SID Banka

Hive of Good Investments

Annual Report of SID Bank 2022

In the hive of good investments we are creating a nicer tomorrow.

Since we believe that we can only fly off to a bright future with an integrated approach, we are investing our capital not just in business but also in society and the natural environment. Dependent as we are on each other, together we are hatching new opportunities through which the Slovenian economy and society as a whole are developing towards a green transformation and sustainability.

Committed to a sustainable future

Plečnik's bee house at Ljubljana Castle

With a donation to the Slovenian Beekeeping Association we financed the erection of the Plečnik bee house on the southern slope of the Castle Hill in Ljubljana. The bee house is a replica of the Plečnik bee house at the Lány Manor in the Czech Republic, and already has the status of a Slovenian cultural monument and is an important part of the Bee Path in Ljubljana.

Carniolan bee house in Ivančna Gorica

In the old town centre of Ivančna Gorica our donation made possible the erection of a Carniolan bee house, which has provided a home for Slovenia's native Carniolan bees. In addition to providing education for Slovenian and foreign beekeepers, the bee house also serves as a representative structure intended for protocol visits from around the world and Slovenia.

The exhibition World of Pollinators at the Beekeeping Museum in Radovljica

Our donation helped the Beekeeping Museum in Radovljica to set up the permanent exhibition World of Pollinators, which presents to local and international visitors the importance of plant pollination and pollinators, on which we depend for almost 80 percent of our food. The exhibition also includes an interactive computer game that offers children and all other visitors knowledge about pollination in a fun and modern way.

World of Pollinators book

Through a donation we supported the publication of the book World of Pollinators, which systematically details the importance of pollination for our future. Through the wonderful photographs by Ivan Esenko it presents mainly other pollinators that are less familiar to the general public but for that reason no less important. The book was published on the opening of the exhibition of the same name in the Beekeeping Museum in Radovljica.

Sostro Primary School bee house

The Sostro Primary School in Ljubljana received a donation from us for constructing a bee house, which is contributing to maintaining and raising awareness about the importance of bees, and to educating future young beekeepers. In this way the school students have possibilities for independent research and working in a classroom in nature. Through these kinds of activity and projects, young people can more easily change their attitudes to bees, nature and the environment.

Committed to Society

Godina d.o.o. and Inkaing d.o.o

Underwriting of several insurance policies to cover guarantees for a project to upgrade the municipal infrastructure in the vicinity of Rijeka in Croatia.

City of Koper

Financing of the construction of the modern Oskar Kovačič Primary School in Škofije.

City of Celje and Nepremičnine Celje d.o.o.

Financing of the construction of the 'Dečkovo naselje' non-profit housing complex.

Marušič d.o.o.

Financing of the technological modernisation of an existing wood-processing plant with the best available technology.

TPV Automotive d.o.o.

Financing of the second phase of the investment in the purchase of new machinery and equipment as part of the TPV Brezina 2 Factory of the Future programme.

Cetis d.o.o.

Financing of investments in research, development and innovations, specialised machinery and production equipment for the production of new biometric personal IDs.

Content

Statement from the President of the Management Board

Dear Reader,

We are living in truly turbulent times. It seems that the world in which we were living not that long ago has changed forever. Without doubt, 2022 was marked most strongly by the start and brutal continuation of the war in Ukraine. We have seen a strengthening of energy price cycles and a rise in food prices. Central banks throughout the world have embarked on a tightening of monetary policy, as reflected in the growth in market interest rates. In the wider context, geopolitical uncertainties have continued to accumulate, while climate change is following its own seemingly irreversible path. Such times make us think in particular about the kind of world we want our children to live in.

Times were also turbulent 30 years ago, and we now know that this was an era of turning points. Geopolitical changes were fully under way following the fall of the Iron Curtain. In Slovenia, independence and the transition to democracy were followed by a period of pioneers, of new ground being broken and of great optimism. The country established its own state and was building institutions. On 27 October 1992, the 87 founding shareholders signed the Founding Charter of the Slovene Export Corporation. In 2022 we therefore marked the 30th anniversary of the founding of SID Bank. Over those three decades, the Bank has played a vital liaison and supporting role for the export economy all over the world. At the same time,

> **SID Bank's indicators reflect the challenges faced by the Slovenian and wider European economy.**

it has become a developmental, promotional and counter-cyclical economic policy tool, one that always endeavours to be where the economy needs it most.

If I had to choose one word, one notion, to sum up 2022 it would be 'gratitude'. Gratitude for the acts of solidarity, humanity and courage that have sprung up in response to the challenges of the present time. I am particularly grateful to the colleagues who are at the heart of SID Bank, to our business partners and to each and every stakeholder of the Bank. As in 2021, things were not easy in 2022. Nevertheless, SID Bank once again demonstrated its flexibility and its ability to fill the complementary supporting role it has within the Slovenian economy.

SID Bank's indicators reflect the challenges faced by the Slovenian and wider European economy. In 2022 the Bank continued to provide strong direct support to the economy, with total loans to the non-banking sector (or the direct financing indicator) growing by 15.2% to EUR 1,383 million in 2022. The financing of investments with the possibility of a guarantee from the Pan-European Guarantee Fund (EGF), where the Bank has placed funds totalling EUR 102 million, proved to be an important support tool for the economy in the post-pandemic year. Owing to the generally strong liquidity of the banking sector in Slovenia, the lower demand for indirect forms of financing via banks was understandable. As a result, there was no need for a counter-cyclical intervention by the Bank. Nevertheless, the total volume of SID Bank activity, expressed as the balance of financing transactions, which includes direct as well as indirect effects, amounted to EUR 2.2 billion in 2022. This was above the strategic target indicators set out in the annual management plan. SID Bank ended the year 2022 successfully. Net profit stood at EUR 8.3 million, thereby exceeding its plans for 2022.

Russia's military invasion of Ukraine has triggered a considerable number of consequences for the economy, from the sanctions framework to physical restrictions on doing business with affected companies. There have also been indirect consequences associated with supply chains, energy access and high prices. SID Bank wasted no time in responding to EU measures, and was successful in notifying its special state aid scheme under the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by

Russia to mitigate the adverse impact on corporate performance. On this basis, it supplemented the programme of financing for working capital and investments for companies of all sizes, and assumed the active role given to it by the Act Determining the Aid to the Economy to Mitigate the Impact of the Energy Crisis (ZPGOPEK) in the areas of financial engineering and the financing of economic operators in the road transport sector. At the same time, SID Bank's considerable credit engagement enables it to stand shoulder to shoulder with companies in their efforts to overcome the effects of the energy crisis.

In order to constantly maintain its capacity to intervene, SID Bank traditionally exhibits a high surplus liquidity, as reflected in the high liquidity indicator values; at the end of 2022, the liquidity coverage ratio was 1,814% and the net stable funding ratio was 145%. A significant portion of the surplus liquidity has been invested in a portfolio of high-quality debt securities. This period of rising risk-free interest rates has led to a partial revaluation of the bond portfolio and, through the impact of other comprehensive income, to a slight temporary reduction in the level of capital. However, this level remains high enough to ensure that the Bank's mandates can continue to be fulfilled without disruption. With the aim of remaining constantly ready to help the economy, the Bank maintains high capital adequacy; this stood at 25.4% at the end of 2022, which was significantly above the target value of the strategic indicator set out in the annual management plan. The Bank has also traditionally been exposed when it comes to support for and promotion of the export economy. As a result of the war and the associated measures and consequences, significant exposures to entities in Ukraine and Belarus in 2022 have been classified as non-performing exposures. This has also been reflected in the rise in the non-performing loans and other assets ratio (excluding balances on accounts at the central bank and demand deposits at banks), which stood at 4.8%. We should highlight the fact that these export exposures are adequately collateralised, meaning that no significant impact on the Bank's business performance is expected.

The post-Covid period, which coincides with the war in Ukraine, has had a significant impact on the insurance transactions that SID Bank performs on behalf and for the account of the Republic of Slovenia. The volume of insurance transactions exceeded EUR 2 billion in 2022. This was above the planned figure, but still more than a quarter down on the year before. This was primarily the result of the termination of the EU measure of providing export-credit insurance for temporarily non-marketable risks and the introduction of sanctions on Russian and Belarusian entities. At SID Bank we believe that Slovenian companies will still be able to penetrate new markets despite the current difficult circumstances. We will be by their side to offer suitable financing and insurance services.

Regardless of the high liquidity in the Slovenian banking system, SID Bank maintains its readiness and ability to provide indirect financing, including by introducing new forms of support. In December 2022 the fourth tranche of European cohesion funds from the 2014–2020 Fund of Funds was successfully drawn down. By the end of 2022, a total of 8,201 loans to a value of EUR 367.8 million had been closed from the 2014–2020 Fund of Funds and the COVID-19 Fund of Funds. At the same time, in 2022 SID Bank developed and offered the product of indirect financing of investments and/or current company operations via banks and savings banks, with elements of state aid under the *de minimis* scheme.

Efforts are under way to develop indirect lending with risk-sharing, which will enable banks to promote development financing and capital management. SID Bank has continued activities in the developing area of corporate equity financing. In March, in collaboration with the European Investment Fund, it expanded the Slovene Equity Growth Investment Programme (SEGIP), established in 2017, by EUR 120 million (EIF and SID Bank are each contributing EUR 60 million). The purpose of this expansion was to reduce the market gap for seed, start-up and scale-up equity financing as well as to provide financial support to ownership change of Succession Businesses in Slovenia. In the area of promoting the green transition and digital transformation, SID Bank has begun developing two new programmes, with plans to draw on InvestEU funds: the sustainable development financing programme and the innovation and digital transformation financing programme. Both programmes will have an EIF guarantee from InvestEU for debt financing of the green transition and for the digital transformation of SMEs in particular, as well as mid-cap companies. The development of these two products will be completed in 2023.

In 2022 SID Bank also maintained its focus on adapting itself to climate change, from the financing point of view as well as that of the Bank as an institution. We have strengthened our institutional capacity to assess the ESG factors when dealing with individual transactions, and are also strengthening our awareness of the importance of reducing the carbon footprint of our operations. We have drawn up a plan for the decarbonisation of SID Bank that sets out the measures for halving the Bank's carbon footprint by 2030. We already obtain all our electricity from renewable energy sources, and will further green our business over the next few years.

This brings me to our view of the future. In 2022 SID Bank revised its strategy of identifying key development challenges, the adjustments that need to be made to the business model and the key strategic risks. The new strategy highlights the three central areas of the Bank's operations (CUSTOMER, MANDATE, BANK) on which we wish to focus in the next period. (i) Customers and potential customers of SID Bank are the media through which SID Bank realises its mission. At SID Bank, we are going further. We believe that people have to be put at the heart of banking operations if true sustainability is to be achieved. If they are not, banking has no future. Complete focus on the customer's needs and user experience is therefore vital to effective banking operations. (ii) The mandates granted to the Bank differ from those of other banks in the Slovenian banking system. We believe that a future (simultaneous) focus on developmental and interventional operations, with an emphasis on green strategy, will insert the Bank even more fully into the economy and society of Slovenia. (iii) Finally, there is the "bank element" itself – that is, that the bank is the chosen form of operation through which SID Bank fulfils its mandate. This involves a focus on internal regulation and risk management framework, the management of financial functions, the provision of adequate internal governance arrangements and the operation of the internal control system, the establishment of a clear, targeted ICT architecture in order to ensure security and stability of operations over the long term, and, of course, a development-oriented human resource policy. In this area we are keen to follow best practice and thereby provide a robust basis for economically sustainable business throughout the economic cycle. This new strategy will enable SID Bank to carry out its activities with a clear focus and to the benefit of the Slovenian economy and society.

To conclude, let me return to today's turbulent times and those that attended the establishment of the Bank. Thirty years ago there was a great deal of optimism. Today, the key word is hope – hope which, despite all the problems outlined above (or perhaps because of them), can be found in solidarity, humanity and the courage to resist the destruction and devaluation of human life. It is this solidarity, humanity and courage that clearly points us towards the path we wish to continue to pursue. It is therefore no coincidence that we have, in our new strategy, also redefined the Bank's values, two of which are valour and boldness. In 2022 we celebrated the rich history of SID Bank. SID Bank will continue to accompany the development of the Slovenian economy and the long-term well-being of society in Slovenia and more widely. Valiantly and boldly.

Damijan Dolinar
President of the Management Board

Supervisory Board Report

WE ARE DRIVING THE CYCLE OF ECONOMIC GROWTH AND LIFE.

The future depends on bees, which through pollination ensure the unbroken cycle of life. As the basis for sustainability, circular motion is also our main guideline, since for more than a decade, as an initiator of sustainable investments SID Bank has been promoting the transition to a circular economy.

Supervisory Board Report

In monitoring and supervising the operations of SID Bank and the work of the management board, the supervisory board performed its work in accordance with the powers and responsibilities prescribed by law, the articles of association, the corporate governance policy, codes of conduct, and its own rules of procedure. It assessed the Bank's management and performance, having regard for its strategic guidelines and the risks to which it is or could be exposed.

There was no change in the composition of the supervisory board in 2022. Marjan Divjak and Zlatko Vili Hohnjec both saw their terms of office end during the year, but the government appointed them to new five-year terms on 19 May 2022. The supervisory board has been chaired by Janez Tomšič since 26 May 2022, with Leo Knez appointed to be his deputy.

The supervisory board held 15 ordinary sessions and nine correspondence sessions in 2022, at which it discussed general and specific matters relating to the Bank's operations and performance, and also made decisions on certain transactions in line with its powers to do so. The supervisory board members actively participated in discussions, offering comments and guidance, and also submitting various questions and requests for clarification. The supervisory board passed its decisions unanimously. The supervisory board members signed a statement of independence through which they affirmed that there were no circumstances that could influence their impartial, professional and comprehensive judgement in the discharging of their duties or decision making. The supervisory board's statements of independence are published on SID Bank's website. In the discharge of their duties and decisions, there were no circumstances or conduct that led or could have led to conflicts of interest. The supervisory board members duly reported any circumstances which could give rise to conflict of interest. Such conflicts of interest were appropriately managed by ensuring that the supervisory board member in question did not receive the relevant materials and information, and was recused from the session during the discussion and decision-making on the matter in which they had a (potential) conflict of interest.

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

- the audit committee, which held 12 ordinary sessions and one correspondence session, at which it discussed and drew up positions primarily with regard to the interim performance reports and financial statements, the compilation of the unaudited annual report for 2021, the final auditor's report on the audit of the financial statements for 2021, the financial plans, the quarterly reports of the internal audit department, the annual report of the internal audit department and the work plans of the internal audit department, monitored the progress of the final audit for 2021 and the preliminary audit for 2022, discussed bylaws in the areas of accounting, and changes in tax policy. As stipulated by Article 280 of the Companies Act, the committee discussed and monitored the procedure for selecting a new external auditor for the financial years of 2023 to 2026, including the setting of selection criteria within the public procurement process, which the committee endorsed;
- the risk committee, which held nine ordinary sessions, and provided expert support to the supervisory board in connection with risk appetite and risk management, drew up positions primarily with regard to the risk management strategy and policy, the methodologies and assessments of the Bank's risk profile, the methodologies and implementation of the internal capital adequacy assessment process and the internal liquidity adequacy assessment process, Bank of Slovenia findings in the supervisory review and evaluation process, and risk management and control at the Bank within the framework of the discussion of quarterly risk reports and the annual report for 2021, the risk policy and selection of risk appetite indicators for 2023, the NPEs management strategy, the report on the annual review of outsourcing, changes to bylaws in the area of risk management, and measures to align with the EBA guidelines for the management of interest rate risk in the banking book, and was also briefed on the results of credit risk parameter validation;

- the nomination and remuneration committee, which held 19 ordinary sessions and one correspondence session, provided the supervisory board with expert support in the assessment of the adequacy of remuneration policies and practices and changes to remuneration policies, and the draft recruitment plan and labour cost projection within the framework of the financial plan for 2023, monitored the implementation of the HR strategy, discussed and approved an assessment of the management body with regard to the knowledge, skills and experience of individual members of the management board and the supervisory board and the management body as a collective, and an assessment of the structure, size, composition and performance of the management board and supervisory board, and discussed and approved the suitability assessments drawn up by the suitability assessment committee. It also discussed the proposed changes to the supervisory board member selection policy, the management board member selection policy, and the management body suitability assessment policy, and conducted two procedures for selecting a third member of the management board, the first of which ended without a selection and the second of which was completed in December 2022 with the appointment of a new member of the management board.

The major issues discussed and/or decided on by the supervisory board in 2022 were:

- the appointment of the third member of the management board;
- the annual report for 2021 with the auditor's report, and the proposal for the use of distributable profit for 2021;
- the draft of the new business strategy for 2023 to 2025;
- the reports of the implementation of the IT strategy and strategic guidance thereto;
- the financial plan for 2023;
- the risk management strategy and policy, and the risk appetite;
- the regular reports on performance and the risk reports;
- the report on the internal capital adequacy assessment process and internal liquidity adequacy assessment process submitted to Bank of Slovenia, and the Bank of Slovenia's findings in the supervisory review and evaluation process;
- the regular periodic reports by the control functions, most notably the internal audit department and the findings of specific audits completed by the internal audit department;
- the approval of specific financing and borrowing transactions in line with its powers under the articles of association;
- the NPEs management strategy and the NPEs reduction plan;
- the general remuneration policy and the remuneration policy for members of the management body;
- changes to the supervisory board member selection policy and the management board member selection policy;
- changes to the management body suitability assessment policy;
- reports on the performance of affiliates and on the orderly wind-down of Prvi Faktor Group companies.

In its monitoring and supervision of the Bank's management and operations, the supervisory board obtained timely and complete information from the management board, based on which it took decisions pursuant to its powers.

In March 2023 the supervisory board carried out a self-assessment of its work in 2022 on the basis of the recommendations of the manual governing the assessment of the efficiency of the work of supervisory boards issued by the Slovenian Directors' Association. Before beginning the self-assessment procedure, the supervisory board also obtained reports on the work of all three of the supervisory board committees. The results of the self-assessment confirm that the supervisory board carried out its work professionally, with due diligence, responsibly, and in line with the interests of the Bank, and that the individual members of the supervisory board and the supervisory board as a collective possess adequate knowledge and experience to enable the high-quality and effective discharging of the duties that fall under the remit of the supervisory board. The supervisory board also discussed the results of the self-assessment with regard to the activities required for the further improvement of the work of the supervisory board.

Approval of the 2022 annual report

The unaudited annual report for 2022 was discussed by the risk committee at its session of 14 March 2023, and by the supervisory board at its meeting of 15 March 2023. The 2022 remuneration report was discussed by the nomination and remuneration committee at its session of 13 March 2023. The audited annual report with the final additional report to the audit committee on the audit for 2022, the report on agreed procedures to comply with the risk management rules at banks and savings banks set out by the Regulation on the minimum scope and content of the additional audit and the additional audit report on SID Bank's compliance with the risk management rules at banks and savings banks, and the audited remuneration report for 2022 was discussed by the audit committee, the risk committee and the nomination and remuneration committee, each within their remit, on 11 April 2023. The certified external auditor also reported at sessions of the audit committee and the risk committee. The two committees assessed the annual report as satisfactory, and proposed that the supervisory board approve the annual report.

The supervisory board discussed and reviewed the 2022 annual report of SID Bank at its meeting of 12 April 2023, together with the proposal for the use of distributable profit for 2022 submitted by the management board in accordance with Article 4 of the ZSIRB. The supervisory board also discussed the independent auditor's report to the shareholders on the audit of the financial statements, in which Deloitte Revizija d.o.o., Ljubljana issued an unqualified opinion regarding the financial statements of SID banka d.d., Ljubljana for 2022. In the auditor's opinion, the financial statements present fairly, in all material aspects, the financial position of the company as at 31 December 2022, and its performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union. The supervisory board had no comments with regard to the report by Deloitte Revizija d.o.o. After its review, the supervisory board unanimously approved the annual report for 2022.

Janez Tomšič
Chair of the Supervisory Board

Key Data and Performance Indicators

WORKING IN HARMONY WITH VALUES AND NATURE.

The world of bees is based on natural laws of organisation, where each bee family works in harmony. These are principles of work in which SID Bank also believes. With a strong team of employees, distinguished by commitment, expertise and dedication – both to our customers and to preserving the natural environment.

Key Data and Performance Indicators[1]

Key data

	SID banka		
in EUR thousand	2022	2021	2020
Statement of financial position			
Balance sheet total	2,799,708	2,834,032	2,907,358
Total deposits from the non-banking sector measured at amortised cost	1,034,941	987,512	832,377
Total loans to the non-banking sector	1,382,527	1,199,698	1,091,560
Total equity	450,869	491,766	476,107
Allowances and provisions for credit losses	48,003	56,192	91,950
Off-balance-sheet items	519,366	411,421	460,640
Income statement			
Net interest	24,214	28,006	23,193
Net non-interest income	2,336	5,718	35,702
Labour, general and administrative costs	(20,694)	(19,577)	(17,342)
Amortisation/depreciation	(984)	(986)	(970)
Impairments and provisioning (credit losses)	5,454	16,454	(29,498)
Pre-tax profit from ordinary and discontinued operations	10,053	29,486	10,462
Corporate income tax on profit from continuing and discontinued operations	(1,802)	(5,456)	(1,972)
Net profit for the financial year	8,251	24,030	8,490
Statement of other comprehensive income			
Other comprehensive income before tax	(60,676)	(10,334)	4,639
Corporate income tax on other comprehensive income	11,528	1,963	(882)
Number of branches as at 31 December	1	1	1
Number of employees as at 31 December	221	223	223
Shares			
Number of shareholders	1	1	1
Number of shares	3,121,741	3,121,741	3,121,741
Corresponding amount of share capital of one no-par-value share	96.10	96.10	96.10
Book value of one share	145.29	158.47	153.42
Long-term credit rating as at 31 December			
Standard & Poor's	AA-	AA-	AA-

[1] Prescribed data and indicators are calculated in accordance with the Guidelines for calculating the performance indicators of banks and savings banks, which were prescribed by the Bank of Slovenia on the basis of the Regulation on the books of account and annual reports of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 184/21).

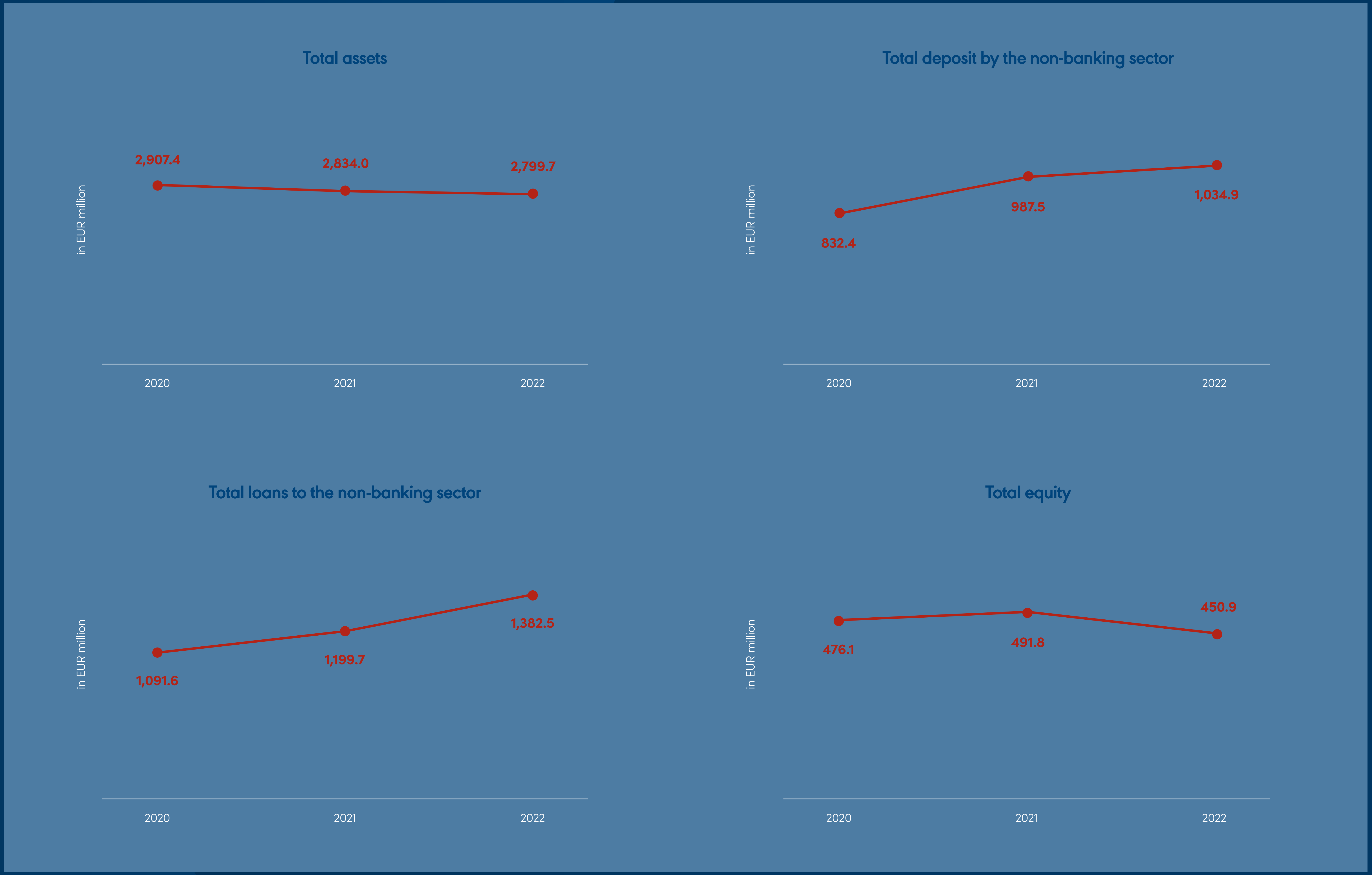
Key Data and Performance Indicators

Selected indicators

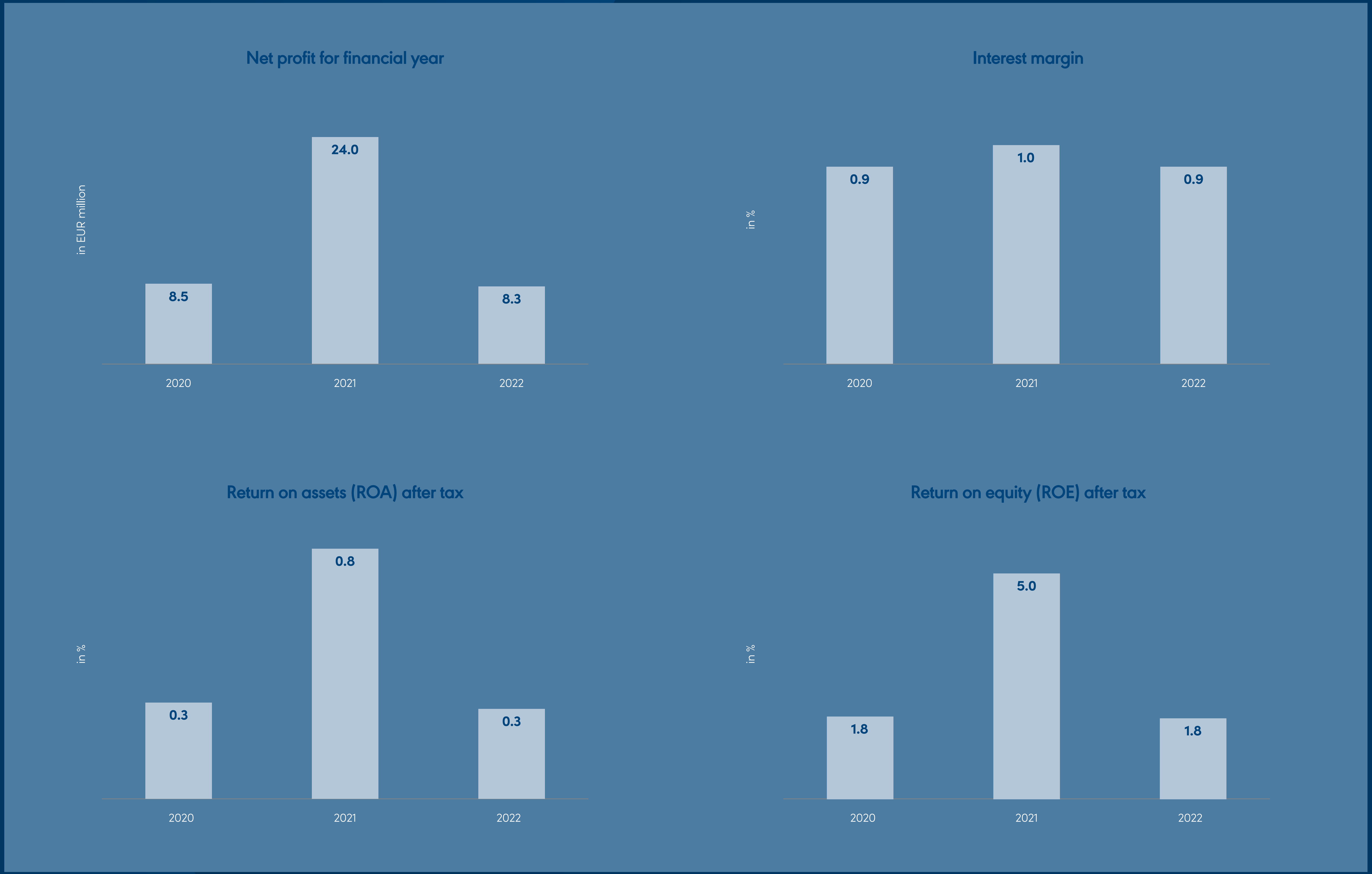
	SID banka		
in %	2022	2021	2020
Shareholder equity			
Common equity Tier 1 capital ratio	25.4	28.8	29.1
Tier 1 capital ratio	25.4	28.8	29.1
Overall capital ratio	25.4	28.8	29.1
Leverage ratio	14.7	15.5	14.7
Quality of assets in the statement of financial position and assumed commitments			
Non-performing (on-balance-sheet and off-balance-sheet) exposures / classified on-balance-sheet and off-balance-sheet exposures	2.8	1.4	2.2
Non-performing loans and other financial assets / classified loans and other financial assets (excluding balances on accounts at the CB and demand deposits at banks)	4.8	2.3	3.6
Non-performing loans and other financial assets / classified loans and other financial assets (including cash balances at the CB and demand deposits at banks)	3.9	2.1	3.4
Allowances for credit losses / non-performing loans and other financial assets (excluding balances on accounts at the CB and demand deposits at banks)	38.4	69.4	53.8
Allowances for credit losses / non-performing loans and other financial assets (including balances on accounts at the CB and demand deposits at banks)	38.4	69.4	53.8
Collateral received / non-performing loans and other financial assets (excluding balances on accounts at the CB and demand deposits at banks)	54.2	16.4	15.5
Profitability			
Interest margin	0.9	1.0	0.9
Financial intermediation margin	1.0	1.2	2.2
Return on assets (ROA) after tax	0.3	0.8	0.3
Return on equity (ROE) before tax	2.2	6.1	2.2
Return on equity (ROE) after tax	1.8	5.0	1.8
Operating costs			
Operating costs / average assets	0.8	0.7	0.7
Liquidity in 2022			
Liquidity coverage ratio	6,123	3,618	2,706
Net stable funding ratio	145	142	132

CB – central bank

Key Data and Performance Indicators



Key Data and Performance Indicators



Significant Business Events

WE ARE MAKING RESPONSIBLE DECISIONS THAT BENEFIT ALL.

There are no coincidences in the world of bees. A commitment to the little details creates a world of great harmony and order. For this reason, with full attention to all aspects of potential investments in the process of financing, we are also building in environmental, social and corporate factors, i.e. the ESG factors.

