financing and refinancing of export and other international commercial operations in line with the business policy of SID Bank for individual business years.

The rate of refinancing of tolar export bank credits was usually 50% to 90% of the value of the export credit. The rate of financing export credits of banks in foreign currency and assurance of funds to finance banks' export credits in foreign currency is as a rule 100 per cent.

SID Bank directly finances international commercial operations, usually by providing funds equalling up to 100% of the operation value or, according to OECD rules, up to 85% of the export operation.

a1) Short-term loans to banks

	31.12.2006	1.1.2006
Loans in SIT	9,581,197	8,714,817
Loans with currency clause	0	365,258
Loans in foreign currency	964,321	431,857
Total	10,545,518	9,511,932

No value adjustments for impairments were made for short-term loans to banks.

a2) Long-term loans to banks

	31.12.2006	1.1.2006
Loans in SIT	4,237,600	7,060,918
Loans with currency clause	4,051,724	4,705,998
Loans in foreign currency	112,040,437	79,974,426
Allowance for loans in foreign currency	(14,048)	(80,106)
Total	120,315,713	91,661,236

a3) Special-purpose deposits to banks

	31.12.2006	1.1.2006
Short-term deposits in SIT	10,222,205	1,778,030
Short-term deposits in foreign currency	1,926,756	1,024,753
Short-term deposits with currency clause	0	1,994,038
Long-term deposits in SIT	738,934	2,953,355
Long-term deposits with currency clause	0	281,208
Total	12,887,895	8,031,384

a4) Changes in loans to banks

	2006	2005
Balance as at 1 January	109,632,634	85,069,806
New loans and deposits	771,380,497	699,787,744
Repayments	(736,305,217)	(675,224,916)
Balance as at 31 December	144,707,914	109,632,634

a5) Changes in adjustments (impairment)

	2006	2005
Balance as at 1 January	80,106	11,623
Value adjustments of loans	118,601	68,483
Reversal of value adjustments of loans	(184,659)	(0)
Balance as at 31 December	14,048	80,106

a6) Interest rates on refinanced tolar loans

SID Bank's interest rates on refinanced tolar loans were treated on a case-by-case basis, depending on the selected loan maturity. The interest rates on foreign-currency loans to banks ranged from 3 or 6-month EURIBOR/LIBOR plus the margin of 0.25% p.a. to 3 or 6-month EURIBOR/LIBOR plus the margin of 1.4% p.a.

For tolar deposits, the PRVI FAKTOR Group's interest rate on refinanced tolar loans amounted to 3.3%, while its interest rate on foreign currency loans amounted to 3.4%.

Exposure to interest rate risk is presented in items 6.7.3. and 6.6.1., whereas exposure to currency risks is detailed in item 6.7.2.

b) Loans to non-bank clients

	31.12.2006	1.1.2006
Short-term loans	10,653,272	8,307,205
Long-term loans	28,260,064	24,942,410
Guarantees	347,747	553,336
Factoring	22,220,711	9,223,835
Total	61,481,794	43,026,786

b1) Short-term loans to non-bank clients

	31.12.2006	1.1.2006
Loans to non-financial companies in foreign currency	6,599,227	2,898,905
Tolar loans to non-financial companies	4,514	0
Foreign-currency loans to financial companies	440,409	1,568,172
Loans to foreign entities in foreign currency	3,084,617	2,293,784
Other investments in foreign currency	1,051,834	1,976,386
Value adjustments of short-term loans	(527,329)	(430,042)
Total	10,653,272	8,307,205

b2) Long-term loans to non-bank clients

	31.12.2006	1.1.2006
Loans to non-financial organisations in foreign currency	22,208,275	20,769,784
Loans to non-financial organisations with currency clause	163,921	209,957
Foreign-currency loans to financial companies	2,901,699	0
a) Loans to foreign entities in foreign currency	4,850,657	5,476,315
Other investments in foreign currency	0	34,494
Value adjustments of long-term loans	(1,864,488)	(1,548,139)
Total	28,260,064	24,942,410

Long-term foreign-currency loans amounted to EUR 123,084,323.81 and USD 2,554,273.31.

b3) Guarantees given

	31.12.2006	1.1.2006
Receivables arising from realised guarantees	915,632	888,123
Allowances for realised guarantees	(567,875)	(334,787)
Total	347,757	553,336

Receivables arising from realised guarantees were depreciated by 62%.

b4) Factoring

	31.12.2006	1.1.2006
Domestic factoring	18,457,358	7,760,986
Export factoring	2,058,154	637,868
Import factoring	127,154	530,761
Domestic factoring - loan	1,561,563	251,700
Export factoring - loan	16,482	42,520
Doubtful and disputed short-term trade receivables - factoring	621,113	254,580
Allowances for short-term receivables - factoring	(621,113)	(254,580)
Total	22,220,711	9,223,835

b5) Changes in loans to non-bank clients

	2006	2005
Balance as at 1 January	43,026,786	29,945,578
New loans and deposits	85,184,414	38,375,248
Repayments	(66,729,406)	(25,294,040)
Balance as at 31 December	61,481,794	43,026,786

b6) Changes in adjustments (impairment)

	2006	2005
Balance as at 1 January	2,565,529	3,854,542
Value adjustments of loans (impairments)	2,206,442	1,787,013
Reversal of value adjustments of loans (reversal of impairments)	(1,557,698)	(3,076,026)
Balance as at 31 December	3,214,273	2,565,529

b7) Interest rates

Interest rates on loans to clients other than banks in direct financing of corporates range from 3 or 6-month EURIBOR/LIBOR + 0.50% p.a. to 6-month EURIBOR/LIBOR + 1.85% p.a.

For factoring operations, the interest rate spread is significant, which is a result of the fact that the company operates in various markets. The Slovene clients thus enjoy the most favourable terms, while, on average, the terms applicable to the clients in Serbia are the least favourable. In case of approving financing based on a fixed interest rate, the lowest annual interest rate stood at 4.975% while the highest amounted to 13%. For financing based on a reference interest rate, the spread varied between a 3-month EURIBOR + 1.35% and a 1-month EURIBOR + 9%.

Exposure to interest rate risk is presented in items 6.7.3. and 6.6.1., whereas exposure to currency risks is detailed in item 6.7.2.

6.5.5. Property, plant and equipment

Changes in property, plant and equipment:

	Property	Equipment in preparation	Equipment	Total
Cost				
Balance as at 1.1.2006	833,477	1,217	403,776	1,238,470
Transfer	48,794	(48,077)	46,860	47,577
Increase	652,481	51,456	30,872	734,809
Decrease	0	0	(19,941)	(19,941)
Balance as at 31 December 2006	1,534,752	4,597	461,567	2,000,916
Allowance				
Balance as at 1.1.2006	(330,997)	0	(253,172)	(584,169)
Transfer	0	0	(14,168)	(14,168)
Depreciation and amortisation	(39,356)	0	(45,997)	(85,353)
Increase	0	0	(7,228)	(7,228)
Decrease	0	0	18,028	18,028
Balance as at 31 December 2006	(370,353)	0	(302,537)	(672,890)
Net carrying amount as at 1.1.2006	502,480	1,217	150,604	654,302
Net carrying amount as at 31.12.2006	1,164,399	4,597	159,030	1,328,026

The increase in property, plant and equipment is for the most part accounted for by the purchase of the 4th and 5th floor of the office building where SID Bank already has its registered office.