Significant Business Events

- SID Bank continued its successful cooperation with foreign financial and promotional institutions in 2022. Since the recapitalisation of the European Investment Fund (EIF) in 2021, SID Bank has remained the sixth largest shareholder among those financial institutions with a participating interest in the EIF.
- In March, in collaboration with the European Investment Fund, SID Bank expanded the Slovene Equity Growth Investment Programme (SEGIP), established in 2017, by additional EUR 120 million (EIF and SID Bank are each contributing EUR 60 million). The purpose of this expansion was to reduce the market gap for seed, start-up and scale-up equity financing as well as to provide financial support to ownership change of Succession Businesses in Slovenia. For the first time SEGIP was expanded in 2021 with the establishment of a regional platform for technology transfer (the CEETT platform). The second expansion in 2022 was accompanied by an event for private investors and investment fund managers as well as covered by local media.
- Prolongation of investment and working capital financing for companies of all sizes with the option of a 70% uncapped portfolio guarantee from the Pan-European Guarantee Fund (EGF) until the end of 2022. This has enabled companies to obtain loans at a lower interest rate without any additional collateral requirements. In just over a year, SID Bank concluded 151 loan agreements totalling EUR 102.5 million.
- In 2022 SID Bank successfully notified its state aid scheme under the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia to mitigate the negative impact on business performance. On the basis of that notified aid scheme, SID Bank complemented the programme for investment and working capital financing for companies of all sizes without option of an EGF guarantee.
- In December 2022 the fourth tranche of European cohesion funds from the 2014–2020 Fund of Funds was successfully drawn down. By the end of 2022, a total of 8,201 loans of EUR 367.8 million had been concluded from the 2014–2020 Fund of Funds and the COVID-19 Fund of Funds.
- In 2022 SID Bank developed and offered a long-term credit facility through banks and savings banks for corporates, sole traders and other legal entities with elements of state aid under a *de minimis* scheme to finance current operations and/or investments at a favourable interest rate, with a loan maturity of up to ten years.
- In 2022 Republic of Slovenia authorised SID Bank, in the Act on the Housing Guarantee Scheme for Young People (ZSJSM), to carry out specific activities in the guarantee scheme on its behalf and for its account to provide young first-time buyers with easier access to housing loans with a government-backed guarantee.
- SID Bank signed a second agreement with the Advisory Hub for the implementation of technical assistance financed by the European Commission, this time in relation to the Bank's green transition. Within this framework, a thorough analysis will be carried out of the Slovenian green financial market, public support schemes, the creation of green products (and internal as well as external capacities in this context), good practices in the evaluation and identification of green projects, the management of climate-related risks, reporting, etc.
- In 2022 SID Bank stepped up its efforts to adapt to climate-related risks, particularly in terms of formulating strategic sustainability targets and indicators, calculating the Bank's carbon footprint, adopting a decarbonisation plan for the Bank by 2030 with an outlook to 2050, systematically introducing regulatory requirements and realising some of Slovenia's international obligations in the "green field", introducing new green products and standards, incorporating ESG factors into the area of credit risk and pricing policy, managing climate-related risks in relation to other financial risks, taking a joint bank approach to regulating reporting by companies, regulating the assessment of compliance with the criteria for "documented green investment", filling data gaps, adopting an action plan for reporting/making disclosures on climate-related risks, developing IT support, working with various initiatives to accelerate the adaptation of the economy/financial sector, carrying out internal and external communication activities and in-house education and training, upgrading the Sustainability Report, etc.
- In 2022 SID Bank conducted a thorough review of its strategy and business model as they concerned its mandates (promotional, export, developmental), its focus on customers and the internal development of the Bank, taking current best banking practice into account.
- SID Bank was selected as the most suitable partner for the incentive financing of the sustainable transition of Slovenian tourism with long-term funds.

Business Report

WE ARE GROWING WITH A VISION OF SUSTAINABILITY.

We share nature, our living space, with bees. Within it and only together with it can we create the conditions that contribute to fulfilling broader economic, environmental and social objectives. Words alone are not enough, so we are implementing the adopted Policy of Sustainable Financing and Insurance, with the aim of achieving the climate neutrality of SID Bank by 2050.

About SID Bank

SID Bank is a specialist promotional, export and development bank authorised to carry out long-term financial services designed to supplement financial markets in various areas defined by the Slovene Export and Development Bank Act (ZSIRB) as important for promoting the competitiveness of the Slovenian economy and for the country's sustainable development. One of SID Bank's essential activities involves complementing the range of products and services of commercial banks and the elimination of market gaps that arise when the range of financial and insurance services is insufficient to meet market demand, in particular with respect to SMEs, development, environmental protection, the circular economy, infrastructure and energy projects, and the promotion of the internationalisation of companies, as well as cyclical gaps following changes to the ZSIRB.

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

In providing its services, SID Bank may use financial instruments, such as loans, bonds, guarantees and other forms of surety and risk take-up, the purchase of receivables, financial leasing, financial engineering, concessionary loans and other instruments of international development cooperation, capital investments and other methods of financing, and integrate them into development and promotional financing programmes that it has developed itself.

HISTORY AND LEGAL STATUS

1992

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

2004

- Entry into force of the Insurance and Financing of International Commercial Transactions Act (ZZFMGP),[2] which provided that SID should bring the insurance operations that it pursued on its own behalf and for its own account into line with the regulations governing insurance corporations. SID established an insurance corporation on this legal basis, to which it transferred its portfolio of marketable insurance that had been provided on its own behalf and for its own account by the end of 2004.

2005

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

2006

- At the end of the year, by obtaining authorisation to provide banking services and other financial services from the Bank of Slovenia, SID was transformed into a bank and changed its name to SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana.[3]

2007

- Commencement of operations of SID Bank as a specialist promotional, export and development bank.

2008

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

2009

- During the economic crisis, SID Bank enhanced its counter-cyclical function by being very engaged in lending and insurance activities.

2010

- The updated Banking Act expressly stipulated that SID Bank is authorised as Slovenia's specialist, promotional, export and development bank, and is not allowed to accept deposits from the public.
- With the adoption of Commission Directive 2010/16/EU of 9 March 2010 amending Directive 2006/48/EC of the European Parliament and of the Council, the European Commission confirmed, in accordance with the opinion of the European Banking Committee, that SID Bank is an institution involved in specific activities in the public interest and is thus eligible for inclusion on the list of institutions excluded from the scope of application of Directive 2006/48/EC pursuant to Article 2 of that directive.

2011

- SID Bank was confirmed as a significant institution in the Slovenian banking system on the basis of a decision by the Bank of Slovenia in October.
- SID Bank and the Ministry of Economic Development and Technology (MEDT) signed an agreement on financing and implementation of the first financial engineering measure in Slovenia.

2013

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

2014

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

2015

- Pursuant to the ZBan-2, the Bank of Slovenia issued a decision that designated SID Bank as an O-SII (other systemically important institution).
- As a promotional and development bank, SID Bank began to introduce the framework and concept of the circular economy in Slovenia into its operations.

2016

- Under the agreement on financing and implementing the financial engineering measure to promote the investments, operations and capital enhancement of SMEs, SID Bank established a new loan fund in conjunction with the MEDT, within the framework of which two credit lines were introduced: a development and promotional programme for financing the operations and enhancing the capital of SMEs, and SID Bank's development and promotional programme for financing the investments and enhancing the capital of SMEs, each in the amount of EUR 100 million.

2017

- The MEDT and SID Bank signed a financing agreement in which Slovenia authorised SID Bank to manage the Fund of Funds.
- Together with the EIF, the Bank set up a Slovene Equity Growth Investment Programme (SEGIP) with a value of EUR 100 million.

2018

- Under the aegis of the Fund of Funds, EU cohesion funds were used to develop the first financial instruments and selected financial intermediaries for loans for investments related to research, development and innovation, and for microloans.
- SID Bank became the first Slovenian issuer to issue green bonds on the international capital market.

[2] The ZZFMGP regulated the system for insuring and financing international commercial transactions as instruments of Slovenia's national trade policy.
[3] Henceforth in the annual report any use of "SID Bank" or "the Bank" refers to SID banka, d.d., Ljubljana, irrespective of the time and the change in business name, while the SID Bank Group may be referred to as "the SID Group" or simply "the Group".

2019

- Under the aegis of the Fund of Funds, EU cohesion policy (ECP) funds were also used to develop financial instruments in the form of ECP loans for urban development, ECP loans for the renovation of public sector buildings and ECP loans for equity and quasi-equity financing of small and micro enterprises.
- The sale and transfer of the entire participating interest in the subsidiary SID – Prva kreditna zavarovalnica to Coface was completed, and an agreement was concluded with Coface PKZ on the reinsurance of all non-marketable receivables.
- In conjunction with the MEDT, SID Bank developed its development and promotional programme for financing under the Investment Incentives Act (INVESTMENTS 2 programme).
- In 2019 SID Bank received the prestigious Best Regional Development Bank – Southeast Europe 2019 award, which is given out by Capital Finance International.

2020

- SID Bank operated counter-cyclically during the COVID-19 pandemic. It expanded its financing programmes and introduced new products to help companies handle the economic crisis that followed the pandemic.
- SID Bank's counter-cyclical operations were also in evidence in 2020 with the acquisition of new authorisations from Slovenia for the implementation of government guarantee schemes. A government guarantee for deferral of the payment of liabilities by borrowers and for liquidity loans for the corporate sector is one of government instruments for mitigating the consequences of the pandemic. In accordance with the provisions of the Act on Intervention Measures to Mitigate the Effects of the COVID-19 Epidemic on Citizens and the Economy (ZIUZEOP) and the Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 Epidemic (ZDLGPE), administration of that guarantee was entrusted to SID Bank.
- Together with the MEDT, SID Bank established the new COVID 19 Fund of Funds in the amount of EUR 65 million to mitigate the consequences of the pandemic on the economy.
- In order to secure adequate funding, the Bank issued a COVID-19 bond in the amount of EUR 350 million.
- SID Bank joined the Three Seas Initiative Investment Fund with the aim of providing opportunities for the financing of key infrastructure projects in the Three Seas region, which includes 12 EU Member States between the Baltic, Black and Adriatic Seas.
- SID Bank was appointed to chair the Council of the European Union's Exports Credit Group during Slovenia's presidency of the EU Council in 2021.

2021

- Together with the EIF and HBOR (Croatian Bank for Reconstruction and Development), SID Bank set up a regional technology transfer platform (CEETT platform). The platform was established as part of the first expansion of SEGIP. SEGIP was initially set up in 2017. The CEETT platform was founded in 2021 and the Call for Expression of Interest to select a financial intermediary to manage a venture capital fund was concluded in the first half of 2022. The fund will invest in projects in their "pre-seed" phase, when the projects are still with research teams at research organisations.
- Together with other European financial institutions, the EIB and the European Commission, SID Bank successfully recapitalised the EIF. It expanded its EIF portfolio of shares from 15 to 25. SID Bank therefore remains EIF's sixth largest shareholder among those financial institutions with a participating interest in the EIF.
- SID Bank obtained the Pan-European Guarantee Fund guarantee (EGF guarantee) for financing the investments and working capital of micro, small and medium-sized enterprises and *mid-cap* companies, with loans totalling EUR 150 million.
- As the manager of the two Funds of Funds, SID Bank successfully drew down the third tranche (of four) of European Cohesion Policy funds for the 2014–2020 Fund of Funds and the third and fourth (final) tranches of the COVID-19 Fund of Funds.

2022

- SID Bank operated counter-cyclically during the COVID-19 pandemic and the energy crisis. In order to make it easier for companies to tackle the consequences of the COVID-19 pandemic and the war in Ukraine (and the resulting energy crisis), SID Bank expanded its financing programmes and introduced a new programme of financing for working capital and investment for companies of all sizes without an EGF guarantee (OSN programme). In 2022 SID Bank also took part in formulating elements of anti-crisis financial engineering measures under the Act Determining the Aid to the Economy to Mitigate the Impact of the Energy Crisis (ZPGOPEK).
- As the manager of the two Funds of Funds, SID Bank successfully drew down the fourth (final) tranche of European Cohesion Policy funds for the 2014–2020 Fund of Funds.
- In cooperation with the EIF, SID Bank expanded SEGIP by additional EUR 120 million in March 2022 with the purpose to reduce the market gap for seed, start-up and scale-up equity financing as well as to, and provide financial support to ownership change of Succession Businesses in Slovenia.
- SID Bank began developing two new programmes, with plans to draw on InvestEU funds: the sustainable development financing programme and the innovation and digital transformation financing programme. Both programmes will have an EIF guarantee from InvestEU for debt financing of the green transition and for the digital transformation of SMEs in particular, as well as mid-cap companies. The development of these two products will be completed in 2023.
- SID Bank acquired authorisation from Republic of Slovenia to operate the ZSJSM, which is a government measure to provide young first-time buyers with easier access to housing loans with a government-backed guarantee.
- SID Bank signed a second agreement with the Advisory Hub for the implementation of technical assistance financed by the European Commission, this time in relation to the Bank's green transition.
- SID Bank overhauled its general programme of intermediation of development funds via financial intermediaries (global loan).

SERVICES

In line with its role, purposes and tasks, SID Bank primarily provides financial services within the scope of the authorisations issued by the Bank of Slovenia. These include, in particular, the provision of loans via commercial banks and savings banks and, in certain cases, in cooperation with other commercial banks in bank syndicates, while the Bank also lends directly to final beneficiaries.

SID Bank's financial services support four main purposes of development:

- development of a knowledge society and innovative entrepreneurship;
- development of an environment-friendly society and environment-friendly production;
- development of a competitive economy; and
- regional and social development.

The Bank provides its financial services with regard to identified market gaps, carrying out developmental and promotional tasks, and through financial services achieves the objectives of long-term development policy, primarily in the following areas (under the ZSIRB):

- the development of SMEs and entrepreneurship;
- research, development and innovation;
- environmental protection, energy efficiency and climate change;
- international business transactions and international economic cooperation;
- regional development; and
- economic and public infrastructure.

As at 31 December 2022 SID Bank held Bank of Slovenia authorisation to provide the following mutually recognised financial services under Article 5 of the ZBan-3:[4]

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

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

ACTIVITIES UNDER REPUBLIC OF SLOVENIA AUTHORISATION

Insurance against non-marketable risks

SID Bank provides insurance for international business transactions against non-marketable risks under the ZZFMGP in the name and on behalf of the Republic of Slovenia as its agent.

The requisite funding for the effective provision of insurance operations under the ZZFMGP is provided to SID Bank by the Republic of Slovenia in the form of contingency reserves, which are used to settle liabilities to policyholders (claims payouts) and to cover losses on these operations. Contingency reserves are also created from premiums, fees and commissions, recourse from paid claims and other income generated by SID Bank from insurance and reinsurance against non-marketable risks. If the claims cannot be settled from the aforementioned reserves, the funding for pay-outs is provided by the Republic of Slovenia.

Fund of funds for the implementation of financial instruments within the framework of European Cohesion Policy 2014–2020 and the COVID-19 Fund of Funds

In November 2017 the MEDT appointed SID Bank as manager of the Fund of Funds for the implementation of financial instruments within the framework of European Cohesion Policy. By the end of 2022, EUR 234.7 million, which was the entire envisaged amount from European cohesion funds available to Slovenia in the 2014–2020 financial perspective, had been paid into the Fund of Funds. The purpose of establishing this fund is to promote and finance sustainable economic growth and development, investments in innovations and current operations through debt and equity financing focused on four areas in which market gaps were identified based on a preliminary assessment of financing gaps conducted by the Slovenian company PwC (PricewaterhouseCoopers) and supplemented by an analysis conducted by the European Investment Bank: research, development and innovation, small and medium-sized enterprises, energy efficiency and urban development. By 31 December 2022, a total of EUR 260.6 million (which included EUR 163.2 million in European Cohesion Policy funds) had been made available to final beneficiaries within the framework of the FI 2014–2020 Fund of Funds via the financial instruments of equity and quasi-equity financing of SMEs, microloans, loans for research, development and innovation, loans for the complete energy renovation of public buildings, loans for urban development, portfolio guarantees for loans for research, development and innovation to SMEs, and portfolio guarantees for loans for SMEs.

Together with the MEDT, SID Bank created the COVID-19 Fund of Funds in October 2020 aimed at financing investments, research, development, innovation and working capital in order to improve liquidity and facilitate the recovery of the economy, which was hit hard by the COVID-19 pandemic. That fund includes an additional EUR 65 million in European Cohesion Policy funds. By 31 December 2022, a total of EUR 101.9 million (which included EUR 63.7 million in European Cohesion Policy funds) had been made available to final beneficiaries in the form of the financial instruments of micro loans and loans for research, development and innovation. The financing of final beneficiaries in the form of micro loans will be carried out via selected financial intermediaries, while SID Bank will provide research, development and innovation (RDI) loans itself.

Performance of the function of official auctioneer at emission allowance auctions

Based on amendments to the Environmental Protection Act, SID Bank was authorised in 2010 to act as official auctioneer at emission allowance auctions in the name and on behalf of the Republic of Slovenia.

Housing Guarantee Scheme for Young People, guarantee schemes under the 2020 intervention measures and other guarantee schemes

In April 2022, as part of the government's measure to make it easier for young first-time buyers who are not deemed sufficiently creditworthy to obtain a loan from banks to access housing loans, with a state-backed guarantee, and by adopting the ZSJSM, the Republic of Slovenia authorised SID Bank to carry out, on behalf and for the account of the Republic of Slovenia, all operations related to the issuance, monitoring, redemption and recovery of guarantees, as well as the supervision of the purpose-specific use of loans insured with a guarantee under the act, on the basis of the banks' reports.

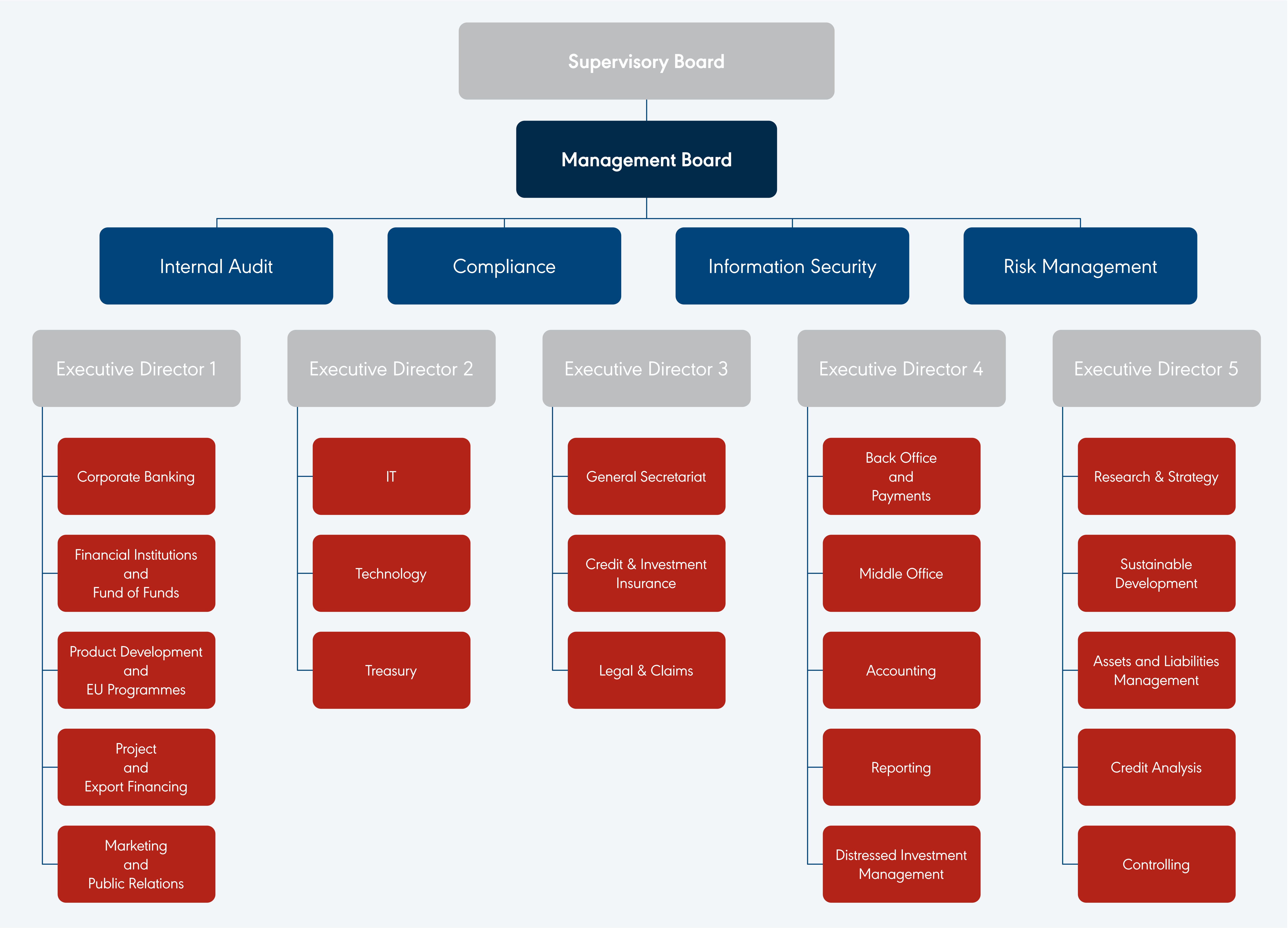
Based on two intervention acts, specifically the ZIUZEOP and the ZDLGPE, SID Bank continued with the activities under Republic of Slovenia authorisations in 2022 to carry out all transactions in its name and on its behalf related to with the redemption of guarantees, and the monitoring and implementation of all measures necessary for the enforcement of recourse receivables, and to verify, following the payment of a guarantee, that the conditions on the basis of which a commercial bank approved the deferral of payment under a loan agreement in accordance with the Emergency Deferral of Borrowers' Liabilities Act (ZIUOPOK) in connection with Article 65 of the ZIUZEOP, or a guaranteed loan under the ZDLGPE, were being respected.

On the basis of two laws, i.e. the Republic of Slovenia Guarantee Scheme Act and the Republic of Slovenia Guarantee Scheme for Natural Persons Act, SID Bank also exercised authorisations in 2022 in the name and on behalf of the Republic of Slovenia in the form of the monitoring of issued guarantees. The statutory deadline for issuing government guarantees passed at the end of 2010, with loan agreements with the longest maturity of ten years expiring at the end of 2020 (only a loan for which debt restructuring was agreed is still active).

SID Bank's activities under Republic of Slovenia authorisation in 2022 are presented in detail in the section titled "Operations under Republic of Slovenia authorisation".

ORGANISATIONAL STRUCTURE AS AT 31 DECEMBER 2022

There were no major changes to the Bank's organisational structure in 2022.

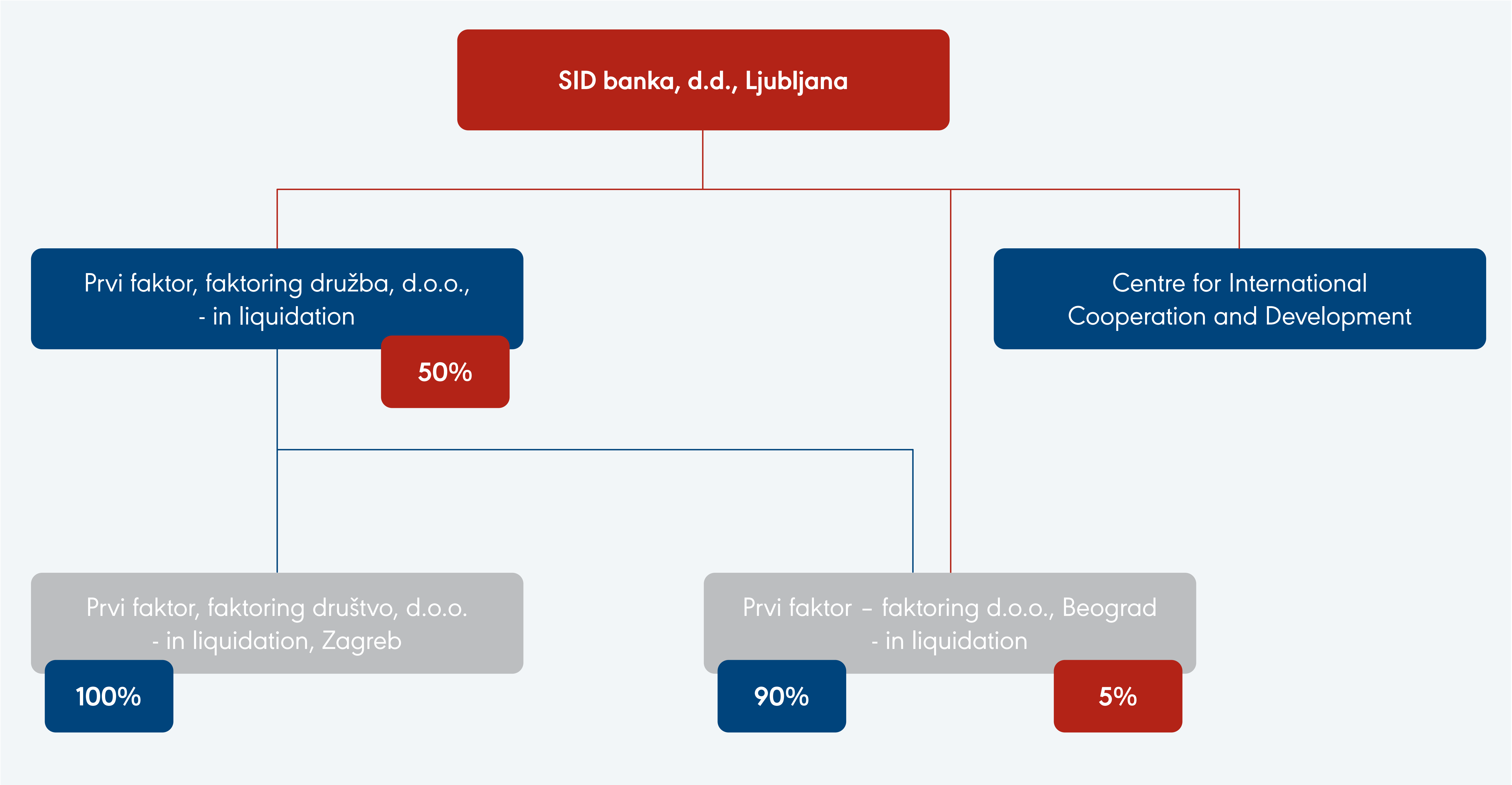


ORGANISATIONAL STRUCTURE OF THE SID BANK GROUP AS AT 31 DECEMBER 2022

As at 31 December 2022, the SID Bank Group also comprised, in addition to SID Bank:

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

The investments in the joint venture and associate are accounted for in the consolidated financial statements according to the equity method. Based on the principle of immateriality, which defines information whose omission or non-disclosure does not affect the decisions of the users of the financial statements as immaterial, SID Bank does not include either of the companies referred to in the previous paragraph in consolidation, as the combined total assets of the two companies amount to less than 1% of SID Bank's total assets.



SHARE CAPITAL

Shareholders as at 31 December 2022	Number of shares	Proportion of share capital
Republic of Slovenia	3,103,296	99.4
SID Bank (own shares)	18,445	0.6
Total	**3,121,741**	**100.0**

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

There were no changes to share capital in 2022, which totalled EUR 300 million as at 31 December 2022.

There are no restrictions on shareholder voting rights: each SID Bank no-par-value share entitles its holder to one vote. The financial rights attached to shares are not separated from the ownership of the shares.

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

On 14 July 2022 the SID Bank general meeting passed a resolution allocating the distributable profit for 2021 of EUR 11,414,332.61 to other profit reserves.

The bank's shareholder equity totalled EUR 450,869 thousand as at 31 December 2022, while the audited book value of one share stood at EUR 145.29 (31 December 2021: EUR 158.47).

Strategy

Strategic planning at SID Bank is based on a three-year strategy that includes a view forward towards all the relevant aspects of the Bank's medium-term operation and its long-term objectives. In 2022 SID Bank revised its development strategy of identifying key development challenges, the necessary adjustments to the business model and the key strategic risks. The strategy also contains a set of measures for securing the long-term viability of bank operations. Through a regular annual audit of its strategy, SID Bank ensures that the strategic content that allows it to adapt to its external circumstances is up-to-date, and ensures its continued evolution within the framework of the authorisations entrusted to it.

The assumptions regarding the development of the business environment in which SID Bank operates are derived from internal medium-term macroeconomic scenarios. It follows from the scenarios and their respective weightings that the business environment is very uncertain, primarily as a result of the current geopolitical conditions and the associated development of the Ukraine and energy crises. In response to this, SID Bank is planning to intervene to address the identified gaps in 2023, in addition to its development role, and operate counter-cyclically if economic growth slows or the economy encounters recession.

MISSION STATEMENT, VISION AND VALUES

Mission statement: As Slovenia's central financial institution in the areas of promotion and development, SID Bank develops and provides long-term financial services to complement the market, and thus promotes economic competitiveness, the creation of new high-quality jobs, social inclusiveness and sustainable development of Slovenia. Through its work within the mandates given to it, fulfilment of its mission and its liaison role, the Bank is consolidating its major impact on the sustainable development of Slovenia.

Vision: SID Bank has a vision of strategic success in place for the 2023–2025 period. It focuses on three key aspects: mandate, customer and bank. From the aspect of mandate, SID Bank will, within the framework of its competencies, increase the scope of its services while ensuring its ongoing financial viability. It will work proactively in formulating and implementing Slovenia's long-term development strategies, and will act as the main channel for placing government and EU funds with the economy, and contributing significantly to the green transformation of the economy. In addition to this, SID Bank will play an important liaison role within Slovenia's public development promotion system. In the domestic sphere, it will work actively with chambers of commerce and industry, development incubators and educational institutions. It will also strengthen cooperation with international development finance institutions and associations, and will continue to develop its operations primarily on strengthening cooperation with commercial banks. SID Bank will provide debt and equity financing to companies with development potential at all phases of their development, with priority given to financial engineering. A major part of activities will focus on project and export financing, as well as on the financing of sustainable infrastructure.

In terms of its internal structure, SID Bank will strive for sound process management and organisation, greater job flexibility with highly qualified staff, process automation, and effective decision-making, while ensuring a high level of internal and external operational transparency. In addition to this, it will carry out procedural adjustments in relation to the integration of climate-related and environmental risks and programme adjustments in relation to green financing.

From the point of view of customers, SID Bank is oriented towards providing high-tech support for its business processes, which are capable of adapting quickly to market needs and represent high-quality support for customers in all of their development phases. The Bank will devote particular attention to the green transformation of companies and to monitoring the financial and developmental impact of individual transactions. The key objective is to provide favourable, simple and swift services for customers.

SID Bank devotes particular attention to ensuring employee satisfaction and development and to promoting the Bank's internal growth. The Bank's operations are based on employees who are responsible, efficient, cooperative, courageous and bold. These values are key to maintaining a high-quality organisational culture, and constitute fundamental principles and guidance in employees' everyday work, and in mutual contacts with customers and other stakeholders.

Values: As part of preparations for its new business strategy, SID Bank also reviewed and upgraded its values, which form the basis for successful achievement of its strategic objectives.

ADJUSTMENTS TO THE BUSINESS MODEL

SID Bank pursued parallel roles in 2022: an intervention role in the field of counter-cyclical financing and a developmental/promotional role. Its operations mitigated the difficulties encountered by companies as a result of the war in Ukraine and the resulting energy crisis, while in the first half of the year it also provided favourable loans with state aid under the Temporary Framework for State Aid measures to support the economy in the current COVID-19 outbreak.

As part of its promotional and developmental role, it made it easier for local government and the public sector to access debt financing under favourable terms via the new Public Sector 1 programme. In 2022, via the Fund of Funds, SID Bank provided fresh refundable funds for loans and portfolio guarantees for research, development and innovation, for microcredits, portfolio guarantees and equity financing for SMEs, for loans for the energy renovation of public buildings, and for loans for investments in urban development. It also consolidated its operations in the area of capital products, with SEGIP, which was set up with the EIF in 2017, being expanded by an additional EUR 120 million. This amount was earmarked mainly for the equity financing of Slovenian SMEs and small mid-cap companies.

In 2022 SID Bank continued on its path towards sustainable transformation of its own business operations as well as its contribution to the transformation of the Slovenian economy as a whole. In relation to sustainable business, it has taken two important steps forward:

- it has upgraded and verified the way in which it calculates its carbon footprint. The calculation now includes all Scope 1 and 2 greenhouse gas emissions, while for the moment the calculation of Scope 3 greenhouse gas emissions only includes that part of emissions for which the Bank is also indirectly responsible;
- it has drafted a decarbonisation plan setting out the short-, medium- and long-term targets (i.e. to 2025, to 2030 and the ambition to reduce greenhouse gas emissions by 2050).

It has also carried out a number of other activities relating to the green transition that will enable the Bank to make an adequate transition to sustainable financing.

POLICIES IN 2023

SID Bank's operations in 2023 will pursue two central objectives: making preparations to enhance the Bank's ability to react swiftly and comprehensively in the event of a deterioration in liquidity; and consolidating the foundations for long-term success in achieving the mandate objectives while ensuring high-quality risk and bank management. During the drafting of the strategy, key topics that will affect SID Bank's future operations were addressed, and the opportunities and challenges that those topics bring to the Bank's operations were defined.

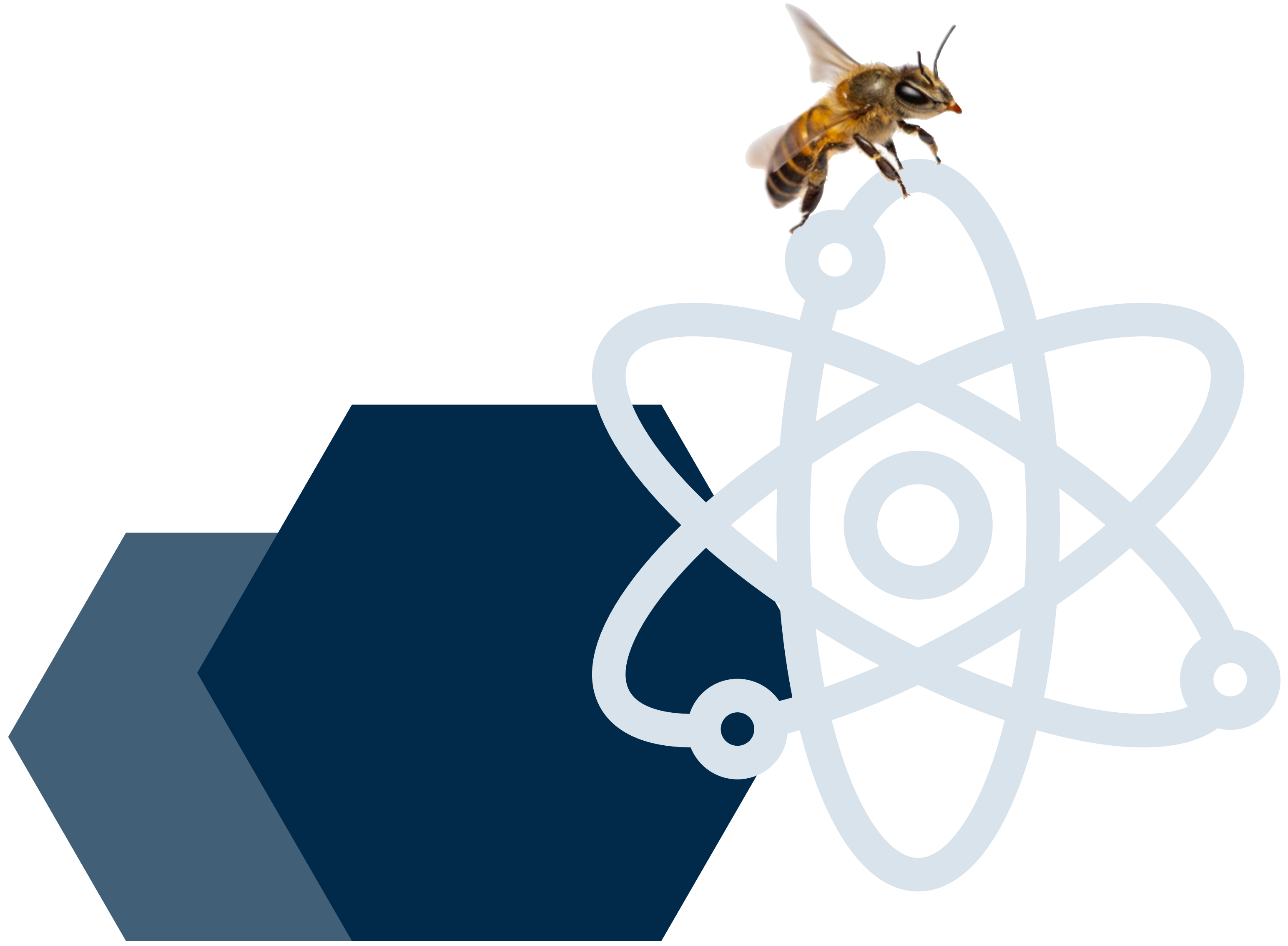
The SID Bank development strategy sets out the key policies for the Bank via core guiding principles for the three basic aspects:

- *addressing the Bank's mandate:* the Bank will ensure parallel developmental and counter-cyclical operations;
- *addressing the approach to customers:* the Bank will place the customer at the heart of its thinking and operations;
- *addressing management of the Bank:* the business model structure must ensure operations that are sustainable over the long term and that have business outcomes that are (cumulatively) positive throughout the whole economic cycle.

Through these policies, SID Bank will build up its long-term sustainable business model, which is mainly focused on the implementation of financing programmes with major multiplier effects for the economy and sustainable development. With the aim of realising SID Bank's vision of strategic success, enhancements to the following areas and the implementation of the following key strategic activities have been identified for the coming medium-term period:

1. effective organisation;
2. products, programmes and schemes for counter-cyclical operations;
3. development of products and partnerships with commercial banks to fill out the range of products available;
4. upgrading of operational capacities;
5. the overhaul of IT management;
6. the management of funding and the breaking up of product groups and the Bank's results;
7. cost management and the optimisation of Bank operations (waste management);
8. inclusion in the next EU multiannual financial framework, the renewal of funds from the previous perspective and the strengthening of financial engineering measures;
9. the establishment of development partnerships with key stakeholders;
10. SID Bank's green strategy.

The bank has specified strategic control indicators for continuously monitoring the success of a strategy. The established indicators cover all three strategic aspects: fulfilment of the mandate objectives, the achievement of customer-related targets and the area of bank operations. By consistently achieving the target values of the defined indicators, SID Bank will be able to meets its mandate objectives in the future, which is likely to be a very demanding period from the macroeconomic standpoint. In so doing, SID Bank will continue to enhance its activities in the monitoring and management of environmental risks.



Macroeconomic Environment in 2022[5]

INTERNATIONAL ENVIRONMENT

After the global economy recorded high growth of 6.2% in 2021, driven by the economic recovery after the first Covid-19 shock, last year saw new, partly related shocks (the Russian attack on Ukraine, the associated energy crisis, high inflation and the resulting tightening of monetary policy, weak economic growth in China, etc.). Consequently the economic growth slowed to 3.4%, while the macroeconomic situation was dominated by high inflation of a type that the world has not been accustomed to in recent decades.

The scale of the disruptions to supply chains diminished over the course of the year, and the costs of shipping and other transportation of goods fell sharply after reaching extremely high levels in 2021 (the FBX Global Container Index fell by 75% in 2022), in the second half of the year partly as a result of tighter monetary policy and falling consumer purchasing power, which are driving down global demand. Conversely the Russian attack on Ukraine had a major impact on energy markets, and also partly on food markets. The global macroeconomic situation at the end of the year suggests a further decline in economic growth this year, with additional risks amid the potential stubborn persistence of high inflation, pronounced difficulties from the increasing borrowing and debt servicing costs caused by rising interest rates, and a further deterioration in the geopolitical situation (Ukraine, China). The pace of the reopening of the Chinese economy is also expected to have a significant impact on the global economic situation.

Economic growth in developing countries was less than half of that in the previous year averaged at just 3.9%. It was above all in China that economic growth fell most short of expectations, having been curtailed by the zero-covid policy in place until the final weeks of the year. Its eventual rate of 3% saw China outpaced by global economic growth for the first time in more than four decades. China abandoned the zero-covid policy at the turn of the year, but the low vaccination rate and extremely low infection rate mean that the initial return to business as usual in the economy is being hindered by a wave of cases. The health crisis and the problems in the real estate market, which are not yet entirely resolved, are hindering the smooth rebooting of the economy, and the expectation is therefore that economic growth this year will remain below its pre-pandemic levels. China's difficulties are a factor in the high economic growth in India, whose rate of 6.8% meant that its decline relative to the previous year was smaller than other countries in the region. Of the major economies, only Russia experienced a contraction in 2022, and that in the amount of just 2.2%, despite extensive international sanctions. Economic growth in developing countries is facing new challenges, with demand being hit by multiple adverse factors. The impact of pent-up demand from the time of the Covid-19 crisis has waned, and the rise in the cost of living is particularly pronounced in developing countries, while export demand from Europe and the USA is weakening at the same time. Rising borrowing and debt servicing costs are increasing the chances that certain countries will be unable to bear this burden and will require extensive restructuring, which might be more complicated than in the past because of the greater diversity of lenders.

Economic growth in advanced economies began to weaken amid high inflation, and averaged 2.7% over the year (2021: 5.4%), with rates of just 1.4% in Japan (2021: 2.1%), and 2% in the USA (2021: 5.9%). Given the many challenges, this is indicative of considerable resilience to shocks in many economies, although the effects of rising interest rates (in the USA the Fed raised its interest rates fully seven times in 2022 by a total of 4.25 percentage points) will only gradually come to expression, and economic growth will also be held back by the behaviour of consumers, who in light of the higher interest rates, the real decline in incomes, and the decline in net worth have reduced their spending.

Amid an extreme energy price shock – particularly in gas and electricity prices – following the Russian attack on Ukraine, the euro area faced the threat of a significant contraction in economic activity in 2022. For example, electricity prices on European futures markets temporarily rose by 1,500% or even more.

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

The agility of businesses and the fact that many had fixed their electricity prices in advance at significantly lower levels ensured relative success in dealing with the initial effects of this adverse shock. The mild first half of the winter greatly helped in the retention of sufficient quantities of gas in storage, which was a major factor in the significant fall in energy prices, particularly gas and electricity. Despite the realisation of certain risks and a slowdown in economic growth, which stood at 3.5% in 2022, the labour market in the euro area remained robust throughout, unemployment hitting a record low in October. The adverse factors are gradually building up, with companies subject to extensive cost pressures, as a result of persistently high (albeit to a lesser degree) energy prices, and also as a result of rising financing costs and upward pressure on wages. Meanwhile consumer purchasing power in the euro area is also being curtailed by the deterioration in the terms of trade caused by growth in import prices outpacing growth in export prices.

Although the very high inflation of 9.2% was driven primarily by changes in supply rather than demand, the ECB could not react in any other way, and followed the Fed in raising interest rates. Thus the ECB's key rates at the end of the year stood at 2.5% for main refinancing operations, 2.75% for the marginal lending facility, and 2% for the deposit facility. The euro area budget balance improved in 2022 relative 2021, but remained significantly in deficit in the amount of 3.5% of GDP (2021: deficit of 5.1% of GDP), while similarly public debt in the euro area declined in 2022, but remained above 90% of GDP.

The high inflation, the tightening monetary policy, and the threat of recession drove down stock markets in the majority of advanced economies in 2022 (the Dow Jones was down 9%, the S&P 500 20%, the Nasdaq 33%, the DAX30 12%, and the Nikkei 11%). Ljubljana's SBITOP was not spared, and fell 17%. The changes in monetary policy and the reduction in liquidity also had an impact on crypto markets, which saw large falls.

Real estate markets were still seeing significant growth at the beginning of the year, but this began to slow in the second half of the year. Growth in real estate prices in the euro area in 2022 did not reach the heights of the previous year, and the worsening financing conditions point to a further cooling on real estate markets. Government bond yields rose in 2022: by the end of the year they stood at 2.56% on German 10-year bonds, and 3.74% on Slovenian 10-year bonds, the highest figure since 2014. The euro fell significantly against the dollar over the first three quarters of 2022 (from a high of USD 1.1464 on 4 February to a low of USD 0.9565 on 28 September), before rising to slightly above parity in the final quarter.

SLOVENIAN ECONOMY

Slovenia's economy grew by 5.4% in 2022 (5.7% seasonally adjusted) and thus outpaced the euro area, with pronounced year-on-year growth in the first half of the year, driven by high growth in private consumption. Economic growth was also driven by gross investment, which was up fully 12.4% in 2022. Gross fixed capital formation was up in year-on-year terms throughout the year, although with a gradual decline in the rates of growth. Government consumption recorded growth of 0.9%.

The first half of the year saw industrial production at an extremely high tempo. Companies in industry had been consistently reporting a higher pace of output since September 2020, but it began to slow in the second half of 2022, slipping below its pre-pandemic level for the first time in August. Record levels of capacity utilisation and assured production were also achieved. The previous sustained high growth in order book levels came to an end in the third quarter, and the final quarter saw a significant decline. Manufacturing output rose by 4.1% in 2022, but aggregate industrial production was up just 1.7% on the previous year, primarily as a result of a decline of fully 26.4% in the electricity supply sector. The amount of construction put in place in 2022 was up 33.9% on the previous year.

Despite the weak outlook, the labour market remained extremely robust amid booming output, and unemployment remained extremely low at around 4%, as the workforce in employment increased over the year. Unemployment reached a record low, well below even the level reached at the peak in employment just before the outbreak of the global financial crisis. Amid high inflation of fully 10.3%, rising wages did not manage to preserve consumer purchasing power. The average net wage was up 3.8% on the previous year in nominal terms, but down 4.6% in real terms. All the (nominal) growth was driven by the private sector: the average wage in the public sector in 2022 was down on the previous year, primarily as a result of the expiry of various bonus payments from the pandemic period.

The current account saw a reversal in 2022, the surplus of EUR 2 billion in 2021 evolving into a deficit of EUR 450 million as a result of changes in merchandise trade (services trade recorded a surplus). Growth in exports (6.5%) was outpaced by growth in imports (9.8%), with EU Member States accounting for 76.2% of the exports. The export sector faced falling orders in the second half of the year, although the previously very high imported inflationary pressures began to ease slightly at the same time.

The deficit of the general government sector in 2022 amounted to 3.9% of GDP, while gross government debt declined slowly (as a ratio to GDP) over the course of the year and amounted to 69.9% of GDP at the end of the year. Fiscal policy remained relatively expansive in 2022. The spread of Slovenian government bond yields over the German benchmark widened, but remained close to 1 percentage point.

BANKING ENVIRONMENT

The main feature of the banking market in 2022 was the reaction of central banks to high inflation. The rate in the euro area hit its highest level since the beginning of the Eurostat figures in 1997, and the ECB stopped labelling the inflation as transitory, and described it as persistent in its statements in the second half of the year. The ECB thus began to raise interest rates. The first rise of 50 basis points in July took interest rates out of negative territory (it was the first interest rate hike since July 2011), and three more rises followed, the first two in the amount of 75 basis points each, and the third in December of 50 basis points. During the first interest rate hike, the ECB brought an end to its forward guidance on the grounds of high uncertainty, and switched over to a meeting-by-meeting approach. July saw an end to the net purchases under the APP (the PEPP having ended purchases in March). With reinvestment flexibility under the PEPP expected to be maintained until 2024, an additional instrument to protect the transmission of monetary policy (the TPI) was announced with the aim of preventing excessive fragmentation of euro area government bond yields. It is a preventive instrument, with bond purchases conditional on compliance with the EU fiscal framework and the absence of severe macroeconomic imbalances. In October the ECB recalibrated its lending to banks within the framework of the TLTRO III (the benefits of negative interest rates were abolished) with the aim of increasing the pace of transmission of other measures. In Slovenia the Bank of Slovenia minimally eased its macroprudential restrictions on consumer lending in July, stipulating that credit agreements for residential real estate fully backed by government guarantee would be exempted from the restrictions on household lending. Just before the end of the year the Bank of Slovenia raised its countercyclical capital buffer from zero to 0.5% of risk-weighted exposure amounts in the domestic economy.

Similar to elsewhere in the euro area, Slovenia saw a rise in financing costs for companies in the second half of the year. Interest rates on loans to non-financial corporations with a maturity of more than 5 years rose to over 4.5% towards the end of 2022, while deposit rates saw barely any increase and thus remain among the lowest in the euro area. Lending to the non-banking sector increased by 10% in 2022, as growth in corporate loans (12.8%) outpaced growth in household loans (7.8%). The latter was driven almost entirely by real estate loans (9.9%), consumer loans having remained at a broadly similar level to the beginning of the year (up 0.9%). Household and corporate deposits increased significantly in 2022 (by 7.6% and 7.9% respectively). The rise was driven primarily by sight deposits, which is no surprise given the absence of any rises in interest rates on fixed-term deposits, even though inflation means that deposits are falling in value in real terms. The Slovenian banking system's balance sheet total amounted to EUR 50.6 billion at the end of the year, up 4.9% on the end of 2021.

There was an end to the trend of decline in the share of the bank portfolio accounted for by loans to non-financial corporations: it reached 20.7% (end of 2021: 19.2%), still significantly less than the share accounted for by household loans (almost 24%). This means that lending to businesses still remains at very low levels, and well below the euro area average. The financing conditions remained almost unchanged and thus extremely favourable in the first half of the year, but slowly worsened in the second half of the year. According to the survey on the access to finance of enterprises (SAFE), by the end of the year companies were assessing that their access to external sources of finance had worsened significantly. Although the aggregate figures do not show any increased rationing of bank loans, growth in loans to non-financial corporations began to slow in the final quarter (the year-on-year rates of growth have been falling ever since September).

Despite increases in macroeconomic risk, interest rate risk, credit risk and income risk, the NPE ratio remained extremely low, and returned to its previous low of 1.1% in December (1.8% in the non-financial corporations portfolio, with accommodation and food service activities being the main upward outlier, with an NPE ratio of fully 15%). The reclassification of exposures to Stage 2 increased at the end of the year, but the trend is behind the pace in the euro area overall. Liquidity in the banking system remained extremely high, and the LCR is above the euro area average. Capital adequacy in the Slovenian banking system remained good: the CET1 ratio is comparable to the euro area average.

SID Bank accounted for 5.5% of the balance sheet total of the entire Slovenian banking system at the end of 2022, down slightly on the previous year (5.9%). This is mostly in keeping with the mandate of a development bank, which requires SID Bank to operate in gaps in the financial market, including cyclical gaps, which meant that it strongly increased its volume of business following the outbreak of the pandemic, before ending the increase in volume during the period of good liquidity in the banking system. It should also be emphasised that Slovenia and the wider European economy were able to emerge from the crisis in very good shape overall, thanks to measures to strengthen the economy and to promote resilience, which meant that SID Bank was not required to intervene to a great extent. A renewed increase in business can be expected in the event of a deterioration in liquidity and increased rationing of corporate loans by the remainder of the Slovenian banking system in the wake of any downturn in the macroeconomic situation (an increase in countercyclical financing).

IMPACT ON PERFORMANCE FROM THE EXTERNAL ENVIRONMENT

The liquidity of the Slovenian banking system remained at a very high level in 2022, with the LTD ratio (the ratio of loans to non-bank customers to deposits by non-bank customers) fluctuating throughout around 70%, which means that Slovenian banks were able to fund their lending activity in its entirety without relying of on other (non-deposit) funding. The financing conditions were highly favourable in the first half of the year, but began to slowly deteriorate towards the end of the year. SID Bank continued to reduce its operations via banks over the course of the year.

At the same time the sudden realisation of geopolitical risks with the Russian attack on Ukraine demanded an immediate response from SID Bank: it notified a state aid scheme under the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia to mitigate the adverse impact on corporate performance, and at the same time it extended the programme of financing for working capital and investment for companies of all sizes with the option of a 70% unlimited portfolio guarantee from the Pan-European Guarantee Fund until the end of the year, thus enabling companies to obtain credit at a lower interest rate without any additional collateral requirements. This resulted in a further increase in the share of the balance sheet total accounted for by loans to non-bank customers.

The consequences of the realisation of geopolitical risks and the related energy crisis had a significant impact on the narrower segment of companies with whom SID Bank pursued its intervention role. The remainder of its work focused on the development role, where the majority of funding was earmarked for the development of a competitive economy, while it also made it easier for local government and the public sector to access debt financing under favourable terms via the new Public Sector 1 programme. Here SID Bank worked with the EIF in March to reduce the gap in equity financing for companies by expanding the Slovenian Equity Growth Investment Programme, and in December drew down the fourth and final tranche of European cohesion funding for the FI 2014-2020 Fund of Funds. The overall impact of the external environment on SID Bank was therefore that its operations remained similar to the previous year in scale, but adjusted to the situation in terms of structure.

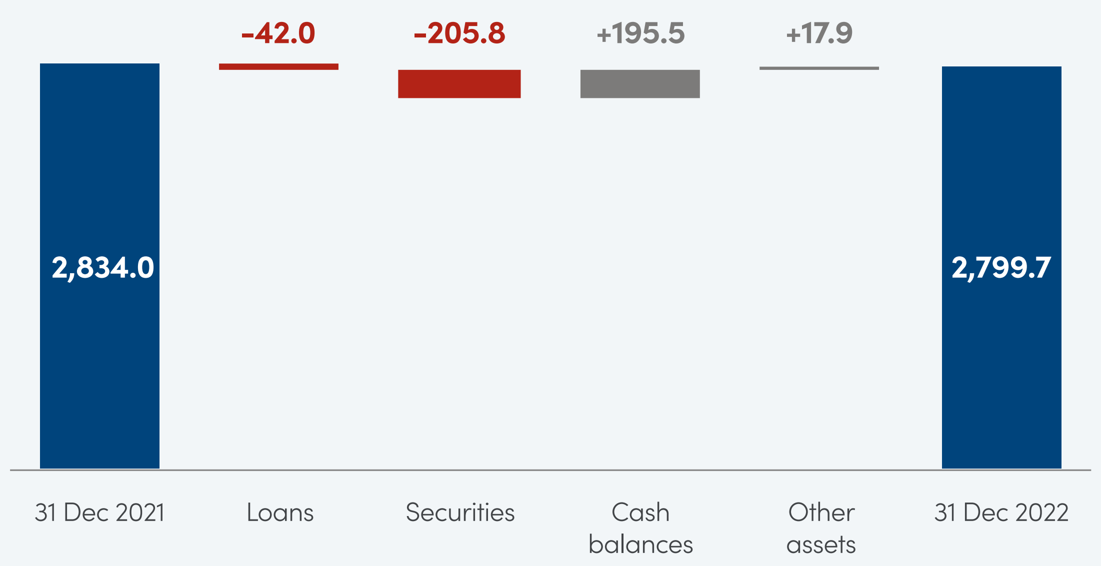
Overview of Financial Performance

FINANCIAL POSITION OF SID BANK

Balance sheet total

SID Bank's balance sheet total stood at EUR 2,799,708 thousand at the end of 2022, down 1.2% or EUR 34,324 thousand on the end of the previous year.

Changes in assets in 2022 (EUR million)



Changes in liabilities in 2022 (EUR million)

Assets

Loans and advances to non-bank customers accounted for the largest share (49.4%) of total assets at the end of 2022, having increased by 15.2% over the course of the year. They amounted to EUR 1,382,527 thousand at the end of 2022 (2021: EUR 1,199,698 thousand). Slovenian non-financial corporations accounted for the largest proportion of this figure (83%), followed by loans to the government sector (primarily loans to local government) with 15%, while the remainder was accounted for by loans to other financial institutions, loans to foreign non-financial corporations and loans to sole traders.

15.2%
growth in loans and advances to non-bank customers

Loans and advances to banks, which include loans and deposits, amounted to EUR 343,990 thousand at the end of the year, down 39.5% on the end of 2021. The proportion of the Bank's total assets that they account for declined to 12.3% (2021: 20.1%). Loans to Slovenian banks, which as financial intermediaries mediate development funds to final beneficiaries, accounted for 84% of loans and advances (excluding deposits) to banks at the end of the year (2021: 87%), while loans to foreign banks for export credits for Slovenian companies accounted for the remaining 16%.

Loans are discussed in detail in the section entitled Financing.

Investments in securities amounted to EUR 631,236 thousand at the end of 2022 (2021: EUR 837,005 thousand). Debt securities accounted for 92% of the holdings, their stock standing at EUR 578,411 thousand at the end of the year (2021: EUR 796,197 thousand).

Debt securities are discussed in detail in the section entitled Liquid assets, and in section 3 of the financial report, Risk management.

Investments in equities relate to investments that the Bank pursues within the framework of the Slovene Equity Growth Investment Programme in the amount of EUR 25,361 thousand (2021: EUR 19,885 thousand), investments in the Three Seas Initiative investment fund in the amount of EUR 12,285 thousand (2021: EUR 8,421 thousand) and the Bank's holding in the European Investment Fund in the amount of EUR 15,179 thousand (2021: EUR 12,502 thousand).

The equity financing programme is described in the section entitled Financing.

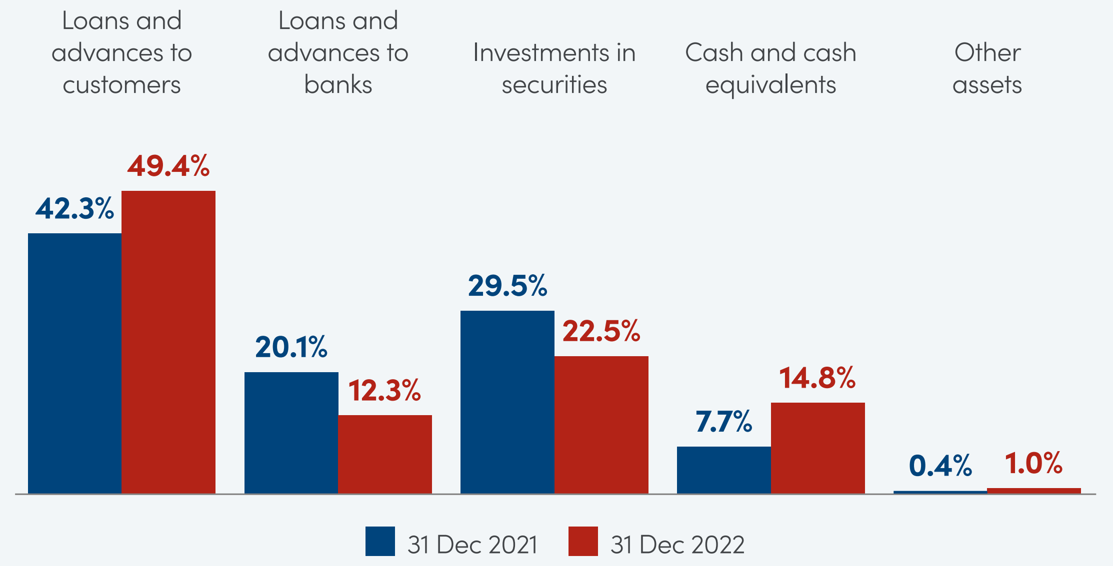
Investments in securities accounted for 22.5% of the Bank's total assets at the end of 2022 (2021: 29.5%).

SID Bank held EUR 413,628 thousand in **balances at the central bank and at commercial banks** at the end of 2022, up 89.6% on the previous year. The proportion of the Bank's total assets that they account for increased from 7.7% at the end of 2021 to 14.8% at the end of 2022. The cash holdings of loan funds account for 60% of cash and cash equivalents.

Other assets in the amount of EUR 28,327 thousand comprised:

- corporate income tax assets in the amount of EUR 16,429 thousand (2021: EUR 1,663 thousand);
- property, plant and equipment and intangible assets in the amount of EUR 4,902 thousand (2021: EUR 5,056 thousand);
- hedging derivatives in the amount of EUR 3,415 thousand (2021: EUR 0);
- other financial assets in the amount of EUR 3,043 thousand (2021: EUR 2,601 thousand); and
- other assets in the amount of EUR 538 thousand (2021: EUR 1,114 thousand).

Structure of total assets



	Amount		Index	Breakdown	
EUR thousand	31 Dec 2022	31 Dec 2021	2022/2021	31 Dec 2022	31 Dec 2021
Loans and advances to non-bank customers	1,382,527	1,199,698	115.2	49.4%	42.3%
Loans and advances to banks	343,990	568,769	60.5	12.3%	20.1%
Investments in securities	631,236	837,005	75.4	22.5%	29.5%
Cash and cash equivalents	413,628	218,126	189.6	14.8%	7.7%
Other assets	28,327	10,434	271.5	1.0%	0.4%
Total assets	**2,799,708**	**2,834,032**	**98.8**	**100.0%**	**100.0%**

Equity and liabilities

SID Bank's equity and liabilities comprised liabilities in the amount of EUR 2,348,839 thousand and shareholder equity in the amount of EUR 450,869 thousand at the end of 2022. Liabilities accounted for 83.9% of total equity and liabilities (2021: 82.6%), while shareholder equity accounted for 16.1% (2021: 17.4%).

Liabilities were up EUR 6,573 thousand on the previous year. The largest increase was in financial liabilities to non-bank customers (EUR 47,429 thousand), while financial liabilities to banks and central banks declined by EUR 37,184 thousand and liabilities for issued securities by EUR 15,014 thousand. Other liabilities increased by EUR 11,342 thousand, primarily as a result of an increase in hedging derivatives (by EUR 13,925 thousand).

Liabilities to non-bank customers amounted to EUR 1,034,941 thousand at the end of 2022, up 4.8% on the end of the previous year, and accounted for the largest share of total equity and liabilities (37.0%). The largest increase was in liabilities to the MEDT, which relate to liabilities from the operation of loan funds and funds of funds, and lending from development institutions.

Liabilities to banks and the central bank amounted to EUR 630,675 thousand at the end of 2022 (2021: EUR 667,859 thousand), having declined by EUR 37,184 thousand over the year. The proportion of total equity and liabilities that they account for declined from 23.6% to 22.5% at the end of 2022. The main decline was in liabilities to the European Investment Bank.

Liabilities from issued securities amounted to EUR 660,465 thousand at the end of 2022 (2021: EUR 675,479 thousand), and accounted for 23.6% of total equity and liabilities (2021: 23.8%).

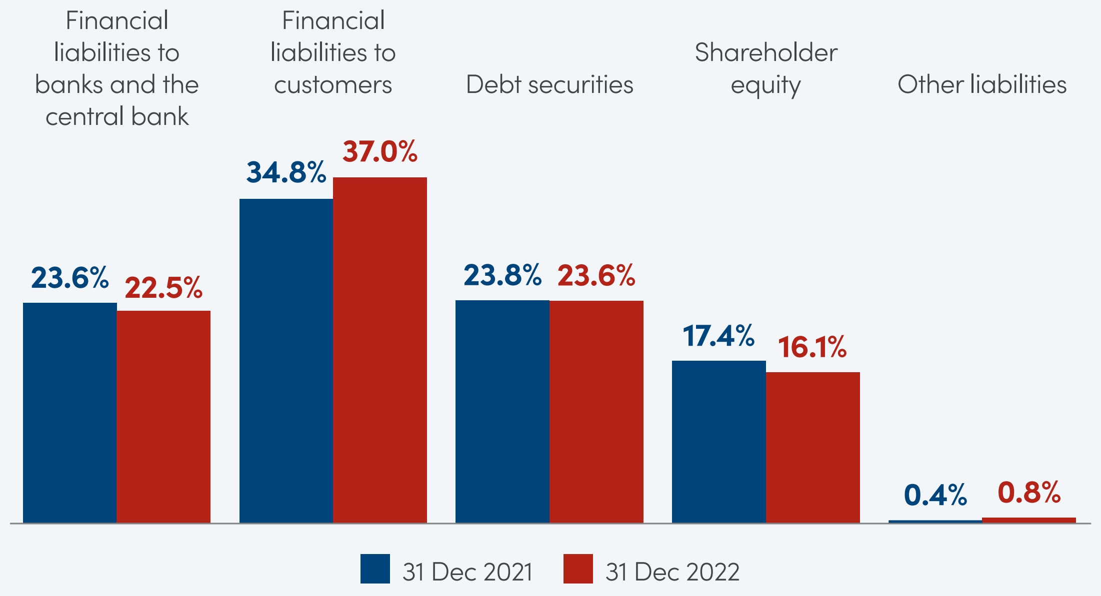
For more information on the funding side of the balance sheet, see the section entitled Funding.

Other liabilities in the total amount of EUR 22,758 thousand comprised:

- hedging derivatives in the amount of EUR 15,849 thousand (2021: EUR 1,924 thousand);
- provisions in the amount of EUR 2,408 thousand (2021: EUR 2,647 thousand), which relate to provisions for off-balance-sheet liabilities arising from guarantees and approved undrawn credit facilities (EUR 610 thousand) and provisions for liabilities to employees (EUR 1,798 thousand);
- other financial liabilities in the amount of EUR 3,009 thousand (2021: EUR 1,947 thousand); and
- other liabilities in the amount of EUR 1,492 thousand (2021: EUR 1,404 thousand).