SID Bank bought the said office premises from Iskratel d.o.o., Kranj, under a preliminary agreement concluded in April 2005 and under the agreement made on 29 December 2006. The purchase price was EUR 2,722,755.87 and was paid on 5 January 2007.

As at 31 December 2006, the amount of liabilities to suppliers for tangible fixed assets stood at SIT 679,160 thousand. The largest item was the liability arising from the purchase of real estate in the amount of SIT 652,481 thousand.

6.5.6. Intangible assets

	31.12.2006	1.1.2006
Property rights	159,838	174,648
Goodwill	116,933	116,933
Total	276,771	291,581

a) Property rights

	In progress	In use	Total
Cost			
Balance as at 1.1.2006	124,518	80,406	204,924
Transfer	(167,688)	114,445	(53,243)
Increase	87,172	11,244	98,416
Decrease	(29,064)	0	(29,064)
Balance as at 31 December 2006	14,938	206,095	221,033
Allowance			
Balance as at 1.1.2006	0	(30,276)	(30,276)
Depreciation and amortisation	0	(27,761)	(27,761)
Decrease	0	(3,158)	(3,158)
Balance as at 31 December 2006	0	(61,195)	(61,195)
Net carrying amount as at 1.1.2006	124,518	50,130	174,648
Net carrying amount as at 31.12.2006	14,938	144,900	159,838

Intangible assets comprise software and expenses for investments in the business premises.

b) Goodwill

Goodwill arises from the purchase of an equity interest in PRVI FAKTOR, Ljubljana. Pursuant to the impairment test performed on the balance as at 31 December 2006, it was determined that there was no need for the impairment of goodwill.

6.5.7. Long-term investments in equity of associates and joint ventures

	31.12.2006	1.1.2006
Investment in PRO KOLEKT	6,892	2,100
Total	6,892	2,100

In 2006, SID Bank increased the capital of PRO KOLEKT by SIT 4,792 thousand.

Changes in long-term investments:

	2006	2005
Balance as at 1 January	2,100	2,100
Increase	4,792	
Balance as at 31 December	6,892	2,100

6.5.8. Corporate income tax assets

	31.12.2006	1.1.2006
Deferred corporate income tax assets	131,273	43,646
Long-term deferred tax assets	32,356	21,887
Total	163,629	65,533

On 31 December 2006, PKZ disclosed a corporate income tax asset in the amount of SIT 131,273 thousand, which was a result of higher tax prepayments and lower tax burden in 2006.

Long-term deferred tax assets arising from impairment of securities, accrued costs arising from the collection of the amount claimed by a former employee through court and provisions for pensions and long-service bonuses of its employees.

6.5.9. Other assets

	31.12.2006	1.1.2006
Reinsurance contract	3,415,410	2,469,256
Other	114,409	138,023
Total	3,529,819	2,607,279

a) Reinsurance contracts

	31.12.2006	1.1.2006
Reinsurer's share in unearned premiums	190,367	120,420
Reinsurer's share in claims provisions	2,286,155	1,802,509
Reinsurer's share in provisions for bonuses and rebates	202,031	42,492
Receivables from premiums	246,947	349,960
Allowance for receivables from premiums	(11,367)	(15,501)
Recourse receivables	220,300	149,127
Receivables from credit reports	23,473	17,399
Other accrued income and deferred costs	257,504	2,850
Total	3,415,410	2,469,256

b) Other

	31.12.2006	1.1.2006
Inventories	5,566	5,968
Advances to suppliers for operating current assets	727	1,738
Trade receivables	7,941	15,835
Fees and commissions receivables	5,035	3,077
Other receivables	37,364	4,870
Securities	2	0
Accrued income and deferred costs	14,109	69,340
Other short-term deferred costs	10,783	0
Other deferrals and accruals	32,882	37,195
Total	114,409	138,023

6.5.10. Investments from contingency reserves

	31.12.2006	1.1.2006
Loans to banks	16,397,345	12,477,380
Loans to non-banks	643,725	601,319
Securities	6,683,760	9,222,653
Other assets	887,105	10,565
Total	24,611,935	22,311,917

Other assets include a receivable due from PRO KOLEKT Zagreb in the amount of SIT 851,773 thousand.

6.5.11. Investments within the interest equalisation programme

	31.12.2006	1.1.2006
Loans	350,003	0
Total	350,003	0

6.5.12. Financial liabilities held for trading

	31.12.2006	1.1.2006
Derivative financial instruments held for trading, forward contract valuation	0	30,194
Derivative financial instruments held for trading, swap contract valuation	38,942	48,531
Total	38,942	78,725

6.5.13. Financial liabilities measured at amortised cost

	31.12.2006	1.1.2006
Long-term bank loans	166,394,630	122,103,794
Short-term bank loans	20,678,009	8,571,867
Short-term loans to non-bank clients	38,009	1,408,049
Long-term loans to non-bank clients	0	5,750
Domestic factoring	1,374,127	883,578
Total	188,484,775	132,973,038

a) Long-term bank loans

	31.12.2006	1.1.2006
Liabilities (debts) in foreign currency	166,394,630	122,103,794
Total	166,394,630	122,103,794

Long-term liabilities to foreign banks refer to liabilities from loans raised in the international market of syndicated loans between 2000 and 2005, and bilateral credit lines gained in co-operation with KfW- Kredit fuer Wiederaufbau and the Council of Europe Development Bank, secured by the guarantee of the Republic of Slovenia. Long-term foreign-currency liabilities amounted to EUR 679,402,277 and USD 19,692,412.

b) Interest rates
Interest rates of SID Bank on long-term loans from foreign banks range between 3 or 6-month EURIBOR/LIBOR + 0.05% p.a. and 3 or 6-month EURIBOR/LIBOR + 0.225% p.a.

Interest rates of the PRVI FAKTOR Group on loans denominated in a foreign currency range between 1 or 3 or 6-month EURIBOR/LIBOR + 0.5 % p.a. and 1 or 3 or 6-month EURIBOR/LIBOR + 2.25 % p.a.

6.5.14. Provisions

	31.12.2006	1.1.2006
Bank provisions	389,018	684,706
Technical provisions	4,390,556	3,259,194
Other provisions	399,102	249,588
Total	5,178,676	4,193,488

a) Bank provisions

The item includes special provisions for covering contingent losses arising from issued guarantees and undrawn overdraft credit facilities:

	31.12.2006	1.1.2006
Provisions for guarantees	223,275	574,879
Provisions for undrawn credit facilities	165,743	109,827
Total	389,018	684,706

Changes:

	2006	2005
Balance as at 1 January	684,706	254,544
Provisions formed	965,659	430,162
Exchange rate differences	(5,736)	0
Provisions released	(1,255,611)	0
Balance as at 31 December	389,018	684,706

b) Technical provisions

	31.12.2006	1.1.2006
Gross unearned premiums	287,284	194,597
Gross claim premiums	3,773,090	2,997,819
Gross provisions for bonuses and rebates	330,182	66,778
Total	4,390,556	3,259,194

These are gross technical provisions that also include reinsurers' shares in such provisions.

Claims provisions include:

	31.12.2006
Provisions for incurred and reported loss events	600,594
Provisions for incurred and unreported loss events	3,094,891
Provisions for appraisal costs	77,605
Total	3,773,090

Provisions for indirect appraisal costs were formed for the first time in 2006. Provisions for direct appraisal costs have already been included in provisions for loss events. If provisions for appraisal costs had been formed in 2005 and the same appraisal method would have been applied, the fair value of provisions would amount to SIT 14,240 thousand, while in 2006 the change in these provisions would equal SIT 2,833 thousand.

Adequacy assessment of provisions for outstanding claims:

	Gross Reported loss events	Gross Unreported loss events	Total	Adequacy assessment for 2005
Balance of gross claims provisions as at 31 December 2005	675,984	2,321,835	2,997,819	2,550,238
Claims settlements in 2006 arising from previous periods			(1,037,065)	(842,090)
Balance of provisions as at 31 December 2006 for losses before 2006	471,137	935,862	(1,407,000)	(1,097,490)
Difference			553,754	610,658

Gross claims provisions as at 31 December 2005 were used in 2006 to pay or maintain / to form new provisions that were by SIT 553,754 thousand lower than planned on formation of provisions for 2005. The main reason for such deviation was rejection or withdrawal of some major claims in 2006. For 2005, the difference (provisions as at 31 December 2004, payments in 2005, and provisions as at 31 December 2005 for claims incurred prior to 2005) was greater – it stood at SIT 610,658 thousand. Surplus provisions for 2005 arose due to same reasons as before.

Due to the conflict between the Act Amending the Insurance Act (Zzavar-C) and IFRS as adopted by the EU, the subsidiary company SID – Prva kreditna zavarovalnica d.d., Ljubljana, did not form, in its financial statements prepared in accordance with IFRS as adopted by the EU, equalisation provisions in the amount of SIT 2,393,802 thousand for the insurance class of loan insurance as it is prescribed by the above Act.

c) Other provisions

	31.12.2006	1.1.2006
Long-term provisions for long-service awards	3,932	2,634
Long-term provisions for severance pay on case of retirement	36,870	37,795
Long-term provisions for unpaid leave	12,502	4,356
Deferred income from reinsurance commissions	345,798	204,803
Total	399,102	249,588

Changes in provisions for pensions and similar liabilities to employees:

	2006	2005
Balance as at 1 January	44,785	18,179
Provisions formed	10,823	30,092
Reversed and utilised provisions	(2,304)	(3,486)
Balance as at 31 December	53,304	44,785

6.5.15. Corporate income tax liabilities

	31.12.2006	1.1.2006
Corporate income tax liability	604,074	1,468,615
Long-term deferred tax liabilities	287,151	291,828
Total	891,225	1,760,443

Overview of deferred tax liabilities:

	31.12.2006	1.1.2006
Equalisation provisions	332,310	320,296
Receivables	(6,649)	(15,572)
Reinsurance commissions	(52,699)	(29,167)
Provisions for pensions and long-service awards	(2,411)	(2,615)
Revaluation surplus	*16,600*	*18,886*
Total	287,151	291,828

6.5.16. Other liabilities

	31.12.2006	1.1.2006
Liabilities for advances received	0	157
Net salaries and net salary allowances of employees	101,332	98,811
Suppliers	723,472	66,705
Reinsurance liabilities	20,854	239,102
Other liabilities from insurance operations	3,492	5,531
Other liabilities	94,220	117,625
Accrued costs and deferred income:	399,561	154,433
- accrued costs	*33,502*	*33,685*
- accrued reinsurance account	*218,829*	*0*
- accrued costs of reinsurers for recourses	*141,884*	*101,080*
-short-term deferred income	*5,346*	*19,668*
Total	1,342,931	682,364

6.5.17. Share capital

Subscribed capital in the amount of SIT 9,323,540 thousand is divided into 932,354 of ordinary registered no-par value shares and has been paid up in full. The number of shares in 2006 remained the same.

Taking into account net profit of SIT 2,226,503 thousand and the number of shares, i.e. 913,909, earnings per share as at 1 January 2006 stood at SIT 2,388.

6.5.18. Capital reserves

	31.12.2006	1.1.2006
Payments exceeding nominal amounts of paid-up shares	1,337,489	1,337,489
Capital reserves arising from capital revaluation adjustment	5,283,938	5,283,938
Total	6,621,427	6,621,427

6.5.19. Revaluation surplus

	31.12.2006	1.1.2006
Surplus from revaluation of available-for-sale financial assets	59,638	127,393
Total	59,638	127,393

6.5.20. Reserves from profit (including retained profit)

	31.12.2006	1.1.2006
Legal reserves	1,947,629	1,925,123
Reserves for own interests	317,390	0
Statutory reserves	1,729,104	1,378,848
Other profit reserves	1,905,395	1,296,289
Total reserves from profit	5,899,518	4,600,260
Retained profit from transition to IFRS	6,206,211	6,424,700
Total	12,105,729	11,024,960

6.5.21. Own interests

	31.12.2006	1.1.2006
Own shares repurchased	(317,390)	0
Total	(317,390)	0

On the basis of a sale and purchase agreement SID Bank on 30 June 2006 redeemed from Factor banka, d.d., Ljubljana, 18,445 own shares worth SIT 317,390 thousand.

6.5.22. Liabilities for contingency reserves

	31.12.2006	1.1.2006
Contingency reserves	23,448,272	22,155,858
Surplus from revaluation of available-for-sale financial assets	(29,783)	69,205
Accrued costs (expenses) and deferred income	1,193,446	86,854
Total liabilities for contingency reserves	24,611,935	22,311,917

Changes in contingency reserves:

	2006	2005
Balance as at 1 January	22,155,858	21,499,182
Income exceeding expenses	1,292,414	656,676
Balance as at 31 December	23,448,272	22,155,858

Contingency reserves in 2006 rose by SIT 1,292,414 thousand, which equalled the surplus of income over operating expenses in the name of and on behalf of the state. The income statement and balance sheet for operations on behalf and for the account of the State are presented in Appendix 5.

6.5.23. Liabilities within the interest equalisation programme

	31.12.2006	1.1.2006
Financial liabilities measured at amortised cost	350,003	0
Total	350,003	0

6.5.24. Off-balance sheet Items

	31.12.2006	1.1.2006
Debtors under guarantees	8,626,676	11,240,707
Approved undrawn loans	9,943,779	12,934,436
Raised undrawn loans	43,015,380	46,586,379
Debtors under derivatives	1,569,795	1,500,978
Repo transactions	0	239,564
Other financial liabilities assumed	35,557	625,898
Unclaimed recourse receivables	1,594,438	837,739
Guarantees given to factoring entities and others	414,681	201,773
Total	65,200,306	74,167,474

a) Debtors under guarantees

The item includes guarantees issued. The breakdown of guarantees by maturity is as follows:

	31.12.2006	1.1.2006
Short-term	4,774,865	6,670,389
Long-term	3,851,811	4,570,318
Total	8,626,676	11,240,707

The breakdown of guarantees by type is as follows:

	31.12.2006	1.1.2006
Financial	239,705	8,473,017
Non-financial	8,386,971	2,767,690
Total	8,626,676	11,240,707

Guarantees by currency:

	31.12.2006	1.1.2006
EUR	4,834,007	7,409,944
USD	40,609	75,549
HRK	629,776	138,764
EGP	5,950	6,402
SIT	3,116,334	3,610,048
Total	8,626,676	11,240,707

b) Financial liabilities assumed

	31.12.2006	1.1.2006
Approved undrawn loans	9,943,779	12,934,436
Total	9,943,779	12,934,436

The item comprises undrawn foreign-currency loans granted to domestic banks with the disbursement date in 2007.