SID Bank's **shareholder equity** amounted to EUR 450,869 thousand at the end of 2022, down EUR 40,897 thousand or 8.3% on the previous year. Accumulated other comprehensive income was down EUR 49,148 thousand on the previous year, as a result of the rise in market interest rates and the related decline in the fair value of debt securities measured at fair value through other comprehensive income. Profit reserves were up EUR 15,746 thousand, while retained earnings, including profit from the current financial year, were down EUR 7,495 thousand.

Structure of total equity and liabilities



EUR thousand	Amount		Index	Breakdown	
	31 Dec 2022	31 Dec 2021	2022/2021	31 Dec 2022	31 Dec 2021
Financial liabilities to banks and central bank	630,675	667,859	94.4	22.5%	23.6%
Financial liabilities to non-bank customers	1,034,941	987,512	104.8	37.0%	34.8%
Debt securities	660,465	675,479	97.8	23.6%	23.8%
Shareholder equity	450,869	491,766	91.7	16.1%	17.4%
Other liabilities	22,758	11,416	199.4	0.8%	0.4%
Total equity and liabilities	**2,799,708**	**2,834,032**	**98.8**	**100.0%**	**100.0%**

SID BANK'S FINANCIAL RESULTS

SID Bank generated a pre-tax profit of EUR 10,053 thousand in 2022, which was reflected in a return on equity of 2.2% (2021: 6.1%).

Pre-tax profit:
EUR 10 million

Pre-tax profit was down by EUR 19,433 thousand on 2021, while net profit for the financial year amounted to EUR 8,251 thousand, a decline of EUR 15,779 thousand relative to the previous year.

The decline in profit was primarily attributable to one-off effects in 2021 in connection with the repayment of loans and advances measured at fair value through profit or loss, and a decline in net income from the reversal of loan impairments.

Net interest

The Bank generated net interest in the amount of EUR 24,214 thousand in 2022, down EUR 3,792 thousand or 13.5% on 2021. Interest income amounted to EUR 33,188 thousand (2021: EUR 33,177 thousand), while interest expenses amounted to EUR 8,974 thousand (2021: EUR 5,171 thousand).

The decline in net interest was primarily attributable to a rise in **interest expenses** for borrowings via loans, driven by a rise in market interest rates. **Interest income** was at a similar level to 2021, when interest income had also been impacted by one-off effects from the early repayment of loans mandatorily at fair value (EUR 1,823 thousand).

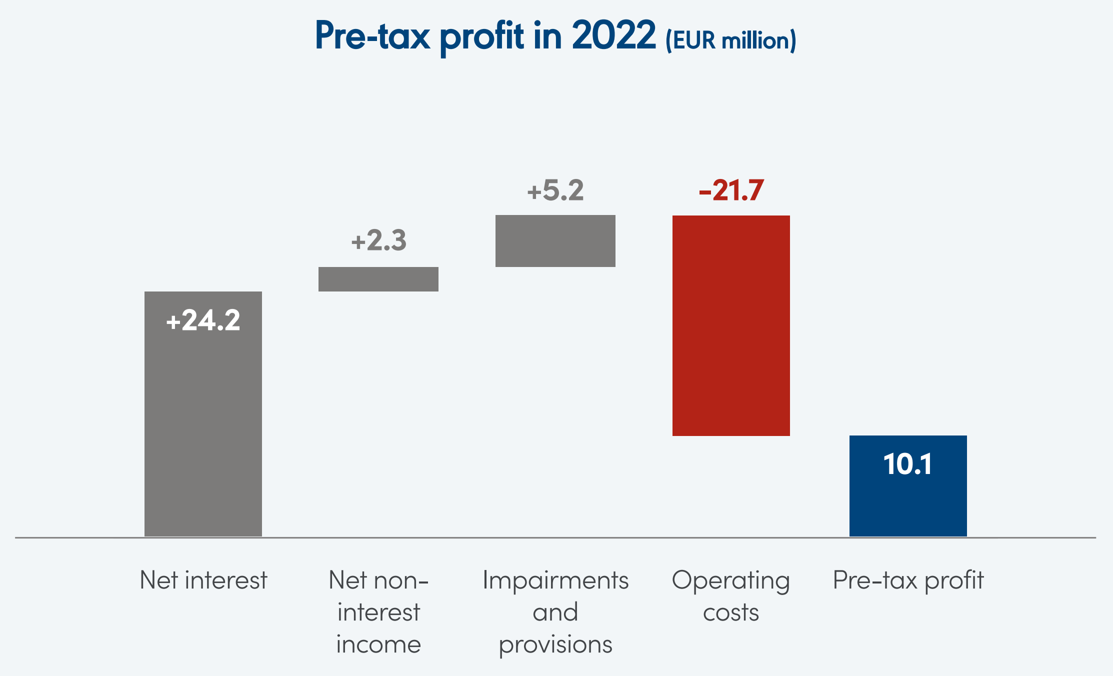
Net interest accounted for 91.2% of the Bank's total net income (2021: 83.0%). The Bank recorded a net interest margin of 0.9% in 2022 (2021: 1.0%), comparable to the interest margin in 2021 excluding extraordinary income.

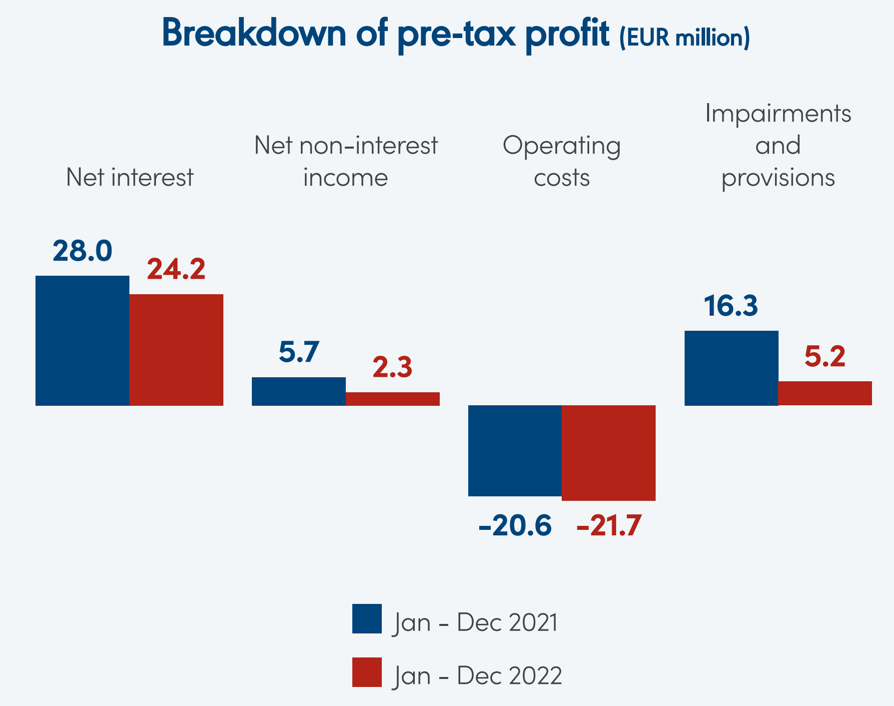
Non-interest income

Net non-interest income amounted to EUR 2,336 thousand in 2022, down EUR 3,382 thousand on the previous year (2021: EUR 5,718 thousand).

The decline was primarily attributable to a decline in **net gains on non-trading financial assets mandatorily at fair value through profit or loss**, which amounted to EUR 1,807 thousand (2021: EUR 13,335 thousand). The largest decline of any component was in net gains on loans and advances (by EUR 9,403 thousand), primarily as a result of one-off effects from the early repayment of loans in 2021, but there was also a decline in net gains on equity financing (by EUR 2,125 thousand).

Net losses on financial assets and liabilities not measured at fair value through profit or loss declined by EUR 5,298 thousand to amount to EUR 6,330 thousand (2021: EUR 11,628 thousand). The decline was driven by a decline in net losses in financial liabilities measured at amortised cost to EUR 6,753 thousand (2021: EUR 12,521 thousand), as a result of the positive result recorded by the loan funds. Under the contract each positive financial result increases SID Bank's liabilities to the MEDT. Net gains on financial assets measured at fair value through other comprehensive income, which relate to the effects of the purchase and sale of securities, amounted to





EUR 222 thousand (2021: EUR 861 thousand), while other net gains on financial liabilities measured at amortised cost amounted to EUR 201 thousand (2021: EUR 32 thousand).

Net fees and commission amounted to EUR 242 thousand in 2022 (2021: EUR 1,544 thousand). The most notable decline was in fee and commission income on loans granted (by EUR 1,158 thousand), which amounted to EUR 625 thousand (2021: EUR 1,783 thousand).

The Bank received **dividends** in the amount of EUR 678 thousand in 2022 (2021: EUR 446 thousand).

Expenses from changes in fair value in hedge accounting amounted to EUR 138 thousand (2021: EUR 36 thousand).

The majority of **other net operating income** in the amount of EUR 6,236 thousand relates to income from activities under Republic of Slovenia authorisation in the amount of EUR 4,733 thousand (2021: EUR 2,572 thousand). The increase in the latter was driven by contracts concluded in 2022 for guarantee schemes under the emergency laws (the ZIUZEOP and the ZDLGPE), by the implementation of the housing guarantee scheme for young people (the ZSJSM), and by an increase in income for implementation of the funds of funds under Republic of Slovenia authorisation. There was also an increase in income as a financial intermediary from the fee for implementation of the funds of funds, which amounted to EUR 1,404 thousand (2021: EUR 744 thousand), while other net operating income declined to EUR 99 thousand (2021: EUR 166 thousand).

Net losses from changes in repayment terms of financial assets measured at amortised cost amounted to EUR 171 thousand (2021: EUR 1,399 thousand), while net exchange rate differences amounted to a gain of EUR 12 thousand (2021: loss of EUR 31 thousand).

The Bank's financial intermediation margin stood at 1.0% in 2022 (2021: 1.2%). The decline in the margin was attributable to one-off effects in 2021.

Operating costs

The Bank's operating costs amounted to EUR 21,678 thousand in 2022, up 5.4% on 2021. There was an increase in labour costs, driven largely by the inclusion of the performance bonuses for 2022 under the costs for that year. Other costs were down 4.0%, driven by a decline in costs of services.

Administrative costs amounted to EUR 20,694 thousand, of which labour costs accounted for EUR 15,924 thousand (2021: EUR 14,567 thousand), costs of services for EUR 4,209 thousand (2021: EUR 4,438 thousand), costs of material for EUR 199 thousand (2021: EUR 177 thousand), and costs of taxes and membership fees for EUR 362 thousand (2021: EUR 395 thousand). Amortisation and depreciation amounted to EUR 984 thousand (2021: EUR 986 thousand).

The CIR stood at 81.6% in 2022 (2021: 61.0%). The CIR, comparable to the banking system overall and adjusted to reflect the operations relating to the loan funds (only management fees are taken into account), as well as impairments, provisions, and interest on loans by the funds of funds for operations relating to ECP funds, stood at 67.5% (2021: 45.5%). The rise in the CIR compared with 2021 is primarily attributable to the one-off effects of the early repayment of loans in 2021.

	Amount		
EUR thousand	2022	2021	Index 2022/2021
Net interest	24,214	28,006	86.5
Net non-interest income	2,336	5,718	40.9
Operating costs	(21,678)	(20,563)	105.4
Impairments and provisions	5,181	16,325	31.7
Profit from ordinary operations	10,053	29,486	34.1
Corporate income tax	(1,802)	(5,456)	33.0
Net profit for the financial year	**8,251**	**24,030**	**34.3**

Impairments and provisions

The overall improvement in the credit ratings of performing debtors (the impact of favourable corporate performance in 2021) and new macroeconomic scenarios saw the Bank realise net income from the reversal of impairments and provisions of EUR 5,181 thousand in 2022 (2021: EUR 16,325 thousand).

Net income from the reversal of impairments amounted to EUR 4,972 thousand (2021: EUR 14,353 thousand), of which EUR 4,692 thousand was from loans measured at amortised cost, and EUR 274 thousand was from securities.

Net income from the reversal of provisions amounted to EUR 209 thousand (2021: EUR 1,972 thousand), of which EUR 398 thousand was from undrawn loans (2021: EUR 1,994 thousand), and EUR 82 thousand from guarantees (2021: EUR 107 thousand). Net expenses for provisions for pensions and jubilee benefits amounted to EUR 271 thousand (2021: EUR 129 thousand).

Committed to sustainable partnerships

Pipistrel d.o.o.

Ivo Boscarol

FOUNDER AND MANAGING DIRECTOR OF THE PIPISTREL GROUP

"At SID Bank we have found a partner that understands that aviation is a specific industry with distinct fluctuations in income, along with extensive funding needs for development and product certification. They ensure fast processing without any drawn-out coordination and impossible conditions, and they make possible long-term business and significant social security for all our employees."

Petrol d.d.

Rosana Školaris

DIRECTOR OF TREASURY OPERATIONS

"SID Bank has been our partner for a number of years, because they offer us high-quality services and enable us to cover occasional fluctuations and increased requirements for outflows, and they cooperate in our policy of investing in development and sustainability-oriented projects."

Eles d.o.o.

Darko Kramar

ASSISTANT DIRECTOR OF OPERATIONS

"At ELES we are all about collaboration. We establish partnerships and enhance them in terms of business, research and innovation. In the years of our cooperation, SID Bank and its team of outstanding experts have shown that they understand the weight and importance of ELES projects."

RIKO d.o.o.

Janez Škrabec

MANAGING DIRECTOR

"At Riko we recognise SID Bank as our strategic partner. Through its banking products and services we are more effectively and successfully fulfilling our ambitions and presence in foreign markets. With SID Bank products we can prepare for our customers a comprehensive range, from technical solutions to project financing, and in this way we can provide for the closed financial construction of a project, and at the same time ease up the entire process for the customer."

Jezeršek d.o.o.

Martin Jezeršek

MANAGING DIRECTOR

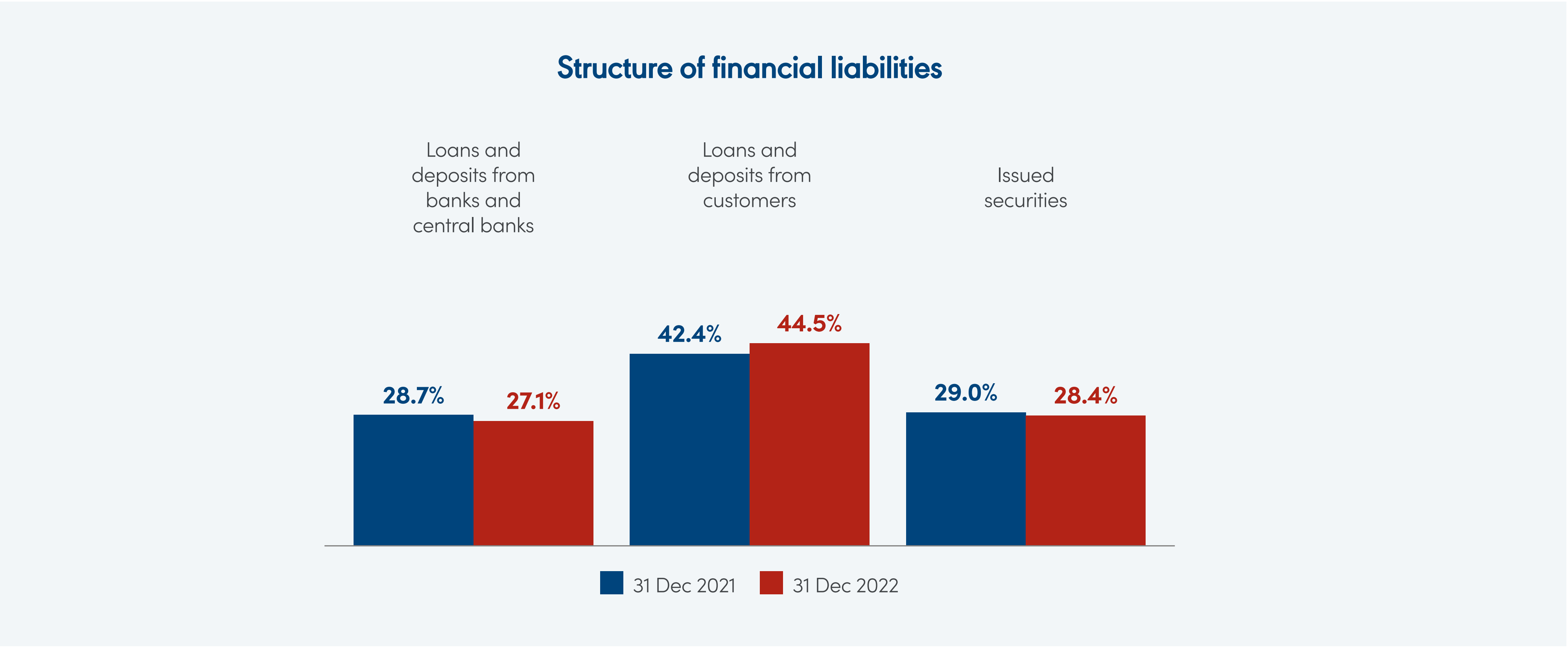
"The company Jezeršek Catering chose SID Bank due to the possibility of obtaining specific-purpose loans and good terms, which were vital for maintaining company liquidity during the COVID crisis. Understanding the situation and the responsiveness of partners in given situations is vitally important for the success and operation of the company, where the choice of SID Bank has proven to be the right decision."

Overview of Performance by Segment

FUNDING AND LIQUIDITY

Funding

SID Bank secures funding on the domestic and international financial markets backed by a Slovenian government guarantee. In the process of securing funding it pursues the adequate diversification, primarily in terms of the type and geographic diversity of the investors and the class of financial instruments, which provides it with stable access to mostly long-term funding. Accordingly, SID Bank again worked actively with banks and other institutional investors in the domestic and international environment in 2022. Given its sufficient liquidity, and the long-term structure of its funding, SID Bank did not undertake additional borrowing on domestic or international capital markets in 2022.



To create added value for target groups of final beneficiaries, and to improve their access to favourable long-term financing, SID Bank also includes in its credit lines and programmes long-term purpose-specific funding received from development institutions European Investment Bank (EIB), Council of Europe Development Bank (CEB) and Kreditanstalt für Wiederaufbau (KfW), and from the Ministry of the Economy, Tourism and Sport (METS)[6] and the Ministry of Infrastructure (MoI). SID Bank drew down EUR 40 million in purpose-specific funding from development institutions in 2022 (EUR 20 million from the EIB, and EUR 20 million from the CEB). SID Bank signed a new contract on long-term borrowing in the amount of EUR 50 million with the CEB for financing infrastructure projects of local government and public funds. It also drew down EUR 36.5 million of purpose-specific funding from the MEDT in 2022 for the direct implementation of existing financial instruments of the fund of funds.

The stock of financial liabilities measured at amortised cost amounted to EUR 2,329,090 thousand at the end of 2022 (2021: EUR 2,332,797 thousand). Loans and deposits by banks and central banks amounted to EUR 630,675 thousand (2021: EUR 667,859 thousand), loans and deposits by non-bank customers to EUR 1,034,941 thousand (2021: EUR 987,512 thousand) and debt securities to EUR 660,465 thousand (2021: EUR 675,479 thousand). In terms of residual maturity the financial liabilities are primarily non-current: around 20% of these have a residual maturity of up to 12 months, around 45% a residual maturity of 12 months to 5 years, and around 35% a residual maturity of more than 5 years.

In 2023 SID Bank is planning to strengthen its cooperation with banks and other institutional investors, and also to undertake new long-term borrowing on the international capital markets depending on the suitability of the market conditions. In addition, SID Bank will draw down long-term dedicated funding from development institutions for the purposes of financing infrastructure projects by local government and public funds. Under the Act Determining the Aid to the Economy to Mitigate the Impact of the Energy Crisis (ZPGOPEK), SID Bank will draw down new long-term funding at the METS during the activation of the loan funds for increasing liquidity in the economy.

[6] The MEDT was reorganised in January 2023, and renamed the Ministry of the Economy, Tourism and Sport.

Liquid assets

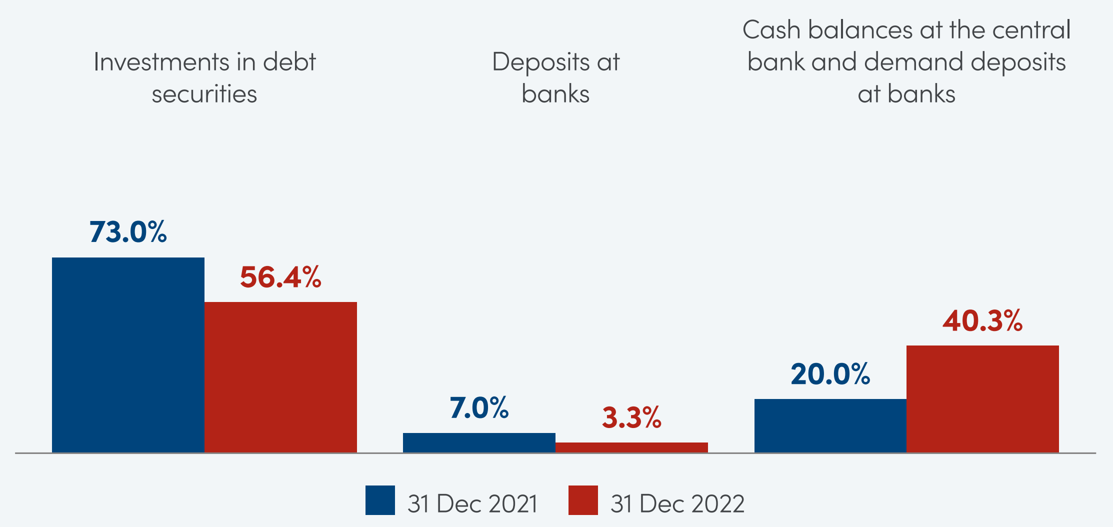
The conditions for managing liquid assets were challenging in 2022, primarily on account of the volatility on the financial markets in connection with the war in Ukraine, the high inflationary pressures, and the rising pace of the move away from accommodative monetary policy. The rise in market interest rates and credit spreads resulted in a negative revaluation of the portfolio of debt securities measured at fair value through other comprehensive income. At the same time the improved terms for remuneration of balances at the central bank and for reinvestments in debt securities had a favourable impact on interest income.

SID Bank maintained an appropriate level, quality and structure of liquid assets in 2022 for covering its expected and unexpected liquidity outflows, and for ensuring business continuity in challenging conditions. The structure of liquid assets shifted in 2022 following an increase in balances at the central bank, and a decline in holdings of debt securities and bank deposits. With the aim of reducing the volatility of other comprehensive income, there was an increase in the share of the portfolio accounted for by debt securities measured at amortised cost.

Liquid assets amounted to EUR 1,026,332 thousand at the end of 2022 (2021: EUR 1,090,765 thousand). The largest component of liquid assets at the end of 2022 was holdings of debt securities in the amount of EUR 578,411 thousand (2021: EUR 796,197 thousand), of which EUR 507,271 thousand or 87.7% comprised debt securities measured at fair value through other comprehensive income and EUR 71,140 thousand or 12.3% comprised debt securities measured at amortised cost. Balances at the central bank and sight deposits at banks amounted to EUR 413,628 thousand (2021: EUR 218,126 thousand), while other bank deposits amounted to EUR 34,293 thousand (2021: EUR 76,442 thousand). The Bank's liquid assets at the end of 2022 included liquid assets in the account of the loan funds in the amount of EUR 265,650 thousand (2021: EUR 213,950 thousand), where holdings of debt securities measured at fair value through other comprehensive income amounted to EUR 18,078 thousand (2021: EUR 56,381 thousand), and balances at the central bank and sight deposits at banks to EUR 247,572 thousand (2021: EUR 157,569 thousand).

In investing liquid assets in debt securities, the Bank follows a conservative and prudent strategy, as the majority of the portfolio comprises marketable and liquid debt securities with an investment-grade credit rating issued in the EU that are eligible as collateral at the central bank, thereby ensuring adequate diversification with regard to the type and residency of the issuer. Around 64% of the entire debt securities portfolio is accounted for by government debt securities, securities backed by guarantees of EU Member States, and securities of international organisations and multilateral development banks, while debt securities issued by financial corporations accounted for 19% and debt securities issued by non-financial corporations for 17%. The average residual maturity of the debt securities portfolio was 3.5 years at the end of 2022 (2021: 3.9 years).

Structure of liquid assets



Green bonds and sustainability bonds are given priority in the investments in new debt securities. The Bank does not make new investments in debt securities from the fossil fuels sector in accordance with the CPRS (*Climate policy relevant sectors*) classification. The proportion of the entire portfolio of debt securities accounted for by green bonds and sustainability bonds was 10.5% at the end of 2022 (2021: 9.3%).

The volatility on the financial markets is expected to continue in 2023, for which reason SID Bank will continue to implement a conservative and prudent strategy for managing liquid assets in the future, where the primary aim is ensuring liquidity and security.

FINANCING

Net loans amounted to EUR 1,692,224 thousand at the end of 2022, similar to the figure a year earlier (2021: EUR 1,692,025 thousand), with an increase in the proportion of direct financing.

Financing is carried out with established and new instruments tailored to actual needs. It is based on purpose-specific long-term loans to commercial banks, direct loans to corporates classified as state aid (primarily in the form of financial engineering instruments) or without such classification, syndicated loans, loans to local government and the wider public sector, export credits, project financing, the purchase of receivables, debt accession and other forms of risk take-up, and financial instruments via SID Bank's funds of funds that are implemented indirectly via financial intermediaries or directly via SID Bank (FI 2014-2020 Fund of Funds and COVID-19 Fund of Funds). SID Bank tailors the scope of and approach to its financing to the identified market gaps, the market needs and the activity of other financial institutions.

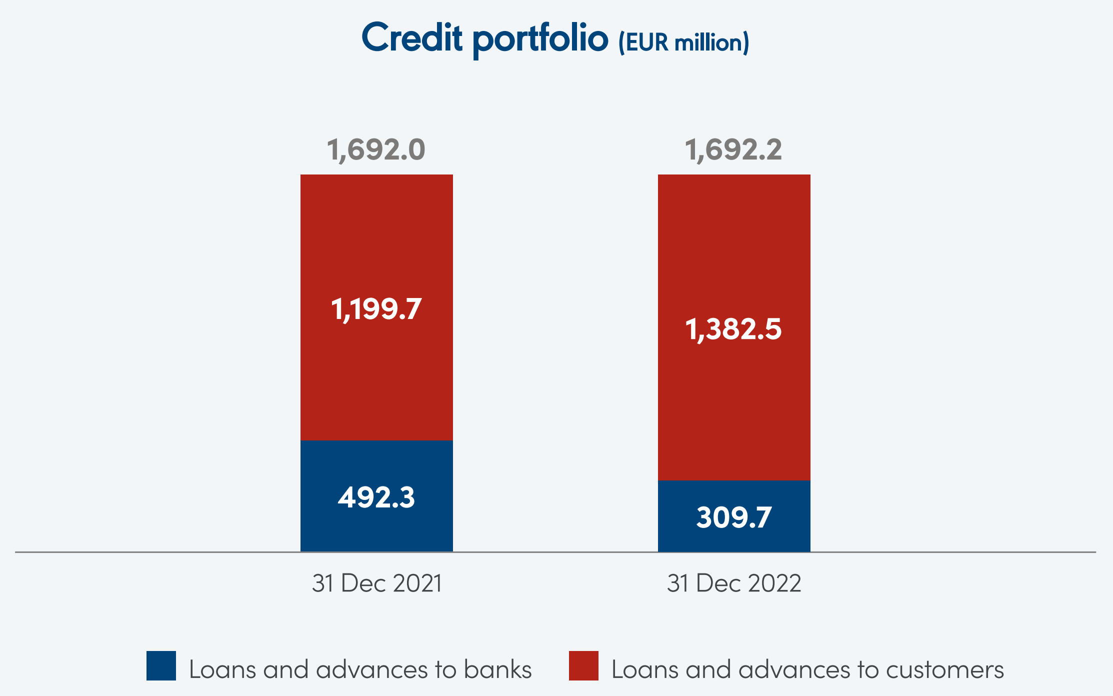
The need to address the impact of the Covid-19 pandemic, the war in Ukraine and energy crisis meant that in 2022 SID Bank continued to play its intervention role and provided anti-crisis financing, in parallel with its development activities to support the growth of the economy. The range of financing programmes within the framework of financial engineering was augmented by direct and indirect financing from own funds, which was also reflected in an increase in the number of customers.

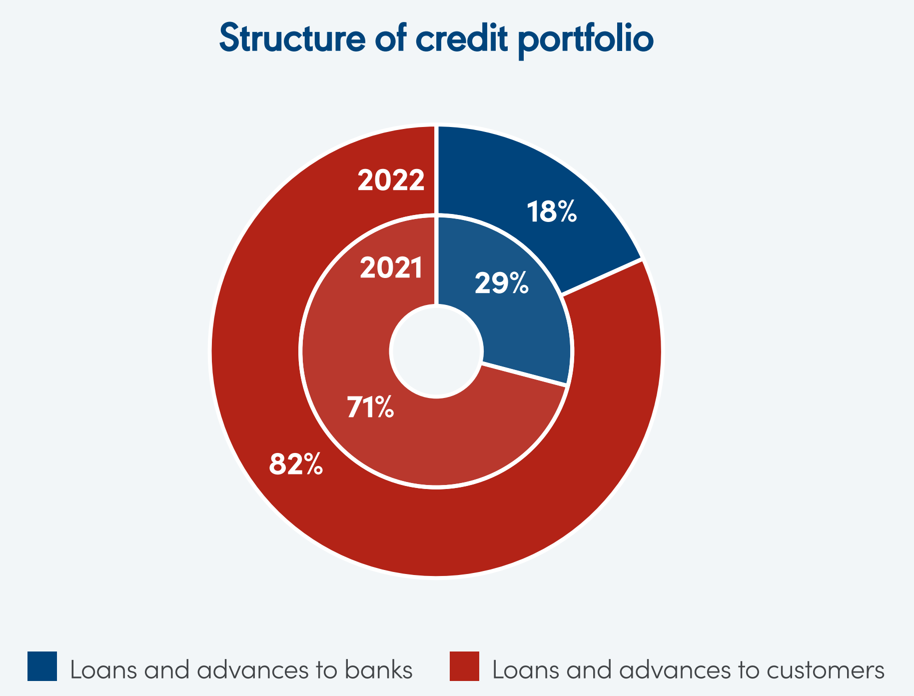
The Bank also strengthened its financing of technological development projects, and its involvement in the creation and implementation of investment projects and infrastructure projects and investments, and also participated in projects focusing on the circular economy, environmental protection and energy efficiency.

Through purpose-specific financing via commercial banks and savings banks, it allowed the use of adjusted terms for indirect financing programmes to meet the needs of the economy during the pandemic, and thus facilitated the quicker and simpler provision of funds to companies. SID Bank further upgraded its offering of long-term financing for final beneficiaries via commercial banks in 2022, with a state aid element. In collaboration with the MEDT, SID Bank continued the implementation of the existing FI 2014-2020 Fund of Funds and the COVID-19 Fund of Funds established in 2020, with a focus on financing investments in the area of research, development and innovation, and on corporate liquidity financing to mitigate the impact of the pandemic.

In its anti-crisis and development role, SID Bank concluded 210 direct financing and indirect financing transactions with financial institutions in 2022 in the total amount of EUR 394 million.

In 2022 SID Bank granted loans in the amount of EUR 447.4 million directly, via co-financing with commercial banks, and via intermediary banks. The number of SID Bank customers increased by 10%, and 11% of customers are new.





The maturity breakdown of SID Bank's credit portfolio reflects its focus on activities under the ZSIRB and the ZZFMGP, and programmes that reflect its intervention and countercyclical role. Nearly all loans are of a long-term nature with a variable interest rate.

There were 1,099 final beneficiaries financed indirectly via commercial banks and savings banks, and 1,021 borrowers financed directly by the Bank as at 31 December 2022. The funds were earmarked primarily for job preservation and creation, financing of current operations mainly at SMEs (particularly in connection with the ongoing implementation of the intervention role and anti-crisis financing), the internationalisation of business, the promotion of investments, research, development and innovation, infrastructure (education, utilities, etc.), energy efficiency, renewable energy, the reduction of pollution and increased environmental protection.

According to the primary purpose, the development of economic competitiveness accounted for 77% of new loans in terms of total value, regional development for 16%, the development of a knowledge society and innovative enterprise for 6%, and the development of an environment-friendly society for 1%.