c) Debtors under assumed financial liabilities

	31.12.2006	1.1.2006
Raised undrawn loans	43,015,380	46,586,379
Total	43,015,380	46,586,379

This item comprises approved undrawn foreign-currency loans raised abroad, guaranteed by the RS for SID Bank. The undrawn foreign-currency amount equals EUR 172 million.
The item also includes an undrawn loan granted by NLB in the amount of SIT 1,797,300 thousand.

d) Debtors under derivatives

	31.12.2006	1.1.2006
Forward contract in foreign currency	371,595	303,146
Interest swap in foreign currency	1,198,200	1,197,832
Total	1,569,795	1,500,978

The interest swap was concluded in November 2005 with Sumitomo - SMBC to secure the return on the portfolio of the RS bonds with a fixed interest rate. The principal amounts to EUR 5,000,000 and the transaction is due on 17 April 2008.

e) Other financial liabilities assumed

	31.12.2006	1.1.2006
Pre-contract with Iskratel d.o.o. Kranj	0	625,898
Other	35,557	0
Total	35,557	625,898

f) Unclaimed recourse receivables

	31.12.2006	1.1.2006
Unclaimed recourse receivables	1,594,438	837,739
Total	1,594,438	837,739

g) Guarantees given

	31.12.2006	1.1.2006
Guarantees given for factoring operations	405,432	168,706
Compensations received	9,249	33,067
Total	414,681	201,773

6.6. Notes to the consolidated income statement

(in thousands of SIT)

6.6.1. Net interest

	1.1.-31.12.2006		1.1.-31.12.2005	
	Income	Expenses	Income	Expenses
Interest from financial assets held for trading	52,253	(58,768)	0	0
Interest from available-for-sale assets	331,391	0	204,919	(21,713)
Interest from granted loans and deposits made	7,422,204	(5,247,385)	4,808,143	(2,760,066
Interest from other financial assets	865	(154)	33,893	(14,262)
Total	7,806,713	(5,306,307)	5,046,955	(2,796,041)
Net interest	2,500,406		2,250,914	

Interest rate risk - realised interest rates for granting loans:

in %

	2006	2005
Assets		
Loans and deposits in SIT	3.51	3.65
Foreign-currency denominated	3.23	
loans and deposits		1.90
Securities	4.02	4.18
Liabilities		
Loans and deposits in SIT	3.23	3.74
Foreign-currency denominated	2.70	
loans and deposits		2.35
Securities (CD)	0	3.50

Interest rates are calculated based on interest income and expenses and average balances of individual interest bearing items of assets and liabilities. In 2005, the interest rates on deposits were higher than lending interest rates mainly because the company raised smaller amounts of funds usually for only a few days for liquidity purposes.

Interest rate risk - realised interest rates for factoring operations:

in %

	2006	2005
Assets		
Loans and deposits in SIT	6.46	6.30
Foreign-currency denominated	5.31	
loans and deposits		4.79
Liabilities		
Loans and deposits in SIT	3.23	3.74

6.6.2. Net insurance operations

	1.1.-31.12.2006		1.1.-31.12.2005	
	Income	Expenses	Income	Expenses
Gross premiums written	2,680,249		2,208,352	
Reinsurance premiums written	(1,680,886)		(1,384,967)	
Reinsurance commissions	401,604		335,937	
Gross claims settled		(1,124,925)		(912,985)
Accounted bonuses		(39,933)		(74,146)
Deferred income from reinsurance commissions		140,995		116,666
Prevention costs		(131)		(272)
Accounted gross recourses		245,571		166,879
Reinsurance share in recourses and claims		527,068		495,671
Reinsurance share in bonuses paid		24,418		47,063
Total	1,400,967	(226,937)	1,159,322	(161,124)
Net interest	1,174,030		998,198	

6.6.3. Net fees and commissions

	2006		2005	
	Income	Expenses	Income	Expenses
Fees and commissions on banking services performed	0	(5,782)	0	(40,962
Fees and commissions on payment transactions	0	(7,792)		(792)
Fees and commissions for credit transactions	495,609	(14,379)	415,097	(1,322)
Fees and commissions for guarantee transactions	46,530	0	52,350	0
Fees and commissions for credit rating information	153,125	(102,378)	145,591	(126,301
Fees and commissions for securities	0	(1,090)	0	(3,242)
Total	695,264	(131,421)	613,038	(172,619
Net fees and commissions	563,843		440,419	

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

	2006		2005	
	Income	Expenses	Income	Expenses
Available-for-sale financial assets	27,726	(16,272)	45,272	(13,452)
Total	27,726	(16,272)	45,272	(13,452)
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss		11,454		31,820

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

	2006		2005	
	Income	Expenses	Income	Expenses
Derivative financial instruments under forward transactions	12,369	0	0	(35,962)
Derivative financial instruments under swap transactions	18,883	0	0	(53,943)
Total	31,252	0	0	0
Net profits/losses from financial assets and liabilities held for trading	31,252			(89,905)

6.6.6. Net foreign exchange gains/losses

	2006		2005	
	Income	Expenses	Income	Expenses
Exchange rate differences	1,118,049	(1,235,535)	930,741	(839,851)
Total	1,118,049	(1,235,535)	930,741	(839,851)
Net foreign exchange gains/losses		(117,486	90,890	

6.6.7. Net profits/losses from derecognition of assets, excluding non-current assets held for sale

	2006		2005	
	Income	Expenses	Income	Expenses
Derecognition of property, plant and equipment	5,875	(7,219)	0	0
Total	5,875	(7,219)	0	0
Net profits/losses from derecognition of assets, excluding non-current assets held for sale		(1,344)		0

6.6.8. Other net operating profits/losses

	2006		2005	
	Income	Expenses	Income	Expenses
Income from non-banking services	527,893	0	501,823	0
Other operating income	53,541	0	56,767	0
Subscriptions	0	(12,805)	0	(17,352)
Other operating expenses	0	(2,821)	0	(17,397)
Total	581,434	(15,626)	558,590	(34,749)
Other net operating profits/losses	565,808		523,841	

The bulk of income is accounted for by the service fee according to the Act Governing Insurance and Financing of International Commercial Transactions under the agreement concluded with the Ministry of Finance regulating mutual relations regarding the implementation of Chapter II of the said Act dated 1 December 2004 in the amount of SIT 497,340 thousand (2005: SIT 497,340 thousand).

6.6.9. Administrative costs

	2006	2005
Labour costs	(1,363,912)	(1,078,201)
General and administrative costs	(837,114)	(570,267)
Total	(2,201,026)	(1,648,468)

a) Labour costs

	2006	2005
Gross salaries	(950,954)	(829,686)
Costs of pension insurance	(118,648)	(39,625)
Costs of social insurance	(57,206)	(51,057)
Payroll tax	(52,356)	(50,703)
Other labour costs	(184,748)	(107,130)
Total	(1,363,912)	(1,078,201)

According to the balance as at 31 December 2006, the companies did not include any provisions arising from revaluation of salaries.

In 2006, SID's representatives participating in supervisory boards of subsidiary companies of the SID Group did not receive bonuses or other remunerations (session fees) arsing from performance of supervisory functions in the SID Group companies.

b) General and administrative costs

	2006	2005
Costs of material	(56,507)	(52,282)
Costs of services	(780,607)	(517,985)
Total	(837,114	(570,267)

In 2006, SID Bank posted the following auditor's costs: audit of the 2005 Annual Report (SIT 7,113 thousand), audit of the financial section of the report as at 31 March 2006 (SID Bank project) in the amount of SIT 25,386 thousand and other non-audit services (advising related to IFRS) equalling SIT 4,839 thousand.