In terms of corporate size, a total of 16 large enterprises received financing in the amount of EUR 235.2 million, 317 SMEs received financing in the amount of EUR 163.9 million, 35 sole traders received financing in the amount of EUR 4.8 million, and 19 other entities, of which 14 were municipalities, received financing in the amount of EUR 42.3 million in 2022.

In the regional breakdown of loans approved in 2022 for borrowers established in Slovenia, borrowers from Central Slovenia accounted for the largest proportion (49%), followed by borrowers from Savinjska (17%), Gorenjska (8%), the Coastal-Karst region (6%) and other regions (20%).

Companies in the manufacturing sector were prevalent among borrowers in 2022 (30% of new loans in terms of value), followed by companies in wholesale and retail trade and repair of motor vehicles and motorcycles (24%), electricity, gas, steam and air conditioning supply (20%), public administration (9%), transportation and storage (5%), construction (4%) and other service activities.

Indirect financing

Loans

Loans to commercial banks and savings banks accounted for 18% of SID Bank's credit portfolio at the end of 2022 (2021: 29%), of which 84% comprised loans to Slovenian banks, and 16% loans to foreign banks to finance Slovenian export business. Their stock amounted to EUR 309,697 thousand, down 37.1% on the end of 2021, primarily in reflection of:

- the situation on the financial markets, with high liquidity (high stock of deposits), and the resulting diminished need for new funding and early repayments,
- a focus on intensifying the use of funds already available at the intermediary banks and savings banks,
- the parallel utilisation of instruments within the framework of the financial programmes available as part of the implementation of the FI 2014-2020 Fund of Funds and the COVID-19 Fund of Funds.

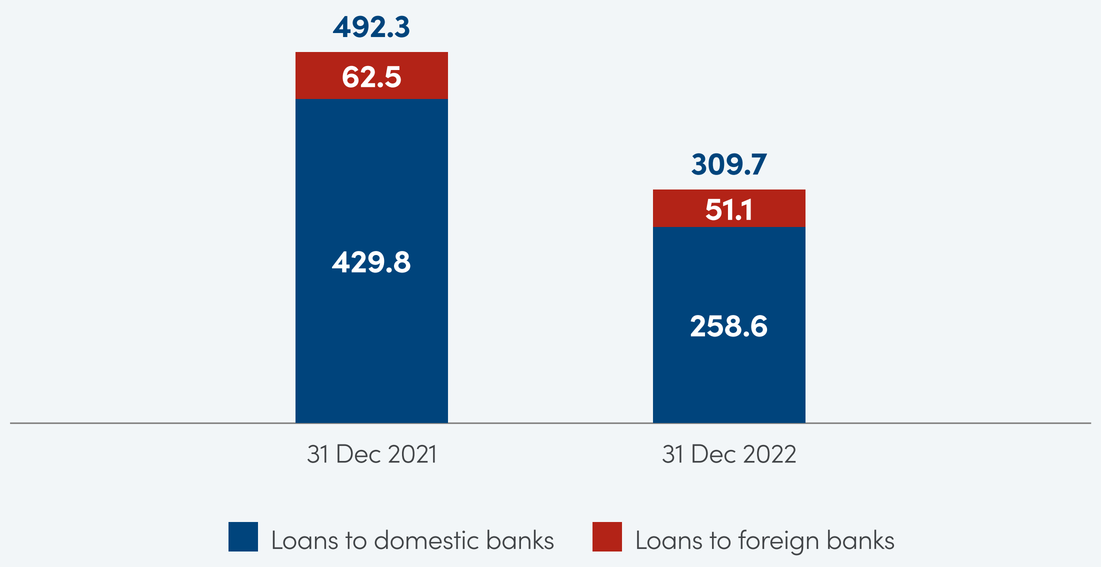
A significant proportion of financing of final beneficiaries (sole traders, cooperatives, SMEs, mid-caps, large enterprises and municipalities) is being carried out on the basis of long-term purpose-specific financing via commercial banks and savings banks. The latter in the role of intermediaries thus remain the most important partners in the financing of final beneficiaries, but public funds may also be involved in intermediation. Here SID Bank combines and ensures the benefits of financing are transferred on the basis of long-term borrowing at development institutions and other funding, which is augmented by the provision of additional services to financial intermediaries aimed at further strengthening its role as the central public financial institution for promoting economic development.

SID Bank continued to enhance its cooperation with commercial banks and savings banks in 2022 which, having regard for the regulatory framework, included the adjustment and optimisation of the existing range of products and services, the simplification of implementation, and the strengthening of administrative-technical support for financial intermediaries aimed at digitalisation, marketing activities, etc. Based on its strategic policies and a toolkit of measures for adjusting the business model for operations via commercial banks and savings banks, SID Bank's activities in 2022 focused on the development of new approaches to mediating funds backed by the government via commercial banks and savings banks, and a broad range of products whose purpose is in line with the ZSIRB.

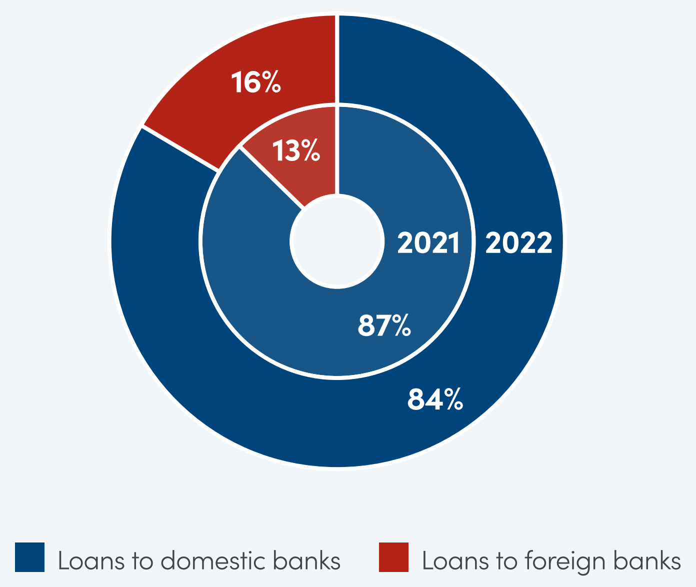
The adjustment of financial instruments will continue to have a significant impact on the preservation and stimulation of the placement of SID Bank funds via commercial banks and savings banks, especially in terms of its role as the operator of the funds of funds, the instruments within the funds of funds and the provision of financial engineering instruments, where significant emphasis will be placed on financing projects in the area of the green economy and digitalisation. The functioning of both funds of funds via financial intermediaries is becoming an increasingly important approach in the segment of indirect financing.

Despite the ongoing high liquidity in the banking market, albeit with the terms for accessing favourable long-term funding consistently worsening at the same time, in 2023 SID Bank will provide long-term funding with state aid, and will also expand the range of products where the emphasis is on risk take-up.

Loans and advances to banks (EUR million)



Structure of loans and advances to banks



Slovenian Equity Growth Investment Programme (SEGIP)

By the end of 2022, five years after the establishment of the 15-year SEGIP, two-thirds of the funds from the SEGIP (approximately EUR 68 million of the EUR 100 million in available funds; the EIF and SID Bank each contributing EUR 50 million of that amount) had been allocated to investments in the form of firm commitments. Commitments were given to private equity funds, which then invest in companies over a four- to five-year period, or directly to Slovenian companies via co-investment activities.

50 million SEGIP funds were made available to newly-established Slovenian private equity funds (for the purpose of capacity building in Slovenia). The entire EUR 50 million has already been committed to two funds registered in Slovenia, which are managed by two alternative investment fund financial intermediaries registered in Slovenia, namely ALFI PE d.o.o. and Generali Investments d.o.o. The two funds mobilised additional EUR 85 million in commitments from private investors alongside the aforementioned EUR 50 million from SEGIP. By the end of 2022 the two funds invested EUR 94 million in Slovenian companies in the form of equity , of which EUR 67 million represents investor contributions via the two funds and EUR 27 million of borrowing from Slovenian commercial banks.

Financial leverage is also provided via other SEGIP investments. As part of the co-financing activities, Slovenian companies had been recapitalised in the amount of EUR 11 million by the end of 2022 (of which SID Bank accounted for EUR 3.9 million).

With regard to investment in foreign private equity funds, a commitment was given to contribute to a private equity fund based in Luxembourg in the amount of EUR 10 million for the purpose of equity financing for Slovenian companies (EIF and SID Bank each contributing EUR 5 million).

Direct financing

Loans

Loans to non-bank customers amounted to EUR 1,382,527 thousand at the end of 2022, up 15.2% on 2021. The proportion of the credit portfolio that they account for increased by 11 percentage points over the course of the year to 82%.

The direct financing of non-bank customers is carried out independently via purpose-specific financial engineering products, via funds of funds where SID Bank is a direct provider, from own funds, and via various forms of co-financing with commercial banks. Other forms of direct financing include export credits, local government financing, project financing, debt accession, and the purchase of receivables.

The largest category within direct lending to corporates and other customers in 2022 was independent financing and financing within the framework of financial engineering measures, which was intended primarily for financing:

- the operations of companies hit by the Covid-19 pandemic, rising energy prices, and the Ukraine crisis;
- investments that contribute to the transition to a circular economy;
- technological development projects;
- investments and working capital in the forestry and wood processing chain; and
- companies in road transport.

In addition to purpose-specific lines, a significant proportion of direct financing was accounted for by the co-financing of major investment and infrastructure projects, green and circular economy projects, and operations within the framework of anti-crisis financing.

The continued development and implementation of direct financing programmes will be based on the needs of the economy, the gaps, and the supplementation of the portfolios of commercial banks and public funds, particularly from the perspective of the Bank's development role for an easier, faster transition to a digital, green and circular economy.

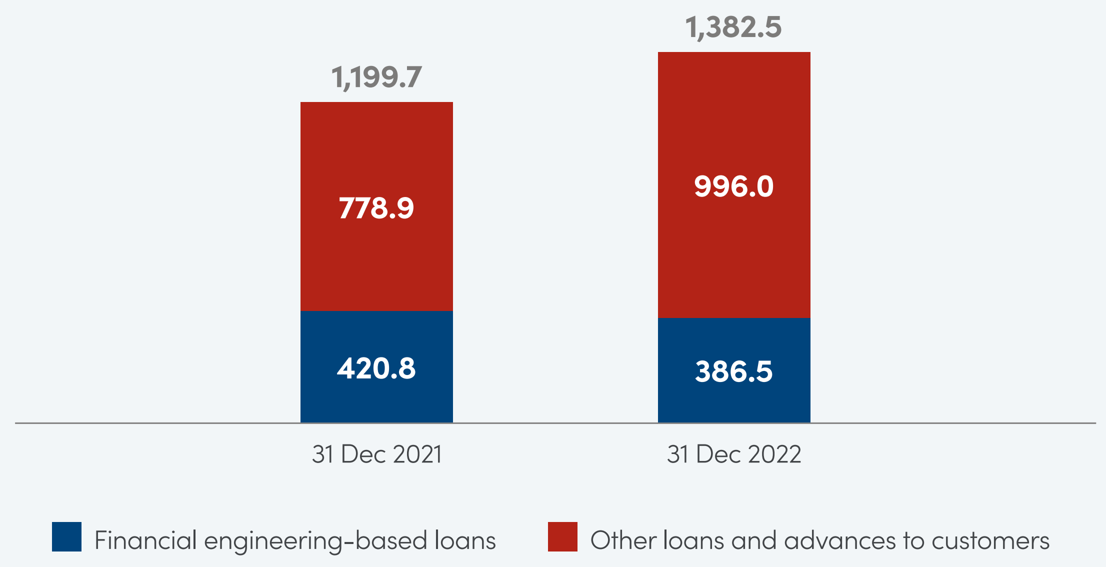
Products based on financial engineering from state budget funds and SID Bank's own funds

For the implementation of financial measures of national and European public policies, SID Bank provides a set of financial instruments that are based on own and refundable funds, budget funds and other favourable funding, and for which state aid schemes (under the Temporary Framework for State Aid measures to support the economy in the current COVID-19 outbreak, the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia, and the General Block Exemption Regulation [GBER] and *de minimis* aid) were notified.

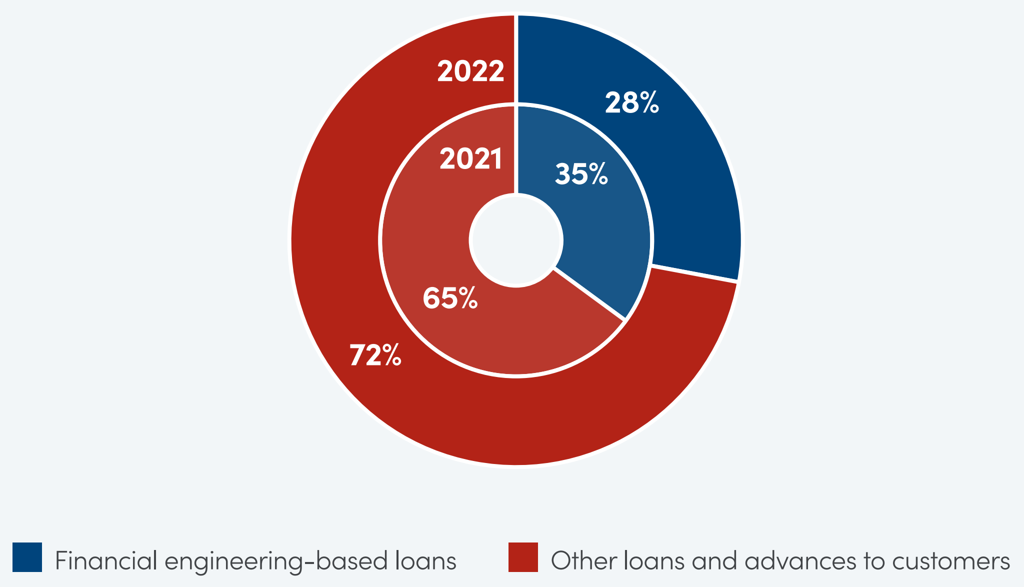
As part of the implementation of financial engineering measures in which the METS and the MoI participate, SID Bank provides long-term funding for financing micro, small and medium-sized enterprises and large enterprises, as well as cooperatives and corporate development projects, which was the most important direct financing instrument in 2022.

In 2022 there were five programmes whose funds could be obtained by companies directly from SID Bank:

Loans and advances to customers (EUR million)



Structure of loans and advances to customers



- 'MSP 7': a programme for financing the operations and capitalisation of SMEs based on the principle of favourable long-term loans of six to twelve years with a grace period of half of the loan maturity and a loan amount of EUR 100 thousand to EUR 5 million. In addition to the typical development effects in terms of target areas (long-term financing of working capital), the main purpose of the product is to enable companies with low capital adequacy to improve the maturity structure of their debt, to gradually strengthen their capital position and to introduce a (new) business model with good prospects. The programme enabled granting of loans under the state aid scheme (*de minimis*).

- 'NALOŽBE 3': a programme for financing investments that contribute to the transition to a circular economy, which is earmarked for financing investments in property, plant and equipment and intangible assets in Slovenia, with a loan amount of EUR 100 thousand to EUR 10 million with a maturity of three to twenty years, with a maximum grace period of half of the loan maturity, but no more than five years. Using loans of this type, companies can expand and technologically update their production and service capacities, thereby strengthening their competitiveness. The programme enabled granting of loans under two state aid schemes (*de minimis* and the Temporary Framework for State Aid measures to support the economy in the current COVID-19 outbreak).
- 'RRI 3': a programme for financing technological development projects in amounts of EUR 100 thousand to EUR 15 million, with a maturity of six to twelve years and a grace period that lasts for at least two years and for a maximum period of half of the loan maturity. Through this programme SID Bank financed research and development or investment projects with the aim of technological, procedural or organisational innovation; the loans could be granted in accordance with three types of state aid (*de minimis*, GBER, and the Temporary Framework for State Aid measures to support the economy in the current COVID-19 outbreak).
- 'LES 1': a programme for financing investments in the forestry and wood processing chain, which is earmarked for financing the construction of new plants or the technological modernisation of existing wood processing plants, new technological equipment for a new production process and the development or production of new wood products, and the financing of operating costs. Loan amounts range from EUR 100 thousand to EUR 5 million, with a loan maturity of two to twenty years, and a maximum grace period of half of the loan maturity, but no more than six years. The programme enabled granting of loans under the state aid scheme (*de minimis*).
- 'PROMET 1': a programme for financing economic operators in the area of road transport, through loans in the amount of EUR 100 thousand to EUR 800 thousand for carriers affected by the Covid-19 pandemic with a maturity of six to eight years and a grace period of two years; the programme enabled granting of loans under the state aid scheme (the Temporary Framework for State Aid measures to support the economy in the current COVID 19 outbreak).

The aforementioned programmes generally contain elements of state aid that are reflected in favourable interest rates on loans. The weighted average maturity of all financial engineering loans was 11.5 years, while the weighted average premium over the reference rate was 1.66 percentage points.

The total net amount of loans granted from all financial engineering programmes amounted to EUR 386.3 million at the end of 2022. A total of 23 agreements were signed in the amount of EUR 33.9 million in 2022.

Granting of loans under the financial engineering programmes proceeded according to plan. The drawdown of certain long-term investment loans approved primarily under the 'NALOŽBE 3', 'RRI 3' and 'LES 1' programmes is normally conducted successively by long-term investments, which could also result in a multi-annual use of loans. In these cases, there is a delay in the distribution of the planned drawdown of loans.

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

Products using SID Bank's own funds

The implementation of financial engineering measures was augmented by the range of products and services provided from SID Bank's own funds, primarily via two programmes:

- 'OSN': a programme for financing companies of all sizes for working capital and investments. The programme facilitates the raising of loans in a minimum amount of EUR 100 thousand, a loan maturity of one to twenty years, with a grace period for up to half of the loan's maturity, but no more than five years. Loans can only be raised in accordance with two types of state aid (*de minimis* and the Temporary Framework for State Aid measures to support the economy in the current COVID-19 outbreak).
- 'OSN' with EGF guarantee: to promote the economic recovery SID Bank provided a programme in 2022 for financing companies of all sizes for working capital and investments with the option of utilising a guarantee from the EGF, a pan-European guarantee fund operated by the EIF, where the portfolio guarantee covers a part of losses, based on which SID Bank received a portfolio guarantee from the EIF in the amount of 70% of the value of the allocated loans. The EGF guarantee enabled loans to final beneficiaries who did not have the option of securing their loans though any other form of collateral. The programme provided for the financing of the liquidity needs of SMEs and mid-caps hit by the Covid-19 crisis, under favourable terms, where the minimum loan amount was EUR 100 thousand and the loan maturity was 1 to 12 years, with a grace period of up to half of the loan maturity but no more than five years. The main objective was preserving jobs and companies. For the borrowers the guarantee entailed state aid to promote the economy in the form of loan collateral on the basis of the scheme under the Pan-European Guarantee Fund in response to Covid-19. Loans could be raised in accordance with two types of state aid (*de minimis* and the Temporary Framework for State Aid measures to support the economy in the current COVID-19 outbreak). Under this programme SID Bank successfully expanded its palette of development and intervention loans, which was reflected in the interest from companies, particularly in easier access to financing.

The placement of loans backed by EGF guarantee began in August 2021 and ended in December 2022, when it was no longer possible to utilise EGF guarantees. By the end of 2022 SID Bank had entered into 151 contracts for financing investments and working capital with Slovenian companies backed by EGF guarantee in the total amount of EUR 102.4 million. This programme was one of the main products of direct financing from the Bank's own funds in 2022.

Direct implementation of the FI 2014-2020 Fund of Funds and COVID-19 Fund of Funds

In 2022 SID Bank picked up the pace of its activity within the framework of the FI 2014-2020 Fund of Funds and the COVID-19 Fund of Funds, with the aim of responding effectively to the impact of the Covid-19 pandemic, and thus by October all the conditions for drawing down the fourth and final tranche of cohesion funds under the FI 2014-2020 Fund of Funds in December 2022 had been met. SID Bank directly implemented three financial instruments within the framework of the FI 2014-2020 Fund of Funds, in the form of ECP loans for RDI (available ECP funds totalling EUR 20.8 million), ECP loans for the comprehensive energy renovation of public-sector buildings (available ECP funds totalling EUR 6.5 million) and ECP loans for urban development (available ECP funds totalling EUR 4.9 million), and ECP loans for RDI/Covid-19 within the framework of the COVID-19 Fund of Funds (available ECP funds totalling EUR 5 million). The main delays in the otherwise successful direct implementation of the funds of funds in 2022 related to the financial instrument of the ECP loans for the comprehensive energy renovation of public-sector buildings and the financial instrument of the ECP portfolio guarantees for RDI for SMEs, primarily as a result of constraints on the purpose of the product, and also as a result of the wide availability of grants for these purposes. Another factor in the area of RDI was the war in Ukraine and the energy crisis, which slowed the pace of investment projects.

Financing of municipalities and public sector entities

In 2022 SID Bank embarked on changes to its programme for financing public-sector entities, by allowing the use of favourable funding from the CEB and the EIB on this programme, which it supplemented with its own funds. SID Bank approved 21 loans in 2022 for financing and co-financing investments by local government in public infrastructure. A total of EUR 44 million was drawn down on the basis of the credit agreements entered into, with repayment terms of between 10 and 25 years. SID Bank continued its development of the programme, and its expansion into other public-sector entities in frameworks outside state aid.

Export financing

Export financing in 2022 was profoundly affected by the events in Ukraine and the resulting sanctions against Russia and Belarus. The financing of certain projects in the aforementioned countries came to an end and all new credit operations were terminated. SID Bank used other financial products to mitigate the damage to the affected exporters.

SID Bank continued to provide favourable financing to foreign buyers of Slovenian goods and services in other markets, thereby contributing to the competitiveness of these goods and services, and supported the internationalisation of Slovenian companies through long-term financing of their investments abroad.

The risks, the geopolitical situation and the restrictive measures in markets that represented one of the focuses of export financing, strengthened the Bank's efforts and activities in the area of financing market opening and supporting Slovenian companies in their expansion into new markets, in line with the identified trends (deglobalisation, geopolitical polarisation, inflation changes, onshoring, etc.).

Project financing and advisory support

SID Bank continued to pursue its advisory support and project financing activities in 2022. Via the project and export financing department, it focuses its advisory services on solving one of the key challenges in the area of project implementation, namely faster, more effective preparation. This includes the systematic review of the market, the identification of potential investors and the provision of the necessary advisory and technical support. The Bank monitors projects and their development over the entire cycle, from the identification of the project until the phase in which projects can be financially structured and thus bankable.

In its role as the European Commission's implementing partner the Bank promoted Transport Alternative Fuels Infrastructure Facility. The instrument offers grants for projects related to electricity recharging stations, hydrogen refuelling stations and LNG refuelling stations.

Other direct financing

By using long-term funding, particularly in co-financing with other banks, but also independently, SID Bank complements the range of services of commercial banks in all areas for which it can provide support in accordance with the ZSIRB, in particular in the areas of energy efficiency, the circular economy, environmental protection, promotion of the internationalisation of companies, competitiveness, employment, technological development, research and innovation, and the provision of housing for vulnerable groups. It employs various financing instruments, such as syndicated loans, independent direct financing, the purchase of receivables, debt accession and other forms of risk take-up, and project financing.

In order to improve the logistics, utilities and other commercial and public infrastructure in Slovenia, SID Bank financed investments in this type of infrastructure, in collaboration with commercial banks or independently, and thus contributed to more balanced and faster regional development.

Corporate performance was also hit hard in 2022 by the war in Ukraine, with companies affected directly or indirectly by the severe economic disruption. The Russian military aggression against Ukraine, the sanctions imposed by the EU and its international partners, and the economic counter-measures put in place by Russia have increased the need for liquidity financing for companies on account of the sharp rise in operating costs. In light of the extraordinary situation, SID Bank took countercyclical measures to aid the economy at multiple levels in 2022, providing the necessary liquidity to the economy via independent direct financing or via syndicated lending.

The energy crisis, which began in the summer of 2021 and worsened with the outbreak of the war in Ukraine, and has brought a sharp rise in energy prices, peaked in 2022 and paralysed the wholesale energy markets. The existing situation reduced access to energy products on the wholesale markets, gave rise to extreme market and financial risk, and threatened to disrupt the supply to final consumers (households, industry) in Slovenia at economically viable terms. SID Bank acted systematically to ensure that companies in the relevant sectors had the necessary liquidity, thereby helping to reduce risks in the supply chain to final customers.

OPERATIONS UNDER REPUBLIC OF SLOVENIA AUTHORISATION

Insurance against non-marketable risks

SID Bank, as an authorised institution, insures/reinsures in the name and on behalf of the Republic of Slovenia those commercial and non-commercial or political (non-marketable) risks that, due to their nature and level of risk, the private sector in general is not willing to take up or has limited capacity to take up.

With the end of the COVID-19 epidemic, the global economy is facing even greater uncertainties, the outbreak of war in Ukraine and its worrying consequences for economic operators being at the forefront of these uncertainties. It is estimated that the EU economies will be among those most affected. Slovenia will not be able to avoid negative consequences of the war, as EU countries are the most important economic partners of the Slovenian economy. Eastern Europe is also an important market for Slovenia, where trade connections have been significantly limited due to the war and the existing economic measures against Russia and Belarus. Slovenia's traditional markets in the area of the former Yugoslavia are also economically predominantly gravitating towards the EU area and will consequently also suffer negative consequences for the above-mentioned reasons; Slovenian economic operators doing business in these countries will also be affected indirectly.

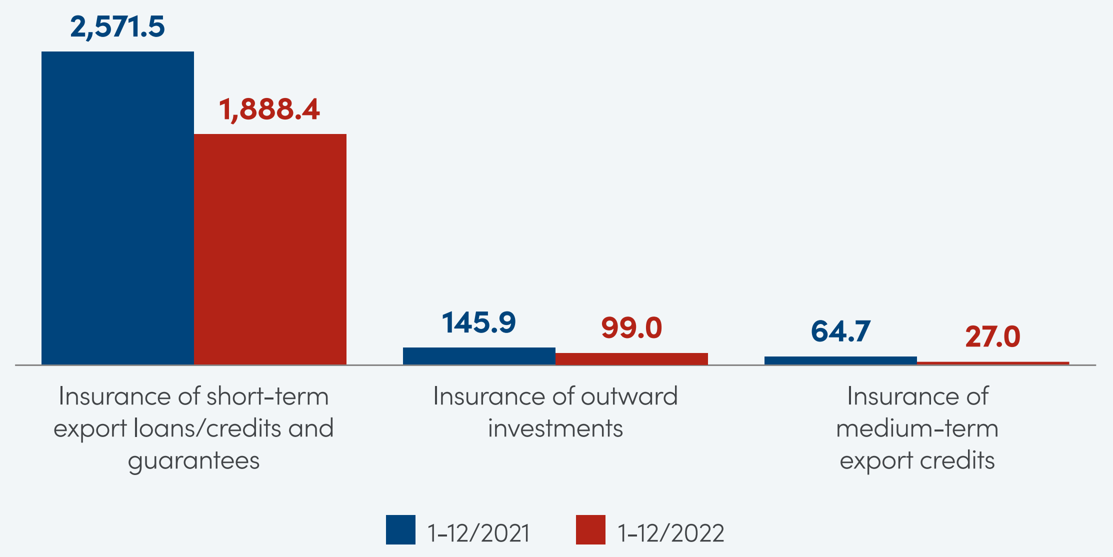
In such a situation, Slovenian companies will be looking for new customers in the countries that have not been affected by the war in Ukraine. As a result, SID Bank's services will be particularly important to provide exporters with appropriate insurance instruments to facilitate and secure the market shift required by the changed business environment.

Volume of insurance operations

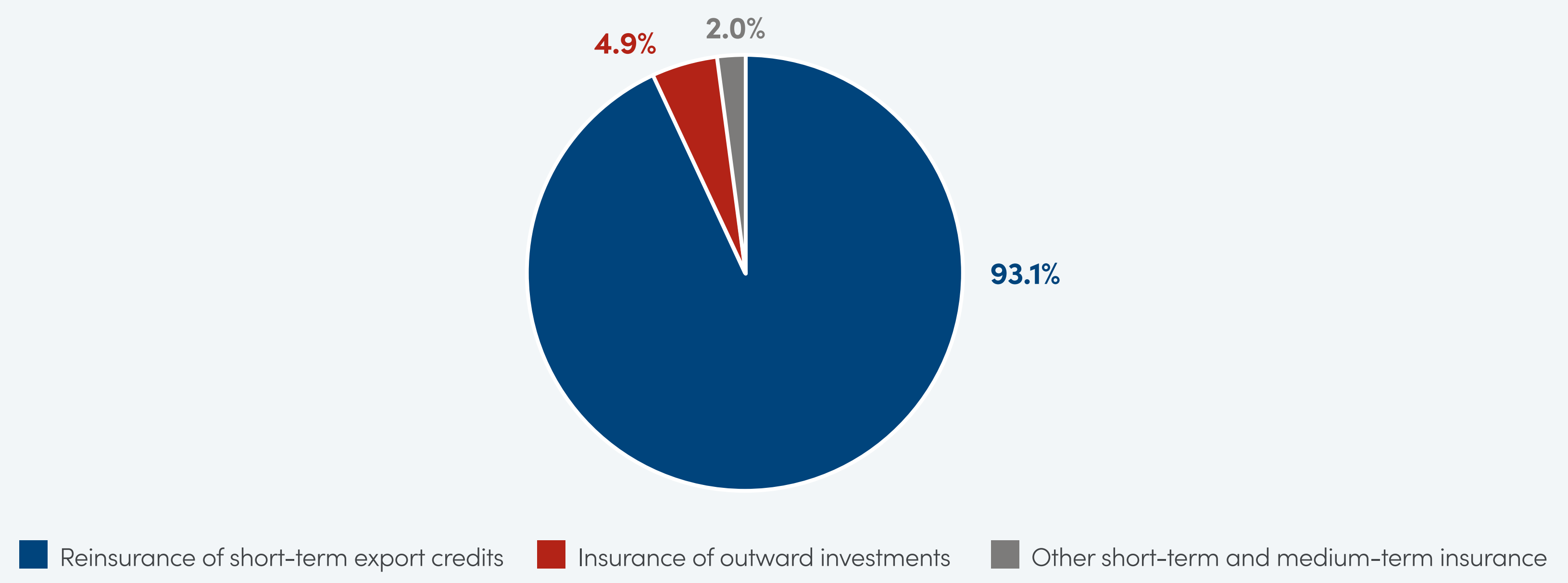
The volume of operations amounted to EUR 2,014,457 thousand in 2022, a decrease of 27.6% relative to the previous year. Smaller volumes were the consequence of the expiry of the measure introduced by the European Commission during the pandemic, by which it declared all export credits as non-marketable regardless of their maturity and country of debtor. To this end, SID Bank set up a "top up" reinsurance programme which could be used by interested credit insurance companies. The measure was in place until 31 March 2022. The outbreak of war in Ukraine and the related imposition of economic sanctions against Russia and Belarus further contributed to the reduction of insurance volumes. As a consequence, the insurance policy towards customers from Ukraine was closed, while the policy towards Russian and Belarusian customers remained open solely for humanitarian and pharmaceutical goods. As these Eastern European countries accounted for a large share of insurance operations structure, this measure had a significant impact on the level of insurance volumes.

The realised volume of insurance operations in 2022 reached 11.6% of the maximum value of newly assumed annual obligations as defined in the ZZFMGP. Reinsurance of short-term export credits accounted for the largest proportion of the volume of insurance and reinsurance operations at 93.1% (renewable insurance of short-term non-marketable risks), followed by insurance of outward investments (4.9%), while the remainder was accounted for by other short-term and medium-term insurance.

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



Volume of (re)insurance operations



There was no significant change in the breakdown of insurance by country. The largest proportion in 2022 was still related to the insurance operations in Russia (24.6%), followed by Serbia (11.1%), Bosnia and Herzegovina (7.5%), Turkey (5.2%), Germany (5.1%), Croatia (5.0%), North Macedonia (3.4%) and Ukraine, Italy and Uzbekistan (2.5% each). Other countries have less than 2.5% each.