The annual report audit costs of PKZ and PRVI FAKTOR Group amounted in 2006 to SIT 2,645 thousand and SIT 8,834 thousand, respectively.

6.6.10. Depreciation and amortisation

	2006	2005
Depreciation of property, plant and equipment	(101,193)	(98,847)
Amortisation of intangible fixed assets	(27,584)	(13,890)
Total	(128,777)	(112,737)

6.6.11. Provisions

a) Bank provisions

	2006	2005
Net changes in provisions for guarantees	345,146	(318,411)
- provision expenses	(314,223)	(318,411)
- income from reversal of provisions	659,369	
Net change in provisions for undrawn loans	(54,593)	(111,749)
- provision expenses	(587,649)	(111,749)
- income from reversal of provisions	533,056	
Total	290,553	(430,160)

b) Technical provisions

	2006	2005
Changes in gross unearned premiums	92,686	49,725
Changes in unearned premiums for reinsurers' share	(69,947))	(31,153)
Changes in gross provisions for outstanding claims	775,270	447,583
Changes in provisions for outstanding claims – reinsurers' share	(483,646)	(171,190)
Changes in gross provision for bonuses and rebates	263,404	(7,316)
Reinsurers' share in expenses for bonuses and rebates	(159,539)	8,452
Total	(418,228)	(296,101)

c) Other provisions

	2006	2005
Net change in provisions for pensions and similar liabilities		
- provision expenses	(11,532)	(13,948)
- income from reversal of provisions	2,356	8,266
Total	(9,176)	(5,682)

Net deferred income from reinsurance commissions	(140,995)	(116,666)
Total	(150,171)	(122,348)

6.6.12. Impairment

	2006	2005
Impairments of loans and liabilities measured at amortised cost	(3,057,846)	(2,033,984)
Impairments of other assets	(3,933)	0
Allowance for impairments of loans granted to the group companies	503,677	
Income from reversal of impairments of loans and liabilities	2,443,351	
measured at amortised cost		3,379,863
Income from reversal of impairments of other assets	279	0
Total	(114,472)	(1,345,879)

6.6.13. Corporate income tax on ordinary activities

	2006	2005
Current tax		
- operations in 2006	374,176	1,267,281
- transition to IFRS	292,736	0
Total current tax for 2006	666,912	1,267,281
Deferred tax assets	(12,861)	(503,307)
Tax expense for 2006	654,051	763,974
Profit before taxes	1,526,369	2,982,242
Effective tax rate from tax expense *	42.9%	25.6%
Effective tax rate from current tax *	43.7%	42.5%

* for 2006, the effective tax rate was calculated only with consideration of current tax and tax expense for 2006

Current tax represents the tax amount which has to be paid according to the Corporate Income Tax Act at the prescribed tax rate, and IFRS-related adjustments. The tax rate for 2006 and 2005 was the same, i.e. 25%.

The SID Bank Group had no outstanding tax liabilities on 31 December 2006.

6.7. Risk management

Risk management and control is presented in item 6.8. of the business report.

6.7.1. Balance sheet by maturity as at 31 December 2006:

	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with the central bank	0	0	0	0	0	0	0
Financial assets held for trading	0	0	0	38	0	0	38
Available-for-sale financial assets	63	52	666	3,067	5,886	3,355	13,089
Loans	1,294	12,321	14,599	43,430	71,905	62,640	206,189
Property, plant and equipment	0	0	0	0	71	1,257	1,328
Intangible assets	0	0	0	0	13	265	278
Long-term investments in equity of subsidiaries, associates and joint ventures	0	0	0	0	0	7	7
Corporate income tax assets	0	0	0	131	19	13	163
Other assets	5	222	736	872	1,695	0	3,530
TOTAL ASSETS OF THE SID GROUP	**1,362**	**12,595**	**16,001**	**47,538**	**79,589**	**67,537**	**224,622**
TOTAL CONTINGENCY RESERVES	**30**	**4,567**	**759**	**4,627**	**9,502**	**5,127**	**24,612**
IREP (INTEREST RATE EQUALISATION PROGRAMME) INVESTMENTS	**350**	**0**	**0**	**0**	**0**	**0**	**350**
TOTAL ASSETS	**1,742**	**17,162**	**16,760**	**52,165**	**89,091**	**72,664**	**249,584**
Financial liabilities held for trading	0	0	0	39	0	0	39
Financial liabilities measured at amortised cost	10	367	837	31,286	78,158	77,827	188,485
Provisions	0	126	222	1,681	2,720	429	5,178
Corporate income tax liabilities	15	0	0	0	867	9	891
Other liabilities	0	744	202	251	146	0	1,343
Share capital	0	0	0	0	0	9,324	9,324
Capital reserves	0	0	0	0	0	6,621	6,621
Revaluation surplus	0	0	8	0	39	13	60
Consolidation difference	0	0	0	0	0	1	1
Reserves from profit (including retained profit)	0	0	0	170	0	11,935	12,1057
Own interests	0	0	0	0	0	(317)	(317)
Net profit/loss for the year	0	0	0	54	0	838	892
TOTAL LIABILITIES OF THE SID GROUP	**25**	**1,237**	**1,269**	**33,481**	**81,930**	**106,680**	**224,622**
TOTAL LIABILITIES FOR CONTINGENCY RESERVES	**0**	**35**	**32**	**275**	**852**	**23,418**	**24,612**
INTEREST RATE EQUALISATION PROGRAMME (IREP)	**0**	**0**	**0**	**0**	**0**	**350**	**350**
TOTAL LIABILITIES	**25**	**1,272**	**1,301**	**33,756**	**82,782**	**130,448**	**249,584**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	**1,717**	**15,890**	**15,459**	**18,409**	**6,309**	**(57,784)**	**0**

6.7.2. Exposure to currency risks as at 31 December 2006:

In SIT million

	SIT	SIT with currency clause	USD	EUR	Other currencies	Total
Cash and balances with the central bank	0	0	0	0	0	0
Financial assets held for trading	0	0	8	30	0	38
Available-for-sale financial assets	8,386	2,147	36	2,431	88	13,088
Loans	30,700	4,210	4,551	148,507	18,221	206,189
Property, plant and equipment	1,281	0	0	0	47	1,328
Intangible assets	274	0	0	0	4	278
Long-term investments in equity of subsidiaries, associates and joint ventures	7	0	0	0	0	7
Corporate income tax assets	163	0	0	0	0	163
Other assets	1,291	0	54	1,877	308	3,530
TOTAL ASSETS OF THE SID GROUP	**42,1022**	**6,357**	**4,649**	**152,845**	**18,668**	**224,621**
TOTAL CONTINGENCY RESERVES	8,850	1,496	0	14,267	0	**24,613**
INTEREST RATE EQUALISATION PROGRAMME (IREP)	350	0	0	0	0	**350**
TOTAL ASSETS	**51,302**	**7,853**	**4,649**	**167,112**	**18,668**	**249,584**
Financial liabilities held for trading	0	0	0	39	0	39
Financial liabilities measured at amortised cost	230	0	3,621	183,676	958	188,485
Provisions	1,252	0	127	3,343	455	5,177
Corporate income tax liabilities	891	0	0	0	0	891
Other liabilities	1,039	0	0	2	302	1,343
Share capital	9,324	0	0	0	0	9,324
Capital reserves	6,621	0	0	0	0	6,621
Revaluation surplus	51	9	0	0	0	60
Consolidation difference	1	0	0	0	0	1
Reserves from profit (including retained profit)	12,105	0	0	0	0	12105
Own interests	(317)	0	0	0	0	(317)
Net profit/loss for the year	892	0	0	0	0	892
TOTAL LIABILITIES OF THE SID GROUP	**32,089**	**9**	**3,748**	**187,060**	**1,715**	**224,621**
TOTAL LIABILITIES FOR CONTINGENCY RESERVES	24,486	0	0	127	0	**24,613**
INTEREST RATE EQUALISATION PROGRAMME (IREP)	350	0	0	0	0	**350**
TOTAL LIABILITIES	**56,925**	**9**	**3,748**	**187,187**	**1,715**	**249,584**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	**(5,623)**	**7,844**	**901**	**(20,075)**	**16,953**	**0**

6.7.3. Exposure to interest rate risk as at 31 December 2006:

In SIT thousand

Balance sheet items	Total	Non-interest bearing	Total interest bearing	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Cash and balances with the central bank	396	396	0						
Financial assets held for trading	37,626	37,626	0						
Available-for-sale financial assets	13,089,117	137,067	12,952,050	62,755	51,592	665,590	3,032,824	5,825,219	3,314,069
Loans	206,189,585	1,875,417	204,314,168	1,254,573	11,774,882	17,572,112	39,760,644	71,311,762	62,640,195
Interest on financial assets	8	8	0						
Property, plant and equipment	1,328,026	1,328,026	0						
Intangible assets	276,771	276,771	0						
Long-term investments in equity of subsidiaries, associates and joint ventures	6,892	6,892	0						
Corporate income tax assets	163,629	163,629	0						
Other assets	3,529,819	3,524,966	4,853	4,853					
TOTAL ASSETS OF THE SID GROUP	224,621,992	7,350,921	217,271,071	1,322,181	11,826,474	18,237,702	42,793,468	77,136,981	65,954,264
INVESTMENTS IN CONTINGENCY RESERVES	24,611,935	24,611,935	0						
IREP (INTEREST RATE EQUALISATION PROGRAMME) INVESTMENTS	350,003	3	350,000	350,000	0	0	0	0	0
TOTAL ASSETS	249,583,930	31,962,859	217,621,071	1,672,181	11,826,474	18,237,702	42,793,468	77,136,981	65,954,264
Financial liabilities held for trading	38,942	38,942	0						
Financial liabilities measured at amortised cost	188,484,775	2,614,870	185,869,905	9,982	18,439,483	3,155,154	8,317,644	78,099,995	77,847,647
Provisions	5,178,676	5,178,676	0						
Corporate income tax liabilities	891,225	891,225	0						
Other liabilities	1,342,931	1,342,931	0						
Share capital	9,323,540	9,323,540	0						
Capital reserves	6,621,427	6,621,427	0						
Revaluation surplus	59,638	59,638	0						
Consolidation difference	506	506							
Reserves from profit (including retained profit)	12,105,729	12,128,779	0						
Own interests	(317,390)	(317,390)	0						
Net profit for the period	891,993	891,993	0						
TOTAL LIABILITIES OF THE SID GROUP	224,621,992	38,752,087	185,869,905	9,982	18,439,483	3,155,154	8,317,644	78,099,995	77,847,647
LIABILITIES FOR CONTINGENCY RESERVES	24,611,935	24,611,935	0	0	0	0	0	0	0
INTEREST RATE EQUALISATION PROGRAMME (IREP)	350,003	350,003	0						
TOTAL LIABILITIES	249,583,930	63,714,025	185,869,905	9,982	18,439,483	3,155,154	8,317,644	78,099,995	77,847,647
Net exposure to interest rate risk		**(31,751,166)**	**31,751,166**	**1,662,199**	**(6,613,009)**	**15,082,548**	**34,475,824**	**(963,014)**	**(11,893,383)**
Cumulative exposure				**1,662,199**	**(4,950,810)**	**10,131,738**	**44,607,563**	**43,644,549**	**31,751,166**

6.8. Events after the balance sheet date

On 1 January 2007 the management of SID Bank was taken over by the Management Board comprised of Sibil Svilan, MSc., President, and the members Jožef Bradeško and Marko Plahuta.

The capital of the daughter company PRO KOLEKT was according to the resolution of SID Bank's Management Board increased by EUR 390 thousand on 30 January 2007. Capital increase took place in February 2007.

On 21 February 2007 SID Bank increased the equity of PRVI FAKTOR, Ljubljana by EUR 1 million, according to the resolution of the General Meeting passed on 13 February 2007. The stake of SID Bank in this company remained unchanged.

At the Supervisory Board session held on 23 March 2007 the members of the Supervisory Board passed a resolution based on which the General Meeting of Shareholders of SID Bank will be proposed to decide on the capital increase of SID Bank financed by the company's funds.

7.1. Detailed consolidated balance sheet

in SIT thousand		31.12.2006	1.1.2006
1.	**CASH AND BALANCES WITH THE CENTRAL BANK**	396	90
2.	**FINANCIAL ASSETS HELD FOR TRADING**	**37,626**	**21,698**
3.	Derivative financial instruments	37,626	21,698
11.	**AVAILABLE-FOR-SALE FINANCIAL ASSETS**	**13,089,117**	**10,791,202**
12.	Shares and interests at fair value	62,755	59,561
14.	Debt securities	13,026,362	10,731,641
16.	**LOANS**	206,189,708	152,659,822
24.	**INTEREST ON FINANCIAL ASSETS**	8	8
25.	**PLANT, PROPERTY AND EQUIPMENT**	1,328,026	654,302
27.	**INTANGIBLE ASSETS**	276,771	291,581
28.	**LONG-TERM INVESTMENTS IN THE CAPITAL OF SUBSIDIARY, ASSOCIATED AND JOINTLY-CONTROLLED COMPANIES**	6,892	2,100
29.	**CORPORATE INCOME TAX ASSETS**	**163,629**	**65,533**
30.	Corporate income tax assets	131,273	43,646
31.	Long-term deferred tax assets	32,356	21,887
32.	**OTHER ASSETS**	3,529,819	2,607,279
34.	**TOTAL ASSETS**	**224,621,992**	**167,093,615**