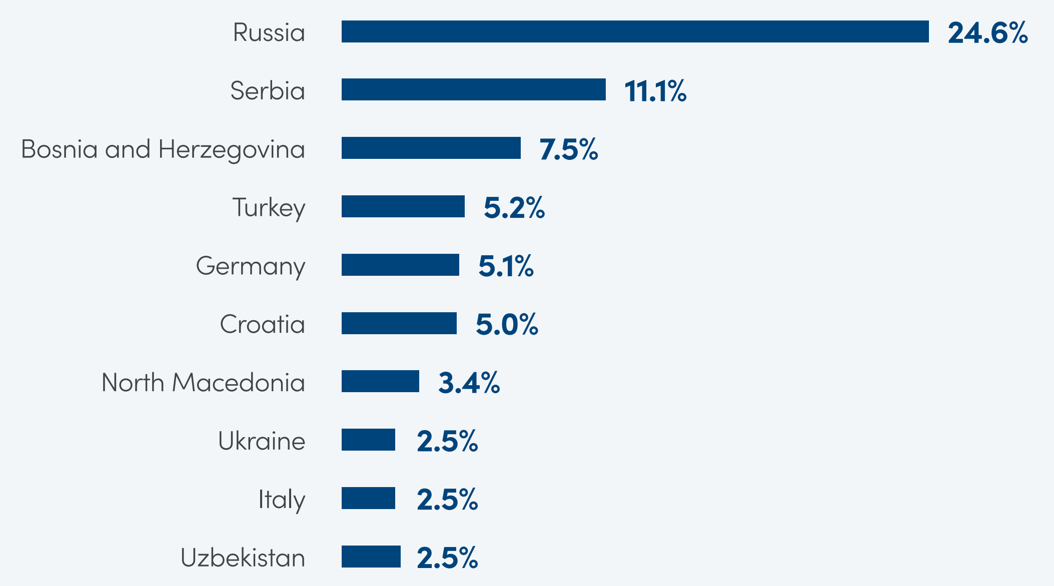
Following the imposition of economic sanctions, only short-term receivables reinsurance services for humanitarian and pharmaceutical goods were provided to Russian customers. The countries of the former Yugoslavia are considered traditional markets for Slovenian exporters, which is the reason for high insurance volumes of insurance against customers from these countries. Export transactions with short maturities were predominant.

Exposure

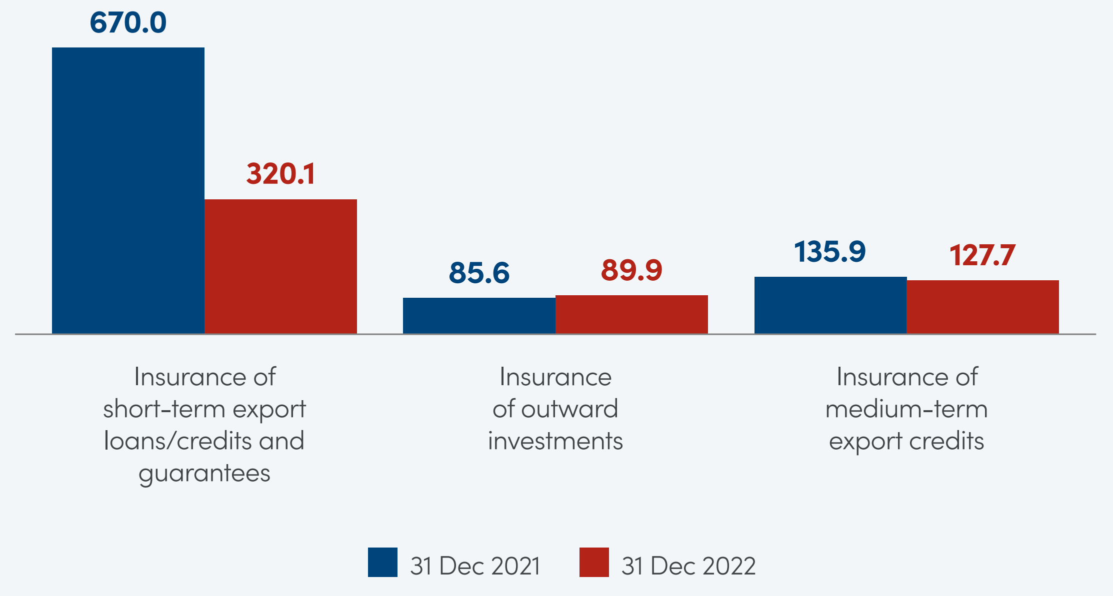
Exposure from current insurance policies amounted to EUR 535,634 thousand at the end of 2022. In accordance with the ZZFMGP, the exposure under binding insurance commitments made was added to this, which amounted to EUR 2,101 thousand. Total exposure from insurance operations underwritten on behalf of the state and from firm insurance commitments issued amounted to EUR 537,735 thousand, a decrease of 39.7% relative to the end of 2021.

The amount of the exposure is 25.1% of the limit defined in the Implementation of the Republic of Slovenia Budget for 2022 and 2023 Act (ZIPRS) and 1.0% of the limit as defined in the ZZFMGP. In 2022, the largest exposures in the insurance portfolio were to customers in Russia, Serbia, Belarus, Croatia, Bosnia and Herzegovina, Turkey, North Macedonia, Uzbekistan, Ukraine and Ghana.

Insurance operations, by country



Exposure by type of insurance (EUR million)



Other insurance-technical provisions

Premiums and commissions from insurance against non-marketable risks amounted to EUR 3,655 thousand in 2022, a decrease of 47.3% relative to 2021. Lower insurance premium compared to the previous year is mainly the consequence of a decrease in insurance volumes and partly also the changed structure of insurance operations. In 2022, the structure of insurances written was strongly dominated by short-term transactions, while the volume of medium-term operations was significantly smaller than in the previous year. The premium rates for short-term insurance are lower than those for medium-term insurance, and consequently premiums are also lower.

In the structure of premiums paid, the largest share is accounted for by premiums on (re)insured short-term export credits, followed by premiums on investment insurance, premiums on medium-term bank guarantees, premiums on short- and medium-term export preparation loans and premiums on short-term credits and bank guarantees.

Income from processing fees is negligible because SID Bank includes the processing fees for promises issued for individual export operations or investments in the premium in accordance with its business policy and current price lists.

Claims paid amounted to EUR 1,624 thousand in 2022, an increase relative to the previous year (2021: EUR 512 thousand). Twelve minor claims from the reinsurance of short-term credits were paid out and the last part of the balance on a non-shareholder loan claim, while the remainder arises from the cost of recovering claims already paid out in previous years.

Claims under consideration (claims filed) amounted to EUR 855 thousand as at 31 December 2022, a decrease of EUR 559 thousand relative to the end of 2021.

The value of potential claims in 2022 reached EUR 4,049 thousand, an increase of EUR 3,644 thousand over the previous year. It primarily arises from insured medium-term operations and, to a lesser extent, from reinsured short-term credits.

The insurance technical result in 2022 amounted to EUR 1,332 thousand (2021: EUR 5,993 thousand). The surplus of income over expenses amounted to EUR 1,859 thousand (2021: EUR 6,753 thousand).

Contingency reserves

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

Contingency reserves were up by EUR 1,859 thousand in 2022 relative to the previous year as a result of a positive operating result and reached EUR 174,869 thousand at the end of the year.

Increase in contingency reserves by

EUR 1.9 million

amounts in EUR thousand	31 Dec 2022 or Jan-Dec/2022	31 Dec 2021 or Jan-Dec/2021	Index 2022/2021
Premiums and commissions	3,655	7,720	47.3
Potential claims	4,049	405	1,000.4
Claims under consideration	855	1,414	60.4
Claims paid	(1,624)	(512)	316.9
Recourse	404	17	2,434.3
Insurance technical result	**1,332**	**5,993**	**22.2**
Investment income	527	760	69.3
Surplus of income over expenses	**1,859**	**6,753**	**27.5**

Operations from insurance against non-marketable risks by type of insurance

Insurance of short-term export loans/credits and guarantees

Short-term insurance in the reinsurance and insurance of export credits, guarantees and export preparation amounted to EUR 1,888,411 thousand in 2022, which is 26.6% less than in the previous year. The majority of short-term insurance relates to the reinsurance of short-term revolving export credits on the basis of reinsurance contracts that SID Bank has signed with Coface Slovenija and Zavarovalnica Triglav. Only a small proportion relates to insurance of individual export transactions.

The realised volume of short-term insurance in 2022 is mainly related to export operations in Russia, Serbia, Bosnia and Herzegovina, Turkey, Germany, Ukraine, North Macedonia, Italy, Romania and Croatia. The value of insured export operations vis-à-vis debtors from other countries was lower. Exposure from these operations, including commitments, stood at EUR 320,129 thousand at the end of 2022, down 52.2% on the previous year (2021: EUR 670,040 thousand). Such significant reduction is the consequence of the war in Ukraine and the related change in the policy of the insurance of limits against customers in Ukraine, Belarus and Russia. The cancellation of limit coverage for customers in temporarily non-marketable markets (EU and OECD) due to the “top up” measure, which expired on 31 March 2022, also contributed to the decrease in exposure.

The volume of short-term insurance operations in 2022 was followed by realised insurance premium, which was down by 25.4% to stand at EUR 3,095 thousand.

The volume of (re)insured business is projected to be lower in 2023 than in 2022, since the cover for export operations to EU and OECD countries is no longer in force. Due to continued war in Ukraine, economic sanctions against Russia and Belarus are expected to intensify further and the export policies for the risks of these countries will thus be very restrictive.

Insurance of medium-term export credits

The largest proportion of insured medium-term export credits, bank guarantees and export preparation loans in 2022 related to exports of communications and other electrical devices, tools and machinery, engineering and technical consultancy services, and construction. Most of the medium-term transactions were concluded to insure receivables due from customers in Uzbekistan, Croatia, Spain, Rwanda, Kazakhstan, Turkey, Germany and the Netherlands. The stock of insured medium-term export credits is subject to major fluctuations from year to year, due to the small number of annually implemented projects and their size.

The volume of insurance operations realised for medium-term export transactions in 2022 was down on the previous year and stood at EUR 27,018 thousand (2021: EUR 64,663 thousand).

The export financing product is useful for exporters, but is also increasingly recognised by the market and buyers, who are more and more often making purchases conditional on the combination of financing. While exporters would prefer simpler forms of insurance or contractual partner financing, the market and the supply of competing providers are pushing them to consider selling their products in a bundle with export financing. This applies in particular to new buyers in African and Asian markets.

As at 31 December 2022, exposure from the insurance of medium-term export credits, bank guarantees and loans for the preparation for exports (concluded insurance policies and commitments) amounted to EUR 127,713 thousand, with Belarus prevailing among countries in terms of exposure with a 51.1% share.

Premiums from this insurance amounted to EUR 373 thousand in 2022. The suspension of the drawdown of a loan to a foreign customer in Ukraine, resulted in subsequent refunding of a premium of EUR 391 thousand to the insured, which generated a cumulative negative insurance premium of EUR 18 thousand. The claims paid amount to EUR 142 and are entirely attributable to recovery costs.

Despite reduced exposure by existing countries due to economic sanctions against Russian and Belarusian public customers and the withdrawal of Slovenian companies from long-term projects due to the war in Ukraine, it is foreseen that Slovenian exporters will try to partially compensate the loss of business in these markets by realising transactions in the Middle East, Africa and possibly the former Yugoslavia.

By the end of 2023, exposure arising from medium-term business insurance is expected to increase, mainly based on the value of new transactions planned.

Insurance of outward investments

The volume of insured outward investments reached EUR 99,028 thousand in 2022, down 32.1% on the previous year. Newly insured outward investments and renewals of investments insured in previous years are included among the stock of insurance contracts.

Exposure from investment insurance amounted to EUR 89,893 thousand at the end of 2022, up 5.1% on the end of the previous year. Insurance of non-shareholder loans accounts for the largest proportion of exposure. The current insurance arrangements are expiring in accordance with loan agreements and insurance policies.

Croatia accounts for the largest proportion of insured investments, followed by Serbia, the Netherlands, North Macedonia and Bosnia and Herzegovina. In 2022 premiums from investment insurance were up 7% on the previous year and stood at EUR 565 thousand.

In the future, Slovenian exporters will probably try to reorient themselves towards markets that will be less affected by the negative effects of the war. Entry into new markets can only be gradual and as a rule, activities do not start with the establishment of related companies/subsidiaries in these markets, but only follow when exporters have had some positive experience of operating in new markets.

On the basis of demand operations it can be assumed that the level of FDIs will increase moderately in 2023, mainly as a result of the insuring long-term loans to foreign subsidiaries for the purpose of expanding their operations.

MANAGEMENT OF THE FI 2014–2020 FUND OF FUNDS AND COVID-19 FUND OF FUNDS

FI 2014–2020 Fund of Funds

In line with the objectives of the Operational Programme for the Implementation of the EU Cohesion Policy 2014–2020, under the aegis of the Fund of Funds, for which an agreement on funding in the amount of EUR 253 million in European cohesion policy funds was signed with the MEDT in 2017, SID Bank provides financial products that it will offer to Slovenian companies and municipalities via financial intermediaries (primarily commercial banks, savings banks and public funds). In 2022, the energy efficiency operation was downscaled by EUR 18 million and the last tranche of EUR 57 million of European Cohesion Policy funds was drawn; a total of EUR 234.7 million of ECP funds were drawn for the entire eligibility period by the end of 2022.

In addition to the funds from European cohesion policy, financial intermediaries must secure additional funding from other sources because of the leverage requirement. Given the requirement for the reuse of repaid EU cohesion policy funds, financial intermediaries will provide additional funds in the amount of around EUR 112 million collectively in the period concerned, which means that a total of more than EUR 346 million will be available to companies and other final beneficiaries within this financial framework.

More than

EUR 346 million

in total available to final beneficiaries

With the establishment of the Fund of Funds modelled after foreign practices, Slovenia also upgraded the utilisation of ECP funds geared towards facilitating refundable forms of financing that are significantly more effective than grants, primarily on account of higher leverage, multiplier effects and the possibility of reusing the ECP funds for further financing.

The financial instruments are designed in four areas where there are market gaps in financing:

- research, development and innovation,
- competitiveness of SMEs,
- public sector energy efficiency and
- urban development.

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

- the creation of instruments in areas of identified market gaps;
- attraction of private assets (required leverage);
- multiplier effects;
- the market appraisal of projects built into the process itself;
- better financial discipline and greater impact from supported projects;
- sustainable use or reuse of assets;
- the more effective allocation of government development funds;
- less possibilities for abusing the assets for other purposes.

The financial instruments of the Fund of Funds provide final beneficiaries with a range of benefits, in terms of capital and lower interest rates, and in terms of longer maturities of financing, reduced and/or zero collateral requirements, and longer moratorium periods. SID Bank as manager also provides financial intermediaries the necessary legal and administrative-technical support.

COVID-19 Fund of Funds

Together with the MEDT, SID Bank established the COVID-19 Fund of Funds in 2020 in the amount of EUR 65 million from European cohesion policy funds, with the aim of financing working capital in order to improve liquidity and facilitate the recovery of the economy, which was hit hard by the COVID-19 pandemic, and the financing of investments, research, development and innovation. All funds earmarked under the agreement concluded between SID Bank and the MEDT were successfully disbursed in 2020 and 2021.

Under the COVID-19 Fund of Funds, the Bank has developed and launched two products:

- micro loans from ECP funds in the amount of EUR 60 million to finance the required liquidity and investments of SMEs. Those loans are being provided by two financial intermediaries; and
- loans from ECP funds in the amount of EUR 5 million for research, development and innovation. Those loans are intended for companies of all sizes and are provided directly by SID Bank.

As of 31 December 2022, EUR 101.9 million was transferred to final beneficiaries from the COVID-19 Fund of Funds.

With the establishment and implementation of the COVID-19 Fund of Funds, SID Bank supplemented the range of measures for an effective response to the COVID-19 pandemic in a significant way, and contributed to the use of ECP funds.

In the scope of the implementation of financial instruments to date from both Funds of Funds, 8,201 transactions in the total amount of EUR 367.8 million were concluded via all financial intermediaries, including SID Bank, by the end of 2022.

PERFORMANCE OF THE FUNCTION OF OFFICIAL AUCTIONEER AT EMISSION ALLOWANCE AUCTIONS

Since 2020 SID Bank plays the role of official auctioneer as set out in Commission Delegated Regulation (EU) 2019/7 amending Regulation (EU) No 1031/2010 as regards the auctioning of 50 million unallocated allowances from the market stability reserve for the innovation fund.

Pursuant to the Environmental Protection Act, SID Bank continued its function as the official auctioneer of greenhouse gas emission allowances in the name of and for the account of the Republic of Slovenia in 2022 in accordance with Commission Regulation (EU) No 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community, as amended by Commission Regulation (EU) 1210/2011.

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

The Bank participated in 142 auctions as an official auctioneer of emission allowances in 2022, at which a total of 2,137,500 allowance units were sold. The consideration amounted to EUR 170,460 thousand. Five auctions for EU aviation allowances were also held in 2022. A total of 4,500 units were sold for consideration of EUR 366 thousand.

HOUSING GUARANTEE SCHEME FOR YOUNG PEOPLE, GUARANTEE SCHEMES UNDER THE 2020 INTERVENTION MEASURES AND OTHER GUARANTEE SCHEMES

Housing Guarantee Scheme for Young Persons

In 2022, SID Bank was authorised under the Act on the Housing Guarantee Scheme for Young People (the ZSJSM) to carry out, on behalf and for the account of the Republic of Slovenia, all operations related to the issuance, monitoring, redemption and recovery of guarantees, as well as the supervision of the dedicated use of loans insured by a guarantee under the Act, on the basis of the banks' reports. The mandate also includes the public announcement by SID Bank of invitations to banks to submit bids for the allocation of guarantee quotas, to assess the bids received after the expiry of the deadline for bids submission for the allocation of guarantee quotas in terms of their compliance with the conditions and criteria set out in the Act, the Regulation and the published invitation, and sign a contract on the allocation of the guarantee quota with the selected banks on behalf and for the account of the Republic of Slovenia. The total amount of the guarantee quotas within the guarantee scheme under the Act is EUR 300 million per year, renewable annually in this amount until 31 December 2032 at the latest.

In 2022, activities related to the new Housing Guarantee Scheme were carried out in the areas of setting up the organisational, IT and technical conditions at the Bank for performing operations under the mandate and establishing the basis for reporting by banks, as well as cooperating with the Ministry of Finance in the creation of the implementing regulatory provisions.

In 2022, SID Bank carried out the necessary activities under the above-mentioned mandate, related to the publication of the first invitation to banks to submit bids for the allocation of guarantee quotas and in August 2022, based on successful bids, allocated guarantee quotas totalling EUR 28 million to two banks and one savings bank (hereinafter: the banks). The banks started marketing loans guaranteed under the ZSJSM in November 2022, and none of them had yet granted a housing loan with government guarantee by the end of the year.

Guarantee schemes based on intervention measures in 2020

SID Bank continued to carry out guarantee scheme activities also in 2022 in accordance with the legal authorisations under the fifth paragraph of Article 65 of the ZIUZEOP and fourth paragraph of Article 7 of the ZDLGPE.

Activities of both guarantee schemes continued in 2022 in the area of monitoring the banks' reports on the outstanding balances of deferred credit obligations in the guarantee scheme under Article 65 of the ZIUZEOP and the outstanding balances of liquidity loans under the ZDLGPE, the processing of the banks' requests for the redemption of the government guarantee for the outstanding credit obligations of borrowers, substantive verification of the fulfilment of conditions for the redemption of government's guarantee and compliance of the concluded loan agreements with the legislation, which SID Bank performs within one month following the payment of the guarantee under the ZDLGPE or within six months following the payment of the guarantee under the ZIUZEOP. SID Bank reported on all activities and data collected to the Ministry of Finance and charged guarantee premiums to banks for loans included in the ZDLGPE scheme on behalf and for the account of the State.

Banks reported outstanding balance of loans at the end of 2022 for a further 108 of total 118 registered loan agreements in 2020 and 2021 secured by a government guarantee under the ZDLGPE. The outstanding balance of unpaid loan principals amounted to EUR 42.9 million at the end of 2022, taking into account the share of a guarantee coverage of 80% (for loans approved to SMEs) or 70% (for loans to large enterprises) government's exposure to these loans amounted to EUR 31.5 million. A total of 96.0% of the residual value of all liquidity loans in the guarantee scheme under the ZDLGPE concluded in 2020 and 2021 fall due for payment in 2025 and 2026.

With the expiry of the final deadline for the redemption of the government guarantee at the end of 2022 and thus a potential guarantee obligation of the Republic of Slovenia, the banks' obligation to report the outstanding balances of deferrals under the ZIUOPOK registered to the guarantee scheme under Article 65 of the ZIUZEOP was also terminated at the end of the year.

In 2022, SID Bank received two requests from banks for the redemption of the government guarantee under the ZDLGPE, which were paid out to the bank, and seven requests for the payment of a guarantee under Article 65 of ZIUZEOP, of which four met the legal conditions for the payment.

SID Bank carried out a substantive detailed verification of the fulfilment of statutory and regulatory conditions for the redemption of guarantees and the compliance of the concluded annexes or loan agreements with the legislation in the area of guarantee schemes for all the guarantees of the Republic of Slovenia paid in 2022 under Article 65 of ZIUZEOP and under ZDLGPE, within legal period of six months (applicable in accordance with ZIUZEOP) and one month (applicable in accordance with ZDLGPE) following the payment of a guarantee to the commercial bank. The review of the banks' credit and other documentation did not reveal any irregularities or deviations from the statutory and/or regulatory conditions for the payment of the guarantee.

Other guarantee schemes

In line with its legal authorisations, in 2022 SID Bank again managed its recovery portfolio from acts governing guarantee schemes (the Republic of Slovenia Guarantee Scheme Act, the Republic of Slovenia Guarantee Scheme for Natural Persons Act). Activities carried out in 2022 under both schemes include the processing of applications for consent to contractual amendments, requests for the payment of guarantees, reporting to the Ministry of Finance, and the enforcement of recourse claims.

At the end of 2022, there was one loan agreement with a commercial bank active under the Republic of Slovenia Guarantee Scheme Act. For loans granted under the Republic of Slovenia Guarantee Scheme for Natural Persons Act, the number of loans outstanding at 31 December 2022 is 53 (2021: 58), while the total loan principal amounted to EUR 1.7 million (2021: EUR 2.1 million).

TRANSPARENCY OF FINANCIAL RELATIONS BETWEEN SID BANK AND THE REPUBLIC OF SLOVENIA

The table discloses SID Bank's total income and expenses for its individual activities pursued in 2022, including income for implementing the guarantee schemes (ZIUZEOP, ZDLGPE) in the previous periods. As the contract with the Republic of Slovenia for the guarantee schemes had not yet been concluded in 2021 and the amount of the fee had not yet been agreed, SID Bank included the income from their implementation in the income statement in 2022, when the amount of the fee was known and the contract was signed.

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

The income for an individual activity under Republic of Slovenia authorisation comprises the fees that SID Bank receives for pursuing a particular activity on the basis of contracts with the Republic of Slovenia or statutory powers. Costs comprise direct and indirect costs. The indirect costs for an individual activity are determined on the basis of criteria set out in the bylaw entitled Criteria for allocating indirect costs of activities under Republic of Slovenia authorisation.

Income calculated on this basis totals EUR 4,733 thousand and exceeds the costs of EUR 2,784 thousand by EUR 1,949 thousand.

Activity under the authorisation of the RS (amounts in EUR thousand)	Revenues	Costs
Insurance	1,740	(2,047)
Fund of Funds	1,522	(306)
Guarantee schemes (under the ZIUZEOP and ZDLGPE)	1,213	(155)
Housing Guarantee Scheme for Young People (ZSJSM)	228	(233)
Auctions of emission allowances	23	(22)
Other transactions under authorisation	7	(21)

Performance of Group Companies

PRVI FAKTOR GROUP

SID Bank acquired a 50% interest in the share capital and also half of the voting rights of the Prvi faktor, faktoring družba, d.o.o. Ljubljana (in liquidation) [hereinafter: Prvi faktor, Ljubljana (in liquidation) or company] in 2002. The other partner is Nova Ljubljanska banka d.d., Ljubljana (NLB).

The nominal value of SID Bank's interest in the company stood at EUR 1,584 thousand as at 31 December 2022.

The main activity of the company was the provision of factoring services. On 28 December 2016 the company's general meeting passed a decision to initiate regular voluntary liquidation proceedings, and to appoint the two previous directors as liquidators.

Iztok Zupanc and France Zupan were the company's liquidators in 2022.

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

- 100% holder of participating interest in the share capital of Prvi faktor, faktoring društvo, d.o.o., Zagreb (in liquidation) [hereinafter: Prvi faktor, Zagreb (in liquidation)]. Prvi faktor, Zagreb (in liquidation) has been undergoing regular liquidation proceedings since 31 December 2016. Its share capital amounted to EUR 2,583 thousand as at 31 December 2022. Its liquidator in 2022 was Vjekoslav Budimir.
- 90% holder of participating interest in the share capital of Prvi faktor, faktoring d.o.o., Belgrade (in liquidation) [hereinafter: Prvi faktor, Belgrade (in liquidation)]. Prvi faktor, Belgrade (in liquidation) has been undergoing regular liquidation proceedings since 3 August 2017. Its share capital amounts to EUR 2,550 thousand. With the conversion of cash and receivables of SID Bank and NLB into the equity of Prvi faktor, Belgrade (in liquidation) there was a change in ownership structure in July 2017, with both ultimate partners SID Bank and NLB each gaining a 5% direct interest in the equity of Prvi faktor, Belgrade (in liquidation). The liquidator of Prvi faktor, Belgrade (in liquidation) in 2022 was Željko Atanasković.

Orderly wind-down activities continued at the Prvi Faktor Group in 2022, where the focus was on liquidating the portfolio, cutting costs and setting limits on operations in accordance with the outlined plans. Further optimisation was carried out in parallel, the aim of which in addition to cutting costs was also to shorten the duration of portfolio liquidation proceedings.

Total assets at the consolidated level amounted to EUR 6,539 thousand as at 31 December 2022. In terms of total assets, the largest Group company is Prvi faktor, Belgrade (in liquidation) with total assets of EUR 3,416 thousand, followed by Prvi faktor, Zagreb (in liquidation) with total assets of EUR 3,316 thousand and Prvi faktor, Ljubljana (in liquidation) with total assets of EUR 1,346 thousand.

The Prvi Faktor Group ended 2022 with a net profit of EUR 857 thousand owing to the successful liquidation of its portfolio, to which Prvi faktor, Zagreb (in liquidation), generating EUR 679 thousand in net profit, contributed the most. That company was followed by Prvi faktor, Belgrade (in liquidation) with EUR 229 thousand in net profit, and Prvi faktor, Ljubljana (in liquidation) with EUR 51 thousand in loss. The loss generated at Prvi faktor, Ljubljana (in liquidation) is a result of the fact that revenues from recovery, considering the size of the portfolio, did not suffice to fully cover general and administrative costs. On the other hand, the focus of the company's liquidators was on the reduction of the costs of the entire Prvi Faktor Group, and on the supervision and coordination of the liquidators of the companies in Croatia and Serbia.

The Prvi Faktor Group disclosed positive equity in the amount of EUR 5,802 thousand.

CENTRE FOR INTERNATIONAL COOPERATION AND DEVELOPMENT

SID Bank is a co-founder of the Centre for International Cooperation and Development (hereinafter: CMSR or Centre) together with the Republic of Slovenia. On the basis of the International Development Cooperation and Humanitarian Aid of the Republic of Slovenia Act, the CMSR carries out technical and operational work in the field of international development cooperation (hereinafter: IDC), as well as macroeconomic, political and other analyses of sovereigns, assessments of country risk and publicity activities.

The CMSR's management bodies are its director and council. The CMSR is represented by acting director Mojca Kopše. The council had six members as at 31 December 2022. SID Bank's representatives on the council are Bojan Pecher, who is also deputy chair of the council, and Igor Jarc.

After two years of stagnation in the co-financing of new development projects by the Republic of Slovenia, on 27 January 2022 the Government of the Republic of Slovenia adopted a decision on the co-financing of six international development cooperation projects in 2022 and 2023 under the CMSR programme for the implementation of international development cooperation in 2020 and 2021. In April 2022, the CMSR signed an agreement to co-finance development projects with the Ministry of Finance (MF) and the Ministry of Foreign Affairs (MFA). By signing these two contracts, the increase in the fee and commission and the agreed advance payment of the fee and commission the conditions were created for the CMSR to weather the financial crisis and prepare a new programme for international development cooperation in 2023 and 2024. Three projects co-financed by the MEDT or after the reorganisation of the ministry the Ministry of Economy, Tourism and Sports, were the first that were included in the programme. Co-financing contracts were signed in early December 2022. The CMSR published an invitation to submit project proposals at the end of May 2022. By the end of September 2022, 58 project proposals had been received and evaluated in accordance with the CMSR's criteria for the evaluation of projects providing official development assistance. The 25 project proposals that met the threshold for inclusion in the CMSR funding programme according to the criteria were included by the CMSR as an addendum to the CMSR programme for the implementation of international development cooperation in 2022–2024 and sent to potential investors on 16 December 2022. At the end of January 2023, the Ministry of Foreign Affairs convened an interdepartmental meeting with the ministries that are potential co-investors in the CMSR projects. It was established at the meeting that the CMSR programme for the implementation of international development cooperation in the Republic of Slovenia in the period 2022–2024 was suitable for further consideration. The programme was discussed at the CMSR's council meeting on 13–14 February 2023 and will form the basis for the conclusion of co-financing agreements for development projects in the period 2023–2024 with various ministries.

Three employees (director, deputy director and assistant director) left the CMSR in the first half of 2022. The work of these employees was divided between the former head of the IDC unit, who became the acting director, and the IDC adviser, who also took on administrative tasks. In 2022, the CMSR did not recruit any new staff, but temporary solutions were needed to help with administrative tasks and later also tasks related to the preparation of the CMSR programme for the implementation of IDC. In 2022, the CMSR launched eight new projects and completed eight projects that were being carried out under previous co-financing agreements.

The operating results in 2022 indicate a surplus of income over expenses. In 2022, the CMSR generated higher income than planned due to the signing of new contracts with the MEDT and the successful completion of older IDC projects, while expenses were lower than planned due to the non-replacement of staff who left the CMSR. In terms of market activity, the CMSR also continued its cooperation with SID Bank in 2022 on the preparation of country risk assessments, surveys of companies, data processing, and the preparation of market gap analyses, and also continued its cooperation with the Ministry of Foreign Affairs in preparing the cost-of-living indices. In terms of legal analyses and publications, CMSR in 2022 continued its long-term cooperation with the public agency SPIRIT in the preparation of information about the legal regime in Slovenia (analysis of the economic and legal regime in Slovenia for the InvestSlovenia portal).

Risk Management

GENERAL

The main risks to which SID Bank is exposed are credit risk, interest rate risk, liquidity risk, profitability risk, currency risk, operational risk, strategic risk, capital risk and reputation risk. The risk management process additionally takes account of the specific attributes of the implementation of promotional and development tasks and services of importance to Slovenia's development, and segmentation of operations into those involving the Bank's own resources and those on behalf of and for the account of the Republic of Slovenia, including the management of the contingency reserves.

SID Bank emphasises the importance of a suitable internal risk management system being put in place at SID Bank and being based on:

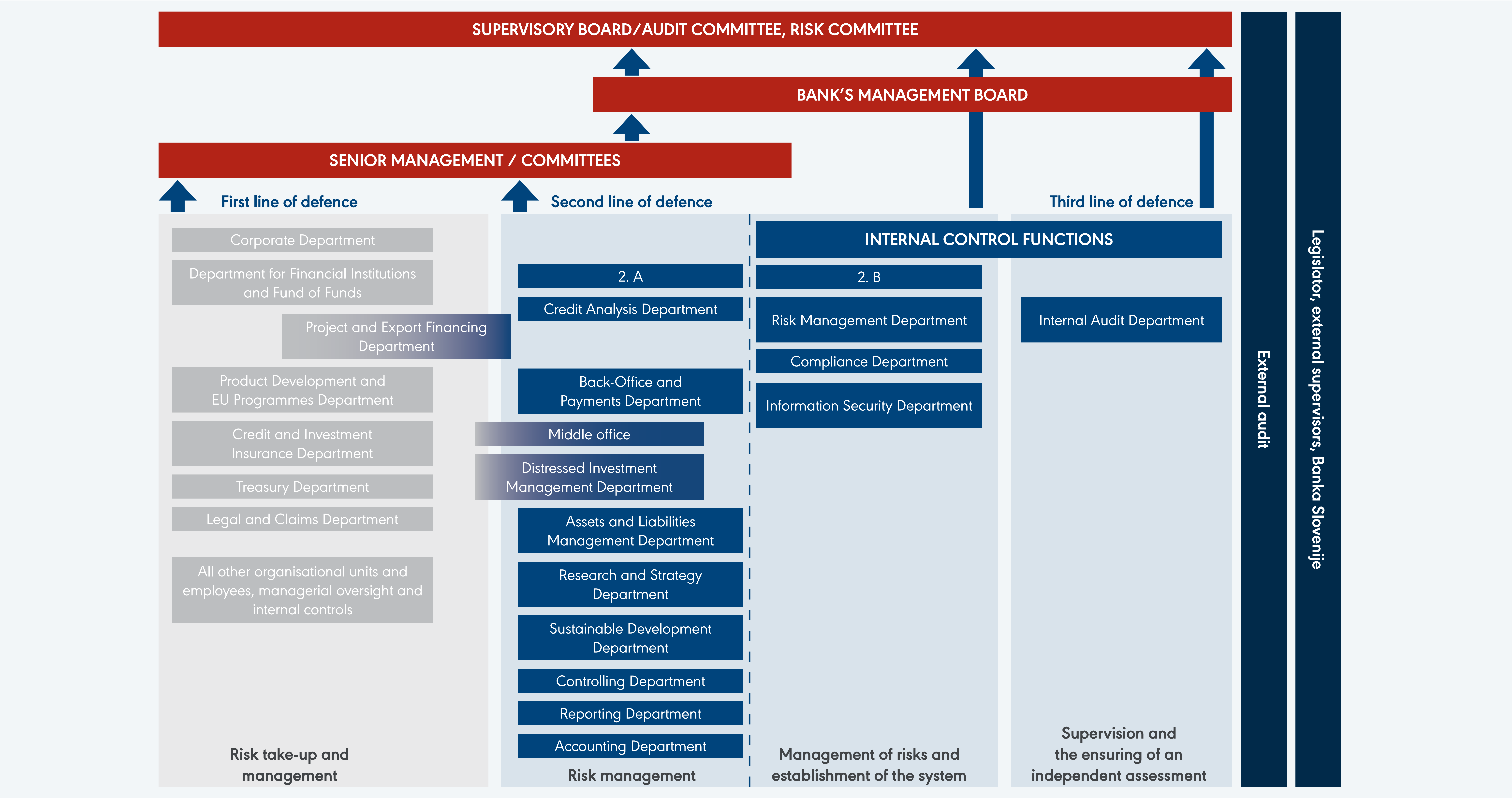
- an organisational structure with precisely defined relations with regard to responsibility that facilitates effective communication and cooperation at all organisational levels, including the adequate upward and downward flow of information;
- an effective risk management process that includes identifying,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

ORGANISATIONAL ASPECTS OF THE RISK MANAGEMENT PROCESS

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

Delineation of roles and responsibilities in the risk management process

SID Bank has an internal risk management framework in place in terms of the three lines of defence system, which enables the Bank to identify all (material) risks to which it is exposed and to more easily obtain assurance that its risk exposure is in compliance with its adopted risk appetite and other restrictions. The three lines of defence system, which by accurately defining the internal relations regarding accountability provides an assurance that the information collected about all known and new risks, the amount of risk exposure and adequate control environment is relevant and thus enables the management body (management board and supervisory board) and the Bank's other decision-making bodies to adopt suitable decisions.


SUPERVISORY BOARD/AUDIT COMMITTEE, RISK COMMITTEE
BANK'S MANAGEMENT BOARD
SENIOR MANAGEMENT / COMMITTEES
First line of defence
Second line of defence
Third line of defence
Corporate Department
Department for Financial Institutions and Fund of Funds
Project and Export Financing Department
Product Development and EU Programmes Department
Credit and Investment Insurance Department
Treasury Department
Legal and Claims Department
All other organisational units and employees, managerial oversight and internal controls
Risk take-up and management
2. A
Credit Analysis Department
Back-Office and Payments Department
Middle office
Distressed Investment Management Department
Assets and Liabilities Management Department
Research and Strategy Department
Sustainable Development Department
Controlling Department
Reporting Department
Accounting Department
Risk management
INTERNAL CONTROL FUNCTIONS
2. B
Risk Management Department
Compliance Department
Information Security Department
Management of risks and establishment of the system
Internal Audit Department
Supervision and the ensuring of an independent assessment
External audit
Legislator, external supervisors, Banka Slovenije

The **management body** is not a direct component of the lines of defence, but it plays a crucial role in the risk management system. The management body is authorised and responsible for balancing the Bank's business objectives and business strategy with the strategy and policies for taking up and managing risk, and for ensuring relatively effective internal governance arrangements taking into account the nature, scale and complexity of the risks inherent in the Bank's business model. SID Bank's management body is regularly informed of and discusses all types of identified risk to which the Bank is exposed. At the same time, it pursues and performs management and supervision through the introduction and implementation of comprehensive risk management systems in the Bank's operations, including the consideration of specific development risks, in accordance with the long-term governance objectives and the fundamental principles of SID Bank's activity. The management board and supervisory board are responsible for the assessment of the Bank's risk profile, determining risk appetite, regularly reviewing and approving the strategy and policy for taking up and managing the risks to which the Bank is or could be exposed in its operations, including risks from the macroeconomic environment in which the Bank operates, taking into account the current business cycle and stress testing. The risk management strategy and policies include guidelines on the take-up of risks, as well as procedures and tools for managing the risks. The risk management action plan is adopted by the Bank's management board with the consent of the supervisory board, following consultation with the supervisory board's risk committee.

Regular quarterly reports on performance, on risks and on movements on financial markets are produced to provide the management board and supervisory board with comprehensive information regarding risk management issues. Regular risk reports include detailed information on SID Bank's exposure to credit risk at the level of the entire credit portfolio, the monitoring of risk appetite, review of information on exposure to currency, liquidity, interest rate and operational risks, a report on the internal capital adequacy assessment process (ICAAP), and an assessment of future trends, with a view to informing the management body about the Bank's exposure to major risks. Once a year, the management body discusses and approves the results of the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP). The management body is also briefed on risk management in the context of the discussion and adoption of SID Bank's annual report. In addition, the Bank's management body is regularly briefed on and discusses the report on the engagement of external contractors (outsourcing). The management body discusses individual exposures or proposals to increase exposure requiring approvals from the management body, or in the event of any major changes in the risks identified in accordance with SID Bank's articles of association.

Roles and responsibilities of the supervisory board's working bodies relating to risk management

The supervisory board is assisted in performing its supervisory duties regarding risk management by the **risk committee**, which provides advice regarding the Bank's general risk appetite and risk management strategy, supervises senior management regarding the risk management strategy, and verifies whether risks are taken into account in the incentives within the scope of the remuneration system and whether the prices of the Bank's products are compatible with its business model and with the risk management strategy.

The **audit committee** is an advisory body of the supervisory board to which it directly reports, which in terms of risks and internal controls monitors the effectiveness and appropriateness of internal control quality and risk management and, where appropriate, the internal auditing functions connected with the Bank's financial reporting, without encroaching on its independence.

Roles and responsibilities of committees and senior management, which comprise a component of the risk management system

SID Bank's management board, comprising the president and member of the management board responsible for risks (CRO), appropriately transfers certain risk management powers to the Bank's decision-making bodies, the risk management function, and other organisational units. SID Bank has not set up a separate risk management committee. Risks are discussed by four committees at SID Bank, which are of key importance in the area of risk management: the asset-liability and liquidity management committee, the credit committee, the distressed investment management committee, and the sustainable development committee. Committees generally meet on a weekly basis, except for the sustainable development committee which meets at monthly meetings.

The **asset-liability and liquidity management committee** guides, supervises and monitors risk management at the aggregate level of the Bank. It is responsible for managing (balancing) liquidity and managing assets and liabilities in order to properly manage interest rate risk, market risk, operational risk, capital risk and profitability risk, as well as other risks, including the treatment of credit risk and various aspects of concentration of the entire credit portfolio of SID Bank, taking into account the Bank's business strategy and changes to individual categories of the Bank's balance sheet within ratios that are normal for comparable development banks. In addition, it discusses the reports on the Bank's exposure to risks, including the monitoring and assessment of stress testing results.

The criteria taken into consideration by the asset-liability and liquidity management committee in asset and liability management include capital adequacy, the profitability of operations and the performance of products/services. In addition, it is responsible for liquidity and asset-liability management as it relates to SID Bank's operations under Republic of Slovenia authorisation.

The **credit committee** is responsible for the management of credit risk for transactions in the name and on behalf of SID Bank, primarily by making decisions on proposals regarding individual transactions that affect exposure to credit risk. The committee monitors individual exposures and the quality of the credit portfolio, discusses the watch list and reports on the findings of periodic and in-depth monitoring, the fulfilment or non-fulfilment of financial and other contractual commitments, the issuing of reminders, recovery, the monitoring of collateral, and the impairment and provisioning rates for investment operations in the domain of the committee. It is also responsible for approving and modifying documentation during the introduction of new financing programmes and/or individual products, or during the modification of existing programmes and products.

The **distressed investment management committee** is responsible for the management of non-performing exposures under the care of the distressed investment management department, measures for the forbearance of exposures, and for the cancellation and termination of an investment transaction due to financial difficulties or other breaches of contractual commitments by a debtor. It is also responsible for handling warning lists under the responsibility of the distressed investment management department, reports on recoveries, collateral, (non-)fulfilment of financial and other contractual commitments applying to forborne transactions and other reports on the management and forbearance of investment operations under the responsibility of the distressed investment management department.

The **sustainable development committee** is responsible for guidance and integration of sustainable development into the operations of SID Bank. It makes decisions on proposals regarding the incorporation of sustainable development into the Bank's strategy and general objectives, the sustainable financing and credit protection policy, establishing qualitative and quantitative indicators for measuring the financing and credit protection contribution to SID Bank's climate and environmental sustainability objectives, the methodology for the assessment of ESG factors and the associated risks at the customer or portfolio segment level, excluded activities and activities in the processes of financing, credit protection and borrowing, and the classification of the portfolio according to critical climate-based activity in order to manage ESG risks.

The work of the committees is presented in detail in the section Information on the composition and functioning of management and supervisory bodies and their committees in the scope of the corporate governance statement.

Executive directors comprise SID Bank's senior management. They guide, coordinate and supervise the work of the directors of the departments that fall under their authority, and coordinate work with each other, make decisions in the scope of their powers, cooperate with the management board and take on individual management board tasks relating to the work of the departments for which they are responsible.

Three lines of defence

SID Bank put in place a concept of three lines of defence for the purpose of effective risk management, which is structured as follows:

- **The first line of defence** comprises organisational units, which take up risks. They are responsible for the management and control of risks in practice, carrying out business processes daily, taking into account the control measures and other imposed restrictions.
- **The second line of defence** comprises organisational units that manage risks and/or participate in the introduction and implementation of the risk management system. The second line of defence also creates a suitable framework and risk management methodologies, and monitors the risk profile and the effectiveness of controls at all organisational units in the first line of defence.
- **The third line of defence** independently supervises and assesses the established risk management system and the functioning of internal controls. It gives recommendations for improvements to processes, procedures and controls, and also verifies the compliance of the Bank's conduct with regulations and internal bylaws. It also reports regularly to the Bank's management board, audit committee and supervisory board on its work, its findings and progress in the implementation of recommendations.

Commercial departments operate in the scope of the first line of defence and identify risks in its business line. These departments are responsible for the implementation of the risk management strategy and policies and for risk management activities, as derived from policies managing particular types of risks.

Key risk management tasks include:

- alerting of potential increases in exposure;
- proposing measures for risk mitigation;
- proposing measures to modify the business policy in accordance with competences.

The second line of defence is broken down into two parts; the first part (2.A) comprises departments that are responsible for management, assessment, monitoring and reporting at the individual exposure level, while the second part (2.B) comprises three mandatory internal control functions, which are primarily responsible for risk management at the aggregate level and for putting in place the risk management system, i.e. risk management department, compliance department and information security department. These departments are organised as independent, autonomous units that are functionally and organisationally segregated from the Bank's other units, and report directly and are liable to the Bank's management board. The directors of these departments can communicate directly with the supervisory board and the supervisory board's advisory bodies (risk committee, audit committee, and the nomination and remuneration committee).

By developing methodologies for the assessment of credit risk the **credit analysis department**, in the scope of the risk management function, participates in the setting up and implementing the risk management system and the management of credit risk at the individual exposure level. It is responsible for the assessment of credit risks in connection with individual business entities and groups of connected clients, the assessment of investment projects that are not under the authority of the project and export financing department, and the assessment of their economic justification, the assessment of acceptability and the definition of the terms under which new investments are funded, the definition of financial commitments before investments are approved, the submission of opinions on an investment's acceptability in terms of a risk assessment, and cooperation in the oversight and implementation of monitoring in accordance with the internal instructions within the context of the credit process. In the scope of its position, a specialist collateral management reviews the appropriateness of the valuation reports for real estate.

The project and export financing department, in the scope of the risk management function, contributes to the establishment and implementation of the risk management system and the management of credit risk at the level of individual exposures through the formulation of rules for the assessment of investment projects. It is responsible for assessing projects in terms of their financial, social and economic justification, their financial framework and financial commitments. As of 1 January 2023, it operates as a first line of defence, with the credit analysis department taking over the assessment of credit risks, providing a final opinion on the acceptability of investments or projects.

The **middle office** participates in credit risk management at the individual exposure level in the scope of the risk management function. It is responsible for control activities in the credit process, the documentary and data monitoring of financing operations and the review of collateral, verification of terms for drawdown and the monitoring of debtors, and in changes to existing investment operations also for the drafting of credit proposals in accordance with bylaws. It is also responsible for the compilation of warning lists for the early detection of exposures with increased credit risk, the monitoring of credit protection and in-depth monitoring of debtors.

The **distressed investment management department** participates in credit risk management at the individual exposure level in the scope of the risk management function, being responsible for distressed investments, including the assessment of credit risk, the monitoring of the stock of these investments and the customers that fail to regularly fulfil their contractual obligations.

The **back-office and payments department** carries out the daily monitoring of currency risk, liquidity risk and credit risk in treasury operations in accordance with internally set limits. In addition, it also makes payments for SID Bank's needs and operations under the authorisation of the Republic of Slovenia. It also keeps analytical records of financing, borrowing and treasury operations, and participates in the implementation of guarantee schemes.

The **assets and liabilities management department** is responsible for the management of liquidity risk, interest rate risk and currency risk. It is also responsible for drafting proposals for assets and liabilities management and for the analysis and drafting of proposals regarding the optimal structure of SID Bank's financial sources, while also being involved in the drafting of proposals for the strategic planning of assets and liabilities, the development of models and methodologies for assets and liabilities management, and also in the development of new products.

The **sustainable development department** is responsible for the definition of strategies and development policies relating to sustainable development, including ESG factors and SID Bank's operations under Republic of Slovenia authorisation. It is also responsible for the drafting of methodologies to assess the sustainability effects of SID Bank's operations, products and programmes. It defines content relating to sustainable development in cooperation with the **research and strategy department**, which is also categorised in the second line of defence, in the scope of market gap analyses and the process of developing new products.

The **risk management department** is responsible for drafting the strategy and policies for taking up and managing the risks to which SID Bank is exposed in its operations. It is also responsible for the drafting of risk appetite, stress testing, identification of risks including the risk profile assessment, calculating the internal capital requirement and the required internal capital adequacy, drafting the plan of activities for the management of individual risks, assessing outsourcing risk and the risk of introducing new products, and, in conjunction with the assets and liabilities management department, implementing the internal liquidity adequacy assessment process. The risk management department is also responsible for the drafting of external and internal reports in order to supervise, monitor and inform the Bank of all types of risks at the Bank's aggregate level, while not being directly involved in the credit process and in the assessment of individual loan transactions. The director of the risk management department reports directly and independently to the Bank's management board and the supervisory board's risk committee on all material risks and circumstances that affect or could affect the Bank's risk profile. The director is also the head of the risk management function in accordance with the Banking Act and, in the event of specific risk developments, has direct access to the supervisory board to enable him/her to express potential doubts or submit warnings.

The **compliance department** assesses and monitors the compliance risks to which SID Bank is or could be exposed to in its operations due to the breach of valid regulations or a requirement of the Bank of Slovenia, valid contracts, prescribed practices or ethical standards that could impact the Bank's income, capital or reputation. It reports regularly on its findings to the management board and supervisory board and, where appropriate, also to the risk management department.

The **information security department** assesses and monitors the information security risks and regularly reports its findings to the Bank's management board and supervisory board.

One of the mandatory functions of internal controls, i.e. the internal audit function, is categorised in the third line of defence. The **internal audit department** regularly, independently and comprehensively audits the functioning of internal controls and the implementation of the adopted risk management measures, provides recommendations to improve the system of internal controls and risk management procedures, and reports quarterly to the supervisory board.

Internal control mechanisms

Internal control mechanisms, the functioning of which is in place for all of SID Bank's business processes in proportion to the materiality and risk of an individual business process, include:

- internal controls of the implementation of the Bank's organisational procedures, business procedures and work procedures; and
- internal control functions (risk management department, compliance department, information security department and internal audit department), which are functionally and organisationally segregated from the Bank's other functions, and report directly to the Bank's management board.

The purpose of internal controls is to ensure systematic control over all of the Bank's material risks and to provide an independent and objective assessment of effectiveness and compliance with regard to the Bank's internal governance arrangements on the basis of a review and assessment of the adequacy of risk strategies and policies, the Bank's risk management processes, procedures and methodologies, and reporting on risks.

ESSENTIAL FEATURES OF RISK TAKE-UP AND MANAGEMENT

SID Bank takes up risk within the scope of the adopted overall risk appetite that it is still willing to take up in order to achieve its business objectives, strategies and plans, taking into account the Bank's risk capacity, its strategies and policies for the take-up and management of risks, and its capital, liquidity and remuneration policies.

SID Bank carries out a comprehensive internal capital adequacy assessment process, tailored to the risks taken up and to risk appetite, at least once a year, and reports to the management body, and thus ensures that the risks taken up remain within the limits of SID Bank's risk capacity. The assessed risk capacity is taken into account when preparing business strategy and business objectives and defining risk appetite.

Regular monitoring of risk appetite indicators is provided for on SID Bank's management body. For 2023 SID Bank upgraded its methodology for defining and monitoring risk appetite by determining risk appetite on multiple levels (step-like), where each superior level sets the upper threshold for the subordinate level of limits. The revised methodology is directly linked to the ICAAP, the annual plan and stress testing.

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

For 2023, SID Bank upgraded the ICAAP in the segment that covers the identification, definition of materiality, risk measurement and definition of the Bank's risk profile. The risk profile, which is the result of the processes of identification, definition of materiality and measurement of risks, represents a collection of the risks that are significant to SID Bank and that the Bank takes up or will take up in the framework of its operations, and is quantified by the capital requirement.

The risk profile serves as the basis for the comprehensive risk management process, the internal capital adequacy assessment process, the planning of internal audit procedures, compliance and direct supervision by the Bank of Slovenia. The Bank assesses the risk profile on an annual basis.

SID Bank conducts stress tests on the basis of its own scenarios and scenarios submitted by the supervisor. Based on the results of these tests, it can identify the Bank's future capital and liquidity position and possible actions to ensure future capital and liquidity adequacy. SID Bank has established an integrated stress testing framework, which it upgrades regularly. At the end of 2022, SID Bank upgraded its credit risk stress testing methodology to follow the European Banking Authority's (EBA) stress testing methodology. SID Bank takes into account the stress test, at minimum, in the process of reviewing and planning the Bank's risk appetite and capacity to absorb risks, major changes, the setting of risk limits, planning the Bank's capital and liquidity, and in the scope of the ICAAP and ILAAP.

SID Bank uses a standardised approach for calculating minimum capital requirement for credit risk and a basic indicator approach for operational risk. SID Bank has no trading book. SID Bank's exposure to currency risk is low and generally does not exceed the prescribed regulatory limit for the calculation of the capital requirement for currency risk.

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

MANAGEMENT OF AND EXPOSURE TO RISKS IN 2022 AND VIEW TO THE FUTURE

SID Bank's performance is strongly conditioned by the macroeconomic environment in which it operates. While the uncertainty of economic activity due to the COVID-19 pandemic has eased in 2022, the outbreak of war in Ukraine in February 2022 and the sanctions imposed against Russia and Belarus have had and will continue to have a strong impact on macroeconomic uncertainty and volatility in financial markets. The year 2022 was marked by the adverse factors of high energy, commodity, raw material and food prices, inflationary pressures, an accelerated tightening of loose monetary policy terms and rising market interest rates and credit spreads. SID Bank is therefore continuously adapting its business model and measures to pursue development and counter-cyclical activities in parallel, thereby covering the gaps or needs of the economy, and of the economic and development policy.

SID Bank's total assets remain at the same level as last year, and stood at EUR 2.8 billion at the end of 2022. The value of the credit portfolio, measured at amortised cost, was EUR 1.7 billion at the end of 2022. The structure of loans shifted in favour of the non-banking sector also on account of early repayments of loans granted to banks.

In 2023 SID Bank will take up risk in accordance with the limits set for individual types of risks within the scope of the adopted risk appetite.

Capital and liquidity position

One of the Bank's main objectives of risk management is to maintain an appropriate capital position, which SID Bank manages as part of the established internal capital adequacy assessment process, in the scope of which it takes into account normal operating conditions and stress situations. The Bank's adequate capital position is reflected in the quality composition of capital and high capital adequacy ratio. SID Bank's regulatory capital is comprised solely of Common Equity Tier 1 capital. As at 31 December 2022, the Bank disclosed a total capital ratio of 25.4%, which is significantly higher than the regulatory requirement. The value of that ratio was down by 3.4 percentage points relative to the previous year on account of the low carrying amount of equity owing to a decline in the value of debt securities measured at fair value though other comprehensive income, which had a negative effect on accumulated other comprehensive income. The increase in risk-weighted assets arising from outstanding exposure and exposure to companies also caused this decline in ratio. The leverage ratio stood at 14.7% at the end of 2022, which is significantly higher than the prescribed regulatory figure and will allow the Bank stable operations also in the future. In 2022, SID Bank met all the Bank of Slovenia's requirements relating to capital buffers. For more details about the management of capital risk see section *3.6 Capital management* presented in the financial segment of the annual report.

Maintaining an appropriate level of liquidity and a sound liquidity position are the next key objectives in the area of risk management and are reflected in a high liquidity coverage ratio and the net stable funding ratio. The Bank maintains a high liquidity buffer due to its specific role as a development institution and its readiness to intervene as required. The liquidity coverage ratio is maintained at high levels, but is also volatile, primarily as a result of the fact that the Bank does not normally have a high stock of maturities in a period of 30 days, as it does not accept deposits from the public, but mainly obtains long-term funding supported by a Slovenian government guarantee. Thus, the Bank only has a high stock of maturities at the time of maturity of long-term funding. The average value of the liquidity coverage ratio (LCR) was 6,123% in 2022, while the average value of the weighted available liquidity buffer stood at EUR 362.4 million in the form of investment-grade debt securities and balance at the central bank. The net stable funding ratio was 144.9% at the end of 2022. The Bank regularly verifies its liquidity position in the scope of the regular internal liquidity adequacy assessment process, by taking into account ordinary operations and the planned operations in the future. It also regularly verifies the appropriateness of the stock and structure of liquid assets in the scope of stress testing, both in the event of deteriorating market conditions and in institution-specific and combined scenarios, and carries out regular liquidity simulations in connection with planned operations in future periods according to the baseline, stress and, where needed, additional scenarios. The Bank adjusts the management of liquidity reserves in the form of a debt securities portfolio in the banking book to its business activity and market situation inside the defined limits in order to achieve the appropriate structure and adequate diversification.

The management of liquid assets was challenging in 2022, as volatility in financial markets was significantly higher than in 2021. Inflationary pressures, accelerated monetary policy tightening and general uncertainty about the macroeconomic situation have been key factors linked to the Russia-Ukraine war. The Bank maintained an appropriate level, quality and structure of liquid assets in 2022 for covering its expected and unexpected liquidity outflows and to ensure business continuity in challenging conditions. In view of the challenging market conditions and with the aim to reducing the volatility of other comprehensive income, the Bank increased its balance at the central bank and actively managed its debt securities portfolio. In 2023, volatility in financial markets is expected to continue, with SID Bank continuing to pursue a prudent liquidity management strategy in terms of an appropriate structure and adequate diversification of liquidity reserves, taking into account potential adverse developments in financial markets, with the primary objective of ensuring liquidity and safety.

SID Bank obtains its funding on the domestic and international capital markets with the Slovenian government guarantee, which provides it with stable access to mostly long-term funding. In 2022, the Bank has drawn EUR 76,499 thousand of purpose-specific funding from development institutions and the Ministry of Economic Development and Technology. For 2023, SID Bank plans to actively manage its existing sources of funding and, depending on future market conditions, to raise new long-term borrowing on international capital markets.

Exposure to risks

SID Bank's operations are most exposed to **credit risk**. The comprehensive credit risk management system includes all the credit risk management methodologies, procedures and tools used by SID Bank for the approval and securing of investment operations, the monitoring and management of credit risk and the management of non-performing exposures. The take-up of credit risks in 2022 complied with the adopted risk appetite.

The quality of the credit portfolio was mainly affected in 2022 by the Russia-Ukraine war, which deteriorated on average due to new non-performing exposures of debtors from Ukraine and Belarus. The above-mentioned exposures were high at EUR 41,640 thousand at the end of 2022, but were covered by SID Bank's insurance policies issued on behalf of the Republic of Slovenia to protect against commercial and non-commercial risks with 95% coverage, where the risk of war is also covered, and therefore the additional impairments and provisions required are low.

SID Bank has no direct exposure to the Russian Federation and all direct exposures to Ukraine and Belarus have already been reclassified to non-performing exposures, so the Bank does not expect any further deterioration in that regard. During the year, SID Bank monitored and carried out more detailed analyses of the indirect impact of the war in Ukraine on the operations of the companies in its portfolio, and assessed the credit risk of the identified companies accordingly.

Due to increasing energy prices credit risk is increasing for energy-intensive companies. As a result, on the basis of additional analyses, SID Bank assessed the impact of growing energy prices on the operations of energy-intensive companies in its portfolio in 2022 and adjusted its assessment of credit risk accordingly.

The proportion of classified loans and other financial assets accounted for by non-performing loans and other financial assets was up due to the effect of the Russia-Ukraine war and stood at 4.8% at the end of 2022 (end of 2021: 2.3%).

The coverage of non-performing exposures has fallen significantly to 38.4% at the end of 2022 (end of 2021: 69.4%). The decline in coverage was primarily the result of the fact that the new non-performing debtors from Ukraine and Belarus have low impairment coverage due to prime collateral (SID Bank's insurance policy with 95% coverage by the Slovenian government).

On average, improved ratings of performing debtors (impact of favourable financial statements of companies for 2021) and new macroeconomic scenarios have had an effect of reducing allowances and provisions for credit losses at the end of 2022. Inclusion of past and forward-looking information represents a requirement from accounting standard IFRS 9, and as such macroeconomic scenarios affect estimated credit parameters and the assessment of expected credit losses. The credit parameters for 2022 also included an expected deterioration of the credit portfolio stemming from the delayed effects of COVID-19, which did not materialise to the extent expected. Hence, despite a less favourable macroeconomic outlook for 2023, a decline in allowances and provisions, which in 2022 was also supported by improved credit ratings, and as a consequence also transfers from Stage 2 to Stage 1, were also recorded. Forecasts of GDP growth that SID Bank took into account in the calculation of expected credit losses according to the situation as at 31 December 2022 are presented in the financial section of the annual report under point *2.3.8 Impairments of financial assets and provisions.*

The future macroeconomic environment remains unpredictable. Continued geopolitical risks, economic sanctions, higher borrowing costs, broad-based high inflation and further risks of a wage-price spiral may lead to a deterioration in the position of borrowers, a deterioration in the quality of the credit portfolio and an increase in impairments.

In 2023, SID Bank will continue its high-quality management of credit risk and in accordance with the best banking practices will upgrade the tools for credit risk assessment and the early warning systems (EWS) that alert against potential financial difficulties of debtors, and its proactive actions.

In terms of the area managing **environmental, social and governance risks (ESG risks)**, SID Bank carries out ESG factor-based assessments at the borrower level above a certain exposure. The result of the comprehensive assessment of ESG factors in the form of a sustainability report enters SID Bank's credit process as an input parameter and can impact the loan rejection/approval and the terms of financing.

In 2022, SID Bank upgraded its regular monitoring of exposure to climate transition risks and started to obtain additional information from clients to assess ESG risks through an updated ESG questionnaire. In 2023, SID Bank plans to include this additional information in its ESG assessment and customer rating. Also in 2023, SID Bank plans to integrate ESG factors into all types of risks and upgrade the ICAAP.

The Bank will further upgrade its climate-based stress testing with two new scenarios in 2023, i.e. the emissions allowance price growth scenario for customers included in the EU Emissions Trading Scheme (ETS) and a scenario of potential deterioration in the credit quality of customers with high CO_2 emissions.

Exposure to **interest rate risk** derives from interest-sensitive positions in the banking book. SID Bank has a process in place for managing interest rate risk in the banking book with the aim of maintaining that risk at a level that is in line with the Bank's adopted risk appetite, the definition of which is stricter than the regulatory limit. Interest rate risk is measured on the basis of the regular measurement of the effect of changes in market interest rates in the prescribed scenarios on the economic value of equity and net interest income. The Bank also takes into account the option risk that derives from contractually embedded automatic interest rate options in both measurements. In terms of the sensitivity of the economic value of equity, the most unfavourable result according to data at the end of 2022 is 2.6% of the Bank's equity in the scenario of a parallel shift in market interest rates by +200 basis points. The results of the interest rate sensitivity analyses are presented in more detail in the financial section of the annual report in point *3.3 Interest rate risk.*

The Bank uses derivatives in the form of interest rate swaps to hedge against interest rate risk, for the purpose of fair value hedging in connection with both assets and liabilities. In 2022, the Bank entered into additional interest rate swaps for the purpose of hedging the fair value of a Slovenian government bond measured at fair value through other comprehensive income with a total nominal amount of EUR 50 million.

An important factor in interest rate risk management is the portfolio of debt securities in the banking book with fixed yield, the purpose of which is ensuring secondary liquidity and asset-liability management. The management of the securities portfolio was challenging in 2022 due to volatility in financial markets. The rise in market interest rates and credit spreads resulted in a negative revaluation of the portfolio of debt securities measured at fair value through other comprehensive income. At the same time, market factors have enabled higher yields to be achieved when reinvesting in debt securities. SID Bank regularly measures exposure to **credit spread risk** for its portfolio of debt securities measured at fair value through other comprehensive income. Exposure to credit spread risk is limited by the investment policy and the limit system. The Bank invests almost exclusively in debt securities of euro area issuers with an investment-grade rating. The structure of the debt securities portfolio by credit rating is presented in more detail in the financial section of the annual Report in point *3.1 Credit risk.*

Financial market volatility is expected to continue in 2023. High inflation, combined with the accelerated cooling of economies, could also lead to more significant changes in market interest rate levels and credit spreads in future periods, which would continue to have an impact on the valuation of the debt securities portfolio measured at fair value through other comprehensive income, and could have a negative impact on capital. However, as the average maturity of the debt securities portfolio is gradually shortening as maturity approaches, the bank estimates the impact on capital from this perspective to be limited. In 2023, SID Bank will manage interest rate risk and credit spread risk in the banking book within the adopted risk appetite. In addition, the Bank will continue to upgrade its methodologies for measuring these risks in line with the anticipated regulatory changes.

SID Bank executes the majority of investment transactions in the domestic currency. The Bank's **exposure to currency risk** is thus low, is within internally defined limits, and does not exceed the prescribed regulatory limit for the calculation of the capital requirement for currency risk according to data at the end of 2022.

In the area of **operational risk**, SID Bank has in place a robust operational risk management culture that is implemented following the example of senior management. Operational risk is monitored through the collection of data regarding loss events, and through the identification, assessment and management of that risk. SID Bank strives for the continuous improvement of the control environment and the implementation of measures to prevent the repetition of loss events.

The Bank also manages model risk for which it has adopted model risk management rules. The framework is defined in a way that clearly identifies the essential features of model risk and its management through identification, measurement, monitoring/reporting and control. The Bank also monitors the findings of academics in the profession, and aims to continually update and improve its valuation methods. In the scope of managing model risk, the Bank also defined the methodology for validating estimates of credit risk parameters. The methodology also clearly defines the essential elements of quality validation and thus enhances accuracy and the robustness of the credit risk assessment. The validation of credit risk parameters is undertaken qualitatively and quantitatively, via a range of backtesting approaches (Jeffreys test, Hosmer-Lemeshow test, Spiegelhalter test, Kolmogorov-Smirnov test, mean difference, etc.), tests of discriminating power (AUC ROC), tests of the fulfilment of the theoretical assumptions of the model (homoscedasticity, auto-correlation, multicollinearity, etc.), and tests of representativeness and density.

The Bank records both loss events based on actual losses and loss events based on potential losses for the purpose of the best possible collection of information. SID Bank did not record any significant loss events in 2022.

In 2022 the Bank focused intensively on the regular management of actual risks in the area of information and communication technology (ICT), which are also addressed by its information technology strategy for 2023 to 2025. The rising pace of digitalisation at banks is systematically increasing ICT risks and risks of fraud, money laundering, terrorist financing and compliance.

With regard to the management of fraud risk, SID Bank maintains a strong control environment by introducing the in-depth assessment of exposure to fraud risk, and mechanisms for the early detection of fraud indicators and responses thereto.

Similar to other forms of fraud, cyber incidents can result in financial losses, indirect negative consequences and even systemic effects. SID Bank is less exposed to such risks compared to commercial banks, as its operations do not include current accounts, electronic banking, card operations, etc. However, the Bank recognises that in the event of the realisation of these risks the effect on SID Bank could be high, similar to the effect on commercial banks. Therefore, SID Bank will continue to pay close attention to information security.

The Bank earmarked many resources and funds to information security training, as this is often the weakest link (vulnerability) for people: educational content was updated and adapted to providing lectures via e-training platforms and upgraded by employee testing.

SID Bank also gives special attention to outsourcing, where its management of external contractors ensures the appropriate performance of outsourced functions.

SID Bank also prudently manages **strategic risk**, which was elevated significantly in 2022 due to the realisation of geopolitical risks in the wake of Russia's aggression against Ukraine and the development of an energy crisis associated therewith. The unpredictable macroeconomic situation required SID Bank to intervene while continuing its gradual transition to a developmental role. Strategic risks are also derived from the need to adapt to market gaps, which also impacts **profitability risk**. SID Bank manages strategic risk through management-level process control by systematically monitoring the implementation of the business strategy and monitoring the risk management strategy. On this basis, it can take timely action to respond to significant increases in this risk.

The **remuneration policy**, which is presented in detail in the financial report in section *A.16 Disclosure of remuneration policy*, is based on a link between employee remuneration and the prudent take-up of risks, and governs the ratio between the fixed and variable components of remuneration for employees whose work is of a specific nature. The policy and related bylaws in this area focus on achieving the objectives of the Bank's business strategy, and are adjusted to the Bank's risk profile and risk capacity. The management of the variable components of remuneration is included in the risk profile in the scope of operational risk and internal controls. All internal control functions, except for the information security function, are included in the process of formulating, controlling and reviewing the appropriateness of remuneration policies. The tasks of the risk management function include participation in the definition of appropriate criteria for job performance and commercial success that take into account assumed risks, and an assessment of how the structure of the variable components of remuneration affects the Bank's risk profile and the risk take-up culture. As a second level of control, the compliance department not only pursues regulatory compliance in the area of remuneration, but also, before each payment of a deferred component of remuneration, verifies in cooperation with the risk management department and the accounting department that the legal formal conditions for making the payment are met. The internal audit department must perform an independent audit of the bases, implementation and effects of the remuneration policy on the Bank's risk profile.

MANAGEMENT OF RISKS IN CONNECTION WITH OPERATIONS UNDER REPUBLIC OF SLOVENIA AUTHORISATION

SID Bank manages the risks associated with the authorisation for guarantee scheme services implemented for the account of the state in accordance with its bylaws in a reasonably similar way as in the banking segment. The internal procedures and process for verifying banks' claims for payment of guarantees and compliance with the legal conditions for the redemption of the guarantee, as well as the monitoring of recovery, are regulated in the relevant bylaws and in separate business processes relating to guarantee schemes. Competent committees discuss reports on reputation risk, operational risk (through loss events) and profitability risk. SID Bank is not exposed to other risks, as the amounts of the required Slovenian government guarantee, after submitting a request for payment to the Ministry of Finance, are remitted to the beneficiary bank by directly debiting the state budget.

Guarantee schemes based on intervention measures in 2020

In 2022, SID Bank continued with the activities required to carry out guarantee schemes to mitigate the impact of the COVID-19 pandemic, arising from the authorisations of the Republic of Slovenia.

Housing Guarantee Scheme for Young People

In 2022, SID Bank carried out the necessary activities under the authorisation of the Republic of Slovenia in relation to the implementation of the housing guarantee scheme for young people, which were connected with the publication of the first invitation to banks to submit bids for the allocation of guarantee quotas and, on the basis of successful bids, allocated guarantee quotas to the banks. SID Bank adequately manages the risks defined in an internal process by putting in place internal procedures defined by its bylaws. It manages risks significant to brokerage transactions, such as reputation risk and operational risk, by regularly monitoring activities through internal reports and external reports to the competent ministry, by preparing invitations for banks and by publicly disclosing information on the guarantee quota distributed on its website.

Credit and investment insurance against non-marketable risks

In addition to guarantee schemes, SID Bank also provides credit and investment insurance against non-marketable risks of a non-commercial and/or commercial nature in the name and on behalf of the Republic of Slovenia. In addition, the Bank manages funds from the European cohesion policy (funds from the Funds of Funds).

To prevent conflicts of interest and to maximise efficiency, credit and investment insurance operations are executed by a special department that is organisationally segregated from banking operations all the way to the level of the executive director, while a special government operations committee decides on and discusses these types of operations. The committee makes decisions regarding exposure limits for an individual customer, and regarding the payment of insurance and reinsurance claims, discusses requests to call government guarantees, and regularly monitors and oversees the execution of all operations under Republic of Slovenia authorisation. Decisions regarding all transactions in excess of EUR 5 million are made by the international trade promotion commission. The work of the government operations committee is presented in detail in the section Information on the composition and functioning of management and supervisory bodies and their committees in the scope of the *corporate governance statement.*

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

In the area of credit and investment insurance against non-marketable risks of a commercial and non-commercial nature, SID Bank through a risk management model (value-at-risk or VaR technique) calculates potential claims on the basis of data on insurance concluded and transactions in demand for insurance in the name and on behalf of the Republic of Slovenia, assesses whether contingency reserve assets are sufficient to cover these claims, and estimates the maximum potential claim and the impact of new insurance operations on potential claims.

The methodology used to calculate the assessment of potential claims from the insurance portfolio is based on coefficients for the probability of a loss event, both for countries (sovereigns) and individual debtors. The calculation of the probability of default for a specific country or customer is based on recognised international credit ratings, and the corresponding adjusted probabilities of default.

As at 31 December 2022, contingency reserves amounted to EUR 174,869 thousand. Based on the use of the value-at-risk (VaR) technique and data from the insurance portfolio (including transactions in the enquiry phase) according to the situation as at 31 December 2022, we can assert with 99.05% certainty that claims over the next one-year period will not exceed the amount of the contingency reserves.

The start of the war in Ukraine and the imposition of sanctions against Russia and Belarus are a major uncertainty for the global political set-up and the global economy.

The portfolio of insured credit and investments that are made in the name and on behalf of the Republic of Slovenia records high exposure to debtors from the Russian Federation, Belarus and Ukraine. Exposures are checked on an ongoing basis, in particular when regular reports are drafted on a monthly basis. SID Bank regularly prepares 'stress tests' on a quarterly basis for all exposures to debtors from these countries and, assuming a worst-case outcome, checks the sufficiency of the level of contingency reserves for the entire insurance portfolio. The results are shared with SID Bank's decision-making bodies and the International Trade Promotion Commission.

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

Our value:
COOPERATION

We value mutual assistance, we are tolerant of the opinions of others and we praise the good work of our colleagues.

Human Resource Management

INTERNAL COMMUNICATIONS

Effective internal communications is the foundation of an entity's organised operations, successful business processes and good relations among employees at all levels.

SID Bank devoted a great deal of attention in 2022 to strengthening internal communications. Continuous, open and, above all, two-way communication within the organisation is important for maintaining a positive climate and a good corporate culture, which are key to development and progress, which is why the Bank's management has placed special emphasis on keeping employees regularly informed, also by introducing regular Friday meetings with employees. This type of communication contributed to the regular resolution of employee issues and ensured greater satisfaction at the workplace and a positive corporate culture. In 2022, the way in which employees are informed has been upgraded to include management letters sent to everyone via email and live personal addresses by the management board to all employees.

Employee communication was also strengthened through the in-house newsletter *Cekinčki*, which was visually redesigned and began to be released monthly. Each month, the *Cekinčki* newsletter kept employees digitally informed about active projects, expert articles, staff changes, new employee introductions, health promotion content, cyber security tips, events and departmental and company successes and achievements. In this way the Bank ensures greater cohesion, improved internal communication and increased employee loyalty.

A regular dialogue between the Bank's management and trade union was also maintained in 2022.

Throughout 2022, various activities took place to celebrate the 30th anniversary of SID Bank's operations. The Bank's logo has also been changed to reflect this. A high-profile event was organised for business partners and other stakeholders, and the Bank also demonstrated its commitment to greater cohesion by organising a social event for former and present employees.

Contemporary communication technologies keep employees informed and keep abreast with management on a daily basis. In 2022, the Bank began intensive use of an in-house e-education portal ECHO+, which enables employees to undergo compulsory education/training programmes in an effective and simple manner, upgrade their knowledge and keep abreast with the latest findings in their own respective professions and maintaining knowledge of the Bank's services and products. Employees can also contribute to a better work environment via the application for proposed improvements, through which each employee can propose his/her innovative idea for improvements.

All internal communication activities are aimed at fulfilling the mission and preserving the values of SID Bank, which is also establishing itself via interconnecting and relaxed relations at the Bank, as active investment in employees is crucial for the Bank's further development.

CONCERN FOR EMPLOYEES

The Bank offers flexible working hours to all employees to facilitate work-life balance. Where the nature of the work allows, the Bank also offers employees a hybrid form of work allowing employees to work from home.

Special attention is also given to the rights of employees, occupational health and safety, working conditions, social security, personal and professional development, social dialogue and mutual relationships. In the area of employee health and safety, SID Bank organises preliminary, specific-purpose (targeted) and periodic medical examinations, as well as professional training in the areas of occupational health and safety and fire safety.

By regularly monitoring employees' needs, implementing the recommendations of occupational medicine experts and taking measures to promote health in the workplace, the Bank is working to provide the healthiest possible working conditions and a suitable working environment.

As part of the recruitment process, the Bank also carries out psychological profiling to ensure that the most suitable candidates are recruited to fill the staffing gaps.

DEVELOPMENT OF EMPLOYEES AND REMUNERATION

SID Bank puts special focus on the professional and personal development of employees with whom the Bank ensures that the educational and qualifications structure is suitable for its development and its strategic objectives. This ensures that each employee at the Bank has the knowledge, skills and abilities required to perform effectively in their work, with the aim of raising the quality of work of individuals and teams.

The incentive-based system of remuneration further helps employees to effectively adapt to changes and challenges within the organisation and in an environment that will present them with sufficient professional challenges in the future.

The Bank upholds all applicable legislation and the company-level and banking sector collective agreement when setting salaries and determining other labour costs for employees.

In 2022, the Bank adopted a new employee remuneration model under which employees are remunerated on a monthly and yearly basis on the basis of transparent criteria and which motivates employees to do better and accomplish more. The Bank also remunerates employees for special achievements and project work success.

Remuneration for performance and the system of advancement (promotions) are governed by the relevant bylaws, i.e. the remuneration policy, company-level collective agreement and rules on advancement and remuneration, which also sets out the terms, conditions and criteria for additionally motivating and rewarding staff.

The Bank continued to pay voluntary health insurance premiums as an additional benefit to its employees in 2022, and a supplementary pension insurance scheme is in place for employees, as well as jubilee benefits for employees, in accordance with the provisions of the collective agreement in the banking sector.

The system of competencies for specific posts ensures quality of the staff structure within the framework of SID Bank's complex functional structure as a development bank.

Promoting the acquisition of additional knowledge and skills and their practical use is one of the guidelines of SID Bank's action strategy. A total of 94% of the Bank's employees participated in at least one training in 2022.

Management regularly conduct annual development interviews with employees that represent the basis for management of employees by objectives, assessing the development potential of individuals and their desired career path, the definition of key staff members and the formulation of annual training plans. The Bank is thus able to identify needs for new knowledge in a timely manner, and plan targeted training and education programmes for individuals and groups of employees more easily. In 2022, the annual development interviews were also properly application-supported within the eHRM application, allowing for more efficient implementation.

To improve management by objectives, the Bank introduced coaching for the Bank's top management in 2022, which it is continuing in 2023, and conducted intensive workshops with an external provider for senior management. It has also overhauled the on- and off-boarding process to ensure the best first-day experience for new employees and to capture the key reasons for departures.

In terms of concern for key staff and talented individuals, the Bank in 2022 performed activities embedded in the concept for key and promising staff (talented individuals) and successors for key positions, and a programme to retain these employees. The Bank's key and promising staff are also actively involved in the preparation of the Bank's strategic and business guidelines, and in 2022 most of them made elevator pitches to introduce themselves to the Bank's senior management.

In order to maintain an appropriate climate and employee satisfaction and engagement, activities from the action plan, which the Bank outlined based on the findings from measurements done in the scope of the Slovenian Organisational Climate (SIOK) project at the end of 2021, were carried out in 2022. The Bank measures employee satisfaction, climate and engagement at two-yearly intervals.

EMPLOYEE STRUCTURE

Recruitment was undertaken in line with the annual employment plan in 2022, and in line with guidelines from the strategy, which are based on the adjustment of recruitment to growth in operations and the development of new products, the recruitment of experts with specific skills and experience, and the retention of crucial and promising employees.

SID Bank hired 19 new employees in 2022, either due to temporary additional needs or to replace employees who found new challenges outside the Bank, or partly as a response to needs dictated by new tasks and the increased workload brought by the launch of new products and other development activities.

SID Bank had 221 employees at the end of the year, of whom 146 were women and 75 were men. The headcount averaged 223 in 2022.

In filling staff voids, the Bank encourages the internal labour market and internal re-assignment of staff where possible, and recruits candidates from the external market who bring scarce and new skills and competences to the Bank.

	2022		2021	
Qualification level	Number	Proportion in %	Number	Proportion in %
5	13	5.9	15	6.7
6/1	10	4.5	14	6.3
6/2	50	22.6	47	21.1
7	108	48.9	108	48.4
8/1	32	14.5	31	13.9
8/2	8	3.6	8	3.6
Total	221	100.0	223	100.0

Our value:
EFFICIENCY

We seek optimal solutions and we optimise work processes, we are productive and we do the 'right' things.

Development of the Bank

DEVELOPMENT IN 2022

Development of products and programmes

The Bank pushed ahead in 2022 with the development of products, both for direct financing/investment in Slovenian companies and indirectly via banks and other financial intermediaries.

During the year, the Bank began the modification of the Public Sector Entities Financing Programme, enabling the implementation of this programme also through the use of favourable sources of financing gained from the Council of Europe Development Bank and the European Investment Bank, which the Bank complemented by its own sources.

With respect to the working capital and investments (hereinafter: OSN) programme with the EGF guarantee, it agreed to extend the implementation so that this programme could be implemented by the end of 2022, otherwise the EGF guarantee could only be used for a shorter period of time.

In April 2022, SID Bank successfully notified the aid scheme under the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia and amended it in December to take into account the amendments to this temporary framework. The amendments to the scheme allowed for higher amounts of state aid that SID Bank could grant to such companies and extended the implementation period of such measures. Thus, in 2022, the Bank has adapted some of its existing programmes to the conditions allowed by the scheme under the temporary framework (e.g. OSN programme without EGF guarantee).

In 2022, SID Bank began the development of two new programmes, which will be completed in 2023, and in November 2022 submitted an expression of interest to the EIF for an EIF guarantee under InvestEU for a sustainable financing (lending) programme and an innovation and corporate sector digitalisation programme. The sustainable financing programme will enable the direct financing of the working capital and/or investments of SMEs or mid-cap enterprises, which qualify as a sustainable enterprise and/or investments that are classified as green investments.

The innovations and corporate sector digitalisation programme will enable the direct financing of the working capital and/or investments of SMEs or mid-cap enterprises that must meet at least one of the innovation or digitalisation criteria set out in the InvestEU rules. Both of these programmes are subject to the conditions attached to the *"Sustainability Proofing Guidance"* for InvestEU. Priority will be passed on to final recipients under a *de minimis* scheme.

In addition to direct financing, development activities have also focused on indirect financing. SID Bank has developed a long-term credit facility through banks and savings banks for corporates, sole traders and other legal entities with elements of state aid under a *de minimis* scheme to finance current operations and/or investments at a favourable interest rate, with a loan repayment period of up to 10 years.

At the same time, the Bank started developing a new risk-sharing programme to finance the current operations and/or investments of corporates, sole traders and other legal entities through banks and savings banks. The development of the programme with a favourable interest rate and elements of state aid under the *de minimis* scheme will be completed in 2023.

In 2022, SID Bank signed two amendments to the existing contract with the EIF to expand the SEGIP platform for equity and quasi-equity financing for an additional EUR 120 million. In the second half of 2022 EIF issued public Calls of Expression of Interest for financial intermediaries to manage a venture capital fund and a private equity fund to invest in succession business in Slovenia. In 2022, SID Bank, together with the EIF, also started the presentation of the investment strategies and governance structures of the two funds as part of the SEGIP expansion. The venture capital fund will provide financial support to Slovenian young innovative SMEs in the early stage of development (seed and especially start-up phase) and the scale-up stage. The main objective is to address the market gap in this area and to provide support to the venture capital ecosystem, which is underdeveloped in Slovenia. From SEGIP EUR 44 million are available for venture capital financing (SID Bank and the EIF providing EUR 22 million each). The private equity succession fund will support the financing of succession businesses that, due to the non-existence of family members or their unwillingness to take over ownership and management of the company when the current owner steps down (e.g. due to retirement), would either cease to operate or be sold off piece-by-piece or be forced to do so, or to support the organic growth of succession businesses. From SEGIP EUR 50 million are available for the private equity succession fund (SID Bank and the EIF providing EUR 25 million each).

In 2022, SID Bank and the European Commission closed the content sets of all six pillars of the Bank's pillar assessment. In the first half of 2023, the Bank expects to conclude the pillar assessment process with a positive decision from the European Commission.

Development of information technology and cyber security

In terms of IT solutions development, SID Bank focused on two projects of strategic importance. The first will provide IT support for the lending and credit monitoring process, including a customer portal, while the second is preparing the replacement of the core banking system, together with a partial consolidation of back-office applications. In addition, the Bank made a number of significant upgrades and improvements to various systems and applications in 2022. Among the most important were the adjustments made to internal systems to meet the needs of the introduction of a new real-time gross settlement system and the central liquidity management model (T2). Most of the development activities were related to various aspects of the credit process, in particular the introduction of a new guarantee scheme, the financial calculator, the calculation of credit ratings and the early warning system with the addition of new indicators and risk categories. The Bank has upgraded the functionalities of the data warehouse through a number of development-based improvements and made the necessary adjustments in the area of regulatory reporting.

In terms of cyber security, SID Bank has not been exposed to any successful cyberattacks. All the cybersecurity incidents that it addressed were of low criticality. However, in light of the detected increased threat of cyberattacks and based on the identification of risks in 2021, the Bank has taken an approach to improve its security management. To that end, the Bank entered into an agreement with a selected external contractor to which it outsourced the 24/7 provision of services and related solutions of the Security Operations Centre (SOC) for the protection of IT system endpoints, i.e. servers, laptops, PCs, mobile devices (Endpoint Detection and Response - EDR). In connection with the SOC, the Bank has started to use the SOAR (Security Orchestration, Automation and Response) tool to speed up its response to detected threats and security incidents.

The Bank has also focused on upgrading (with new versions and operating rules) existing protection systems such as ATP (Advanced Threat Protection) and SIEM (Security Information and Event Management), as well as strengthening security settings, especially in security-sensitive areas (e.g. SWIFT). An automated data exchange (Malware Information Security Platform - MISP) has been set up with the Slovenian national cyber security response centre (SI-CERT), through which the Bank receives data from all international CERT organisations and other agencies (e.g. police forces) of which SI-CERT is a member. The information obtained through the MISP is integrated into the Bank's SIEM, correlated with existing security records and examined in the event of a suspected cyber incident on the Bank's network.

The Bank has established a protocol to protect the integrity of domain names (Domain Name System Security Extensions - DNSSec) and has set up an internal public key infrastructure. With a primary focus on ensuring a higher level of security, the Bank has carried out system hardening on a number of server systems.

The Bank continued regular training in the area of information security (general training for all employees and just recently separate training for users of mobile devices) and verified the vulnerability of SID Bank's IT systems to threats from the external and internal environments through external security reviews (penetration tests). The Bank regularly discusses all information security-related activities and events at the information security committee, and at the Bank's management board and supervisory board sessions.

The bank has also started introducing other solutions to mitigate IT operational and security risks, such as PAM (Privilege Access Management, which regulates and eliminates security gaps in relation to the monitoring of remote access by external providers) and WAF or LB (Web Application Firewall or Load Balancer, which provides an additional layer of security for web services that the Bank posts on the Internet).

DEVELOPMENT IN 2023

Development of products and programmes

In 2023, product development activities will focus on completing the development of the products that SID Bank started developing in 2022: a programme of financing through banks and savings banks for corporates, sole traders and other legal entities with risk sharing, completing the development of the corporate sector innovation and digitalisation programme and the sustainable financing programme.

Furthermore, in the first quarter of 2023, based on the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia, SID Bank will develop two new programmes within the framework of the existing financial engineering funds with the Ministry of Economy, Tourism and Sports (METS) and the Ministry of Infrastructure (MoI), whereby:

- establishing a programme within the framework of Loan Fund 1 that is expected to make available to companies EUR 50 million in loans for investments and/or working capital;
- establishing a programme within the framework of Loan Fund 5 that is expected to make available to road traffic companies EUR 15 million in loans for investments and/or working capital.

In 2023, within the framework of counter-cyclical measures, SID Bank will set up a new EUR 100 million financial engineering loan fund to finance investments and/or working capital for companies affected by the energy crisis and the Ukraine crisis, in accordance with the Act Determining the Aid to the Economy to Mitigate the Impact of the Energy Crisis (ZPGOPEK) and in cooperation with the Ministry of Economy, Tourism and Sports. A total of EUR 25 million as a portion of the loan fund will come from budgetary funds, while the remaining EUR 75 million will be provided by SID Bank.

In 2023, the EIF will complete its due diligence of candidates for venture capital (VC) and private equity (PE) succession fund managers. Afterwards selected managers will set up VC and PE funds to start investing in Slovenian start-ups or succession businesses to address ownership change.

SID Bank's activities in 2023 in the area of management and introduction of new products will also focus on activities related to the liquidation of some financial engineering loan funds at the end of their term. At the end of 2023, the eligibility period for the management of cohesion funds under the 2014–2020 Fund of Funds and the COVID-19 Fund of Funds will also expire, and SID Bank will therefore evaluate the implementation of the financial instruments executed under these two Fund of Funds. The evaluation will also include an assessment of the need to continue financing from ECP funding through the same or other financial instruments. In this context, SID Bank's activities will focus on preparing proposals for these financial instruments in four areas of action: research, development and innovation, urban development, energy efficiency, SME financing (competitiveness of the economy).

SID Bank has put forward an initiative to the METS for the establishment of a new EUR 500 million financial engineering development loan fund at SID Bank in 2023 for the development financing of Slovenian companies. This initiative requires the appropriate legal basis to be put in place.

The Bank expects the successful completion of the pillar assessment and commencement of preparations for structuring financial instruments tied to centralised EU measures (e.g. InvestEU) and the strengthening of cooperation with the EIB Group in the first half of 2023. SID Bank will also be actively involved in the implementation of a new multi-annual financial framework for 2021–2027.

Development of information technology and cyber security

SID Bank has put in place an information technology strategy for 2023 to 2025, which pursues an integrated approach to managing information technology through activities within the framework of three strategic pillars: ICT architecture, applications architecture, and the overhaul of IT organisation and processes.

The implementation of the IT strategy places primary emphasis on ensuring stability, security and regulatory compliance. Key actions in 2023 will therefore focus on upgrading business continuity processes, both through the creation of new server capacity and the renewal of data centres and the communication between them. The Bank will also pay a lot of attention to backup and log management. In ensuring business continuity, the Bank will strengthen recovery procedures for key IT systems.

The application development will follow the outlined guidelines for building the new portal solution and supporting the lending processes. At the same time, the Bank will follow its strategy of replacing the core banking system and will simultaneously implement several security and functional adjustments to the existing software solutions.

The Bank will hold regular information security training for all employees, targeting specific groups of employees in terms of content, and will expand this range of training courses (e.g. personal data protection training). It will check the vulnerabilities of the Bank's IT systems, especially those newly introduced, from the external and internal environment through external and internal security checks (penetration tests, self-assessments).

In conjunction with the SOC, the Bank will expand the use of the SOAR tool to speed up the response to detected threats or security incidents. The Bank will upgrade its existing security systems (ATP, SIEM) with new versions and rules, including by systematically defining permitted exceptions for key inbound and outbound channels to ensure better resilience to cyber threats.

In terms of cyber risk management, the Bank will select a methodology for identifying and assessing cyber threats and, as a consequence, update the operational risk and internal control catalogues and reassess these risks. For the identified material cyber threats, the Bank will develop proactive (threat hunting) and reactive (response plans for cyber threat incidents and testing) action plans, also with the help of the SOC.

The Bank will also upgrade its IT, security and compliance management bylaws and its management reports in this context. Within this scope, the Bank will pay particular attention to the new bylaw and the corresponding procedures for the lifecycle management of all ICT assets.

Our value:
COURAGE

We pursue our vision with commitment, with concern for our fellow humans, the wider community and environment, and we are honest with ourselves and others.

Social Responsibility and Sustainable Operations

PROMOTING SUSTAINABLE DEVELOPMENT THROUGH VARIOUS FORMS OF ACTION

In 2022, SID Bank's activities mitigated the difficulties of companies affected by the consequences of the COVID-19 epidemic and the energy crisis, which was linked to the crisis in Ukraine. Thus, in addition to its development and promotional role, it also intervened in the area of anti-crisis financing. In 2022, SID Bank continued to implement environmentally sustainable financing programmes, while continuing the sustainability transformation of its own business.

In the scope of its mission and entrusted authorisations, SID Bank, through its activity, contributes to the fulfilment of broader social objectives that are in line with the key elements of Slovenia's sustainable development: a successful economy, social security and concern for the environment. SID Bank may function through three distribution channels: via private financial institutions, via public promotional institutions or directly vis-à-vis final beneficiaries. By providing financial services that complement the market, SID Bank contributes to economic growth and well-being, and strives for the sustainable development of Slovenia.

SID Bank adheres to the principle of balanced and sustainable development in the economic, environmental and social areas, and observes the comprehensive, long-term sustainable stance for all financial transactions. In addition to the economic justification of activities, the Bank also takes into account their social externalities, i.e. the non-financial or indirect benefits and/or costs to the overall economic and social environment. Financing socially beneficial infrastructure projects and target groups in the economy is the basic way in which the Bank contributes to Slovenia's sustainable development policies.

RESPONSIBLE FINANCING OF THE CORPORATE SECTOR

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

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

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

In its transactions with customers, SID Bank devotes particular attention to preventing corruption risks and to environmental policy. SID Bank's activities are by definition set up in a framework that is as complementary as possible to other market players in the field of financing, as the Bank is aware that its specific position requires it to carry out its activities in a way that prevents distortions of free competition.

As a development bank, SID Bank is required to ensure the long-term financial viability of its business model. Because it does not operate with the goal of maximising profitability, it is able to provide more favourable financial terms in its promotional programmes. In accordance with the ZSIRB, SID Bank reinvests all profits in the Bank's equity to provide additional financing to the economy. SID Bank's role is thus not to support all enterprises that demand loans, but only those that are economically and financially justifiable, and yet include a sustainable development component. In transactions with customers and in projects, special attention is given to the prevention of corruption and money laundering.

In 2022 SID Bank again used its products and programmes to pursue the concept of covering key phases in the production chain where market gaps arise. The Bank also enhances the accessibility of financial services by developing new products and adapting its existing offer.

PROMOTING THE GREEN ECONOMY AND CIRCULAR BUSINESS MODELS

Despite the increased focus in 2022 on stimulating the economy to eliminate the consequences of the pandemic and the war in Ukraine, SID Bank has not reduced its efforts to promote a circular economy and more sustainable forms of business models for corporates. The Bank is already implementing initiatives aimed at the circular and green economy directly through existing general programmes to finance companies.

Through its development-promotion programmes, SID Bank addresses the development of a competitive economy, with an emphasis on SMEs, the development of a knowledge society and innovative entrepreneurship, the development of an environment-friendly society, and regional and social development. Via SID Bank's programmes, it is possible to directly finance companies and their investments in projects for energy efficiency, renewables, the renovation of buildings, sustainable transport, and the sustainable handling/recycling and management of water, waste and other natural resources.

SID Bank is especially focused on the monitoring and management of environmental risks and the promoting of the green transition of companies. The management of climate and other environmental risks is shifting to the very core of the Bank's operations and business processes. In addition, SID Bank invests in technology, data and employees, which will increase its knowledge capital in the area of sustainable financing, and thus define its role in promoting and financing the transition to a sustainable economy more clearly.

In 2022, SID Bank adopted a sustainable financing policy, which sets the framework for integrating sustainability into SID Bank's business model. The policy sets general objectives in the area of sustainable financing, aligns the operational framework with regulatory requirements in the area of sustainable financing, aligns the business to gradually transition SID Bank's financing towards sustainable financing in line with the action plan for financing sustainable growth, which will contribute to achieving the goals of the Paris Climate Agreement, and establishes a framework for integrating ESG assessment into the processes for approving and monitoring the financing of SID Bank. The policy also sets out the ultimate goal, which is defined in the policy as achieving climate neutrality of SID Bank by 2050, while the intermediate medium-term goals are set by SID Bank through its development strategy.

In 2023, SID Bank will continue to pay special attention to sustainability factors (ESG factors) and continue its green transformation. The focus will also shift from ensuring compliance with regulatory requirements to investment or front office services. Despite 2023 also being devoted to intervention from an investment point of view, further changes will be made in parallel within the development area, especially in terms of product development, which will be particularly focused on financing the green transition, i.e. in principle of "brown" industries, and financing the adaptation of companies' business models. SID Bank will also continue to introduce differentiated terms and conditions or favourable financing conditions depending on the sustainability orientation of the companies' business models. In terms of methodologies, an adaptation of the existing ESG questionnaire for medium and large enterprises will be carried out in 2023. In other areas, activities will focus on the Bank's decarbonisation plan and the implementation of the measures envisaged in this segment.

PLAN FOR THE DECARBONISATION OF SID BANK BY 2030

In 2022, SID Bank measured and monitored its carbon footprint for 2021 in accordance with the requirements of the GHG protocol. A detailed inventory of itemised environmental energy and material categories and data collection was carried out, the methodology for carbon footprint calculations was revised, the presentation of results and the setting of reduction targets was standardised, and the disclosures and reporting on carbon footprints were standardised. Verification of the calculated values was also carried out in accordance with the protocol. These activities form the basis on which SID Bank has developed its decarbonisation plan by 2030 with a look ahead to 2050.

SID Bank's decarbonisation plan sets annual targets until 2030, with a set of actions by category, a timeline and an estimate of the financial resources needed. In its decarbonisation plan, SID Bank also sets out a timeline for the establishment of a comprehensive capture and recording of Scope 3 emissions, with targets including a view to 2050.

Until the comprehensive monitoring of emissions has been put in place, including a comprehensive calculation of Scope 3 emissions, the decarbonisation plan with interim targets until 2025 and 2030 remains solely focused on the reduction of emissions to the emission levels that apply to Scope 1 and Scope 2 emissions, and Scope 3 emissions in the segment that has already been evaluated. Setting targets, which in this phase is based on the reduction of Scope