in SIT thousand		31.12.2006	1.1.2006
36.	**FINANCIAL LIABILITIES HELD FOR TRADING**	**38,942**	**78,725**
37.	Derivative financial instruments	38,942	78,725
42.	**FINANCIAL LIABILITIES MEASURED AT AMORTISED COST**	**188,484,775**	**132,973,038**
43.	Deposits	1,374,128	883,578
44.	Loans	187,110,647	132,089,460
53.	**PROVISIONS**	**5,178,676**	**4,193,488**
57.	Provisions for pensions and similar liabilities to employees	53,304	44,785
58.	Provisions for off-balance sheet liabilities	389,018	684,706
60.	Other provisions	4,736,354	3,463,997
61.	**CORPORATE INCOME TAX LIABILITIES**	**891,225**	**1,760,443**
62.	Corporate income tax liabilities	604,074	1,468,615
63.	Long-term deferred tax liabilities	287,151	291,828
64.	**OTHER LIABILITIES**	1,342,931	682,364
66.	**SHARE CAPITAL**	9,323,540	9,323,540
69.	**CAPITAL RESERVES**	6,621,427	6,621,427
71.	**REVALUATION SURPLUS**	**60,144**	**128,334**
76.	Surplus from revaluation of available-for-sale financial assets	59,638	127,393
78.	Capital revaluation adjustment on consolidation	506	941
80.	**RESERVES FROM PROFIT (including retained profit)**	12,105,729	11,024,960
81.	**OWN INTERESTS**	(317,390)	0
82.	**NET PROFIT/LOSS FOR THE YEAR**	891,993	307,296
85.	**TOTAL CAPITAL AND LIABILITIES**	**224,621,992**	**167,093,615**
86.	**OFF-BALANCE SHEET LIABILITIES**	**65,200,306**	**74,167,474**
88.	Guarantees and pledged/mortgaged assets	8,626,676	11,240,707
89.	Financial liabilities assumed	52,959,159	59,520,815
90.	Derivative financial instruments	1,569,795	1,500,978
91.	Depositors and other recorded securities	35,557	0
93	Other off-balance sheet liabilities	2,009,119	1,904,974
94.	**OFF-BALANCE SHEET DATA**		
95.	**Value adjustment due to impairment of financial assets measured at amortised cost**	(3,606,220)	(2,663,155)
97.	Value adjustments of loans	(3,594,853)	(2,647,654)
98.	Value adjustments of other assets	(11,367)	(15,501)

7.2. Detailed consolidated income statement

in SIT thousand			2006	2005
I.		**Income and expenses from financing and operating activities (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9 + 10)**	**4,732,685**	**4,246,177**
1.		**Net interest (1.1 - 1.2)**	**2,500,406**	**2,250,914**
1.1		Interest income (1.1.1 + 1.1.2 + 1.1.3 + 1.1.4 + 1.1.5 + 1.1.6 + 1.1.7 + 1.1.8)	7,806,713	5,046,955
	1.1.2	Interest from financial assets held for trading	52,253	
	1.1.5	Interest from available-for-sale assets	331,391	204,919
	1.1.6	Interest from loans granted and deposits (including financial leasing)	7,422,204	4,808,143
	1.1.7	Interest from held-to-maturity financial assets	850	33,893
	1.1.8	Interest from other financial assets	15	
1.2		Interest expense (1.2.1 + 1.2.2 + 1.2.3 + 1.2.4 + 1.2.5 + 1.2.6)	(5,306,307)	(2,796,041)
	1.2.2	Interest for financial liabilities held for trading	(58,768)	0
	1.2.5	Interest for financial liabilities measured at amortised cost	(5,247,385)	(2,760,066)
	1.2.6	Interest for other financial liabilities (including finance lease)	(154)	(35,975)
2.		**Dividend income (2.1 + 2.2 + 2.3 + 2.4)**	**0**	**0**
2.4.		Dividends from equity investments in associates and joint ventures accounted using the cost method	0	0
3.		**Net fees and commissions (3.1 - 3.2)**	**1,737,873**	**1,438,617**
3.1		Fees and commissions received	2,096,231	1,772,360
		- banks	695,264	613,038
		- insurance companies	1,400,967	1,159,322
3.2		Fees and commissions paid	(358,358)	(333,743)
		- banks	(131,421)	(172,619)
		- insurance companies	(226,937)	(161,124)
4.		**Realised profits/losses from financial assets and liabilities not measured at fair value through profit or loss (4.1 - 4.2)**	**11,454**	**31,820**
4.1		Realised profits (4.1.1 + 4.1.2 + 4.1.3 + 4.1.4 + 4.1.5)	27,726	45,272
	4.1.1	Profits from available-for-sale financial assets	27,726	45,272
4.2		Realised losses (4.2.1 + 4.2.2 + 4.2.3 + 4.2.4 + 4.2.5)	(16,272)	(13,452)
	4.2.1	Losses from available-for-sale financial assets	(16,272)	(13,452)
5.		Net profits/losses from financial assets and liabilities held for trading (5.1 + 5.2 + 5.3 + 5.4 + 5.5 + 5.6)	31,252	(89,905)
5.4		Net profits/losses from derivatives	31,252	(89,905)
7.		Fair value adjustments in hedge accounting (7.1 + 7.2)	4,722	0
7.2		Net profit or loss from hedged items	4,722	
8.		Net foreign exchange gains/losses (8.1 - 8.2)	(117,486)	90,890
8.1		Profits	1,118,049	930,741
8.2		Losses	(1,235,535)	(839,851)

(continued)

in SIT thousand			2006	2005
9.		Net profits/losses from derecognition of assets other than non-current assets held for sale (9.1 - 9.2)	(1,344)	
9.1		Profits	5,875	
9.2		Losses	(7,219)	
10.		Other net operating profits/losses (10.1 - 10.2)	565,808	523,841
10.1		Profits	581,434	558,590
10.2		Losses	(15,626)	(34,749)
II.		Administrative costs (1 + 2)	(2,201,026)	(1,648,468)
1.		Labour costs	(1,363,912)	(1,078,201)
2.		General and administrative costs	(837,114)	(570,267)
III.		Amortisation, depreciation (1 + 2 + 3)	(128,777)	(112,737)
1.		Depreciation of property, plant and equipment	(101,193)	(98,847)
2.		Depreciation of intangible assets	(27,584)	(13,890)
IV.		**Provisions**	(277,846)	(848,609)
		- bank provisions	140,382	(552,508)
		- insurance company provisions	(418,228)	(296,101)
V.		**Impairments (1 + 2)**	**(114,472))**	**1,345,879**
1.		Impairments of financial assets not measured at fair value through profit or loss (1.1 + 1.2 + 1.3 + 1.4)	2,947,307	3,379,863
1.3		Impairment of loans (including financial leasing) measured at amortised cost	2,947,028	3,379,863
1.4		Impairment of held-to-maturity financial assets measured at amortised cost	279	
2.		Impairment of other assets (2.1 + 2.2 + 2.3 + 2.4 + 2.5)	(3,061,779)	(2,033,984)
2.3		Impairment of intangible assets (2.3.1 + 2.3.2)	(3,057,846)	(2,033,984)
	2.3.2	Impairment of other intangible assets	0	0
2.5		Impairments of other assets	(3,933)	0
IX.		**PROFIT/LOSS FROM ORDINARY ACTIVITIES** (I - II - III - IV - V + VI + VII + VIII)	2,010,564	2,982,242
X.		Corporate income tax on ordinary activities	(367,428)	(1,259,046)
			12,861	503,307
XI.		**NET PROFIT/LOSS FROM ORDINARY ACTIVITIES** (IX - X)	1,655,997	2,226,503
XIII.		**NET PROFIT/LOSS FOR THE YEAR (XI + XII)**	**1,655,997**	**2,226,503**

7.3. Separate balance sheets by segments

SID BANK		
In SIT thousand	31.12.2006	1.1.2006
Cash and balances with the central bank	0	4
Financial assets held for trading	37,626	21,698
Available-for-sale financial assets	8,485,919	6,432,778
Loans	181,771,129	141,931,425
Interest on financial assets	8	8
Property, plant and equipment	1,234,642	604,832
Intangible assets	145,847	163,718
of controlled companies	1,515,112	1,510,320
Corporate income tax assets	13,158	51,850
Other assets	60,694	90,742
TOTAL ASSETS	**193,264,135**	**150,807,375**
Financial liabilities held for trading	38,942	78,725
Financial liabilities measured at amortised cost	166,404,815	124,196,816
Provisions	417,524	714,672
Corporate income tax liabilities	612,948	883,683
Other liabilities	771,966	189,381
Share capital	9,323,540	9,323,540
Capital reserves	6,621,427	6,621,427
Revaluation surplus	31,100	52,668
Reserves from profit (including retained profit)	9,285,410	8,336,320
Own interests	(317,390)	0
Net profit/loss for the year	73,853	1,410,143
TOTAL CAPITAL AND LIABILITIES	**193,264,135**	**150,807,375**
OFF-BALANCE SHEET LIABILITIES	**61,401,114**	**72,180,735**

PKZ		
In SIT thousand	31.12.2006	1.1.2006
Cash and balances with the central bank	0	24
Available-for-sale financial assets	4,603,168	4,358,424
Loans	1,163,992	1,535,997
Property, plant and equipment	22,744	15,960
Intangible assets	790	0
Corporate income tax assets	131,273	31
Other assets	3,427,364	2,471,940
TOTAL ASSETS	**9,349,331**	**8,382,376**
Financial liabilities measured at amortised cost	7	0
Provisions	4,748,650	3,474,459
Corporate income tax liabilities	278,277	876,760
Other liabilities	458,855	401,154
Share capital	1,008,000	1,008,000
Revaluation surplus	28,538	74,725
Reserves from profit (including retained profit)	2,772,335	2,678,217
Net profit/loss for the year	54,669	(130,939)
TOTAL CAPITAL AND LIABILITIES	**9,349,331**	**8,382,376**
OFF-BALANCE SHEET LIABILITIES	**1,594,438**	**837,739**

PRVI FAKTOR GROUP		
In SIT thousand	31.12.2006	1.1.2006
Cash and balances with the central bank	396	62
Financial assets held for trading	0	0
Available-for-sale financial assets	30	0
Loans	25,732,256	11,497,562
Interest on financial assets	0	0
Property, plant and equipment	70,640	33,510
Intangible assets	13,201	10,930
Corporate income tax assets	19,198	13,652
Other assets	60,726	51,130
TOTAL ASSETS	**25,896,447**	**11,606,846**
Financial liabilities held for trading	0	0
Financial liabilities measured at amortised cost	25,061,422	11,081,384
Provisions	12,502	4,357
Corporate income tax liabilities	0	0
Other liabilities	114,685	98,362
Share capital	140,000	140,000
Capital reserves	243,287	243,287
Revaluation surplus	0	0
Reserves from profit (including retained profit)	39,965	10,423
Consolidation difference	506	941
Net profit/loss for the year	284,080	28,092
TOTAL CAPITAL AND LIABILITIES	**25,896,447**	**11,606,846**
OFF-BALANCE SHEET LIABILITIES	**2,211,981**	**1,149,000**

7.4. Separate income statements by segments

SID BANK		
In SIT thousand	2006	2005
Interest income	6,550,063	4,487,107
Interest expense	(4,752,913)	(2,688,872)
Net interest	1,797,150	1,798,235
Dividend income	8,019	
Fees and commissions received	80,416	246,146
Fees and commissions paid	(20,047)	(44,996)
Net fees and commissions	60,369	201,150
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	(7,906)	(340)
Net profits/losses from financial assets and liabilities held for trading	31,252	(89,905)
Fair value adjustments in hedge accounting	4,722	
Net foreign exchange gains/losses	(115,484)	88,489
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	(1,344)	
Other net operating profits/losses	624,560	555,114
Income and expenses from financing and operating activities	**2,401,338**	**2,552,743**
Administrative costs	(1,142,355)	(946,785)
Depreciation and amortisation	(103,612)	(97,567)
Provisions	291,357	(447,846)
Impairment	(617,041)	1,466,953
PROFIT/LOSS FROM ORDINARY ACTIVITIES	**829,687**	**2,527,498**
Corporate income tax	(221,810)	(632,718)
Deferred taxes	4,923	8,235
NET PROFIT/LOSS FOR THE YEAR	**612,800**	**1,903,015**

PKZ		
in SIT thousand	2006	2005
Interest income	205,585	204,033
Interest expense	(7)	0
Net interest	205,578	204,033
Fees and commissions received	1,568,558	1,318,466
Fees and commissions paid	(382,271)	(318,161)
Net fees and commissions	1,186,287	1,000,305
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	19,360	32,160
Net foreign exchange gains/losses	(2,002)	2,401
Other net operating profits/losses	(2,206)	(1,055)
Income and expenses from financing and operating activities	**1,407,017**	**1,237,844**
Administrative costs	(498,629)	(418,847)
Depreciation and amortisation	(5,942)	(1,498)
Provisions	(561,057)	(402,305)
Impairment	4,371	(45,896)
PROFIT/LOSS FROM ORDINARY ACTIVITIES	**345,760**	**369,298**
Corporate income tax	(68,424)	(584,932)
Deferred taxes	2,391	485,991
NET PROFIT/LOSS FOR THE YEAR	**279,727**	**270,357**

PRVI FAKTOR GROUP		
in SIT thousand	2006	2005
Interest income	1,157,308	416,638
Interest expense	(659,458)	(167,992)
Net interest	497,850	248,646
Fees and commissions received	466,492	259,463
Fees and commissions paid	(2,140)	(1,322)
Net fees and commissions	464,352	258,141
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	0	0
Net foreign exchange gains/losses	0	0
Other net operating profits/losses	5,738	21,300
Income and expenses from financing and operating activities	**967,940**	**528,087**
Administrative costs	(584,170)	(355,332)
Depreciation and amortisation	(19,223)	(13,672)
Provisions	(8,146)	1,542
Impairment	(5,479)	(75,179)
PROFIT/LOSS FROM ORDINARY ACTIVITIES	**350,922**	**85,446**
Corporate income tax	(77,194)	(41,396)
Deferred taxes	5,547	(9,080)
NET PROFIT/LOSS FOR THE YEAR	**279,275**	**53,130**

7.5. Balance sheet disclosing insurance against non-marketable risks (on behalf of the Republic of Slovenia)

in SIT thousand

	31.12.2006	31.12.2005
Loans to banks	16,397,345	12,477,380
Loans to non-banks	643,725	601,319
Securities	6,683,760	9,222,653
Other assets	887,105	10,565
TOTAL CONTINGENCY RESERVES	24,611,935	22,311,917
Contingency reserves	23,448,272	22,155,858
Surplus from revaluation of available-for-sale financial assets	(29,783)	69,205
Accrued costs (expenses) and deferred income	1,193,446	86,854
TOTAL LIABILITIES FOR CONTINGENCY RESERVES	24,611,935	22,311,917

7.6. Profit or loss from insurance against non-marketable risks (on behalf of the Republic of Slovenia)

in SIT thousand

	1.1.-31.12.2006	1.1.-31.12.2005
Income from interest	619,725	465,988
Interest expenses	0	0
Net interest	619,725	465,988
Technical items		
- insurance and reinsurance premiums	1,595,976	1,532,847
- reinsurance and processing fee	(105,314)	(13,919)
- claims	(238,093)	(777,056)
- recourses	19,454	16,123
- bonuses	0	(236)
Total technical items	1,272,023	757,759
Other net commissions and fees	3,009	8,734
Net profit on financial transactions	(6,419)	20,529
Operating costs	(595,924)	(596,334)
Income exceeding expenses	1,292,414	656,676

The contents and basis of operations of SID Bank on behalf of the Republic of Slovenia are described in items 6.3 herein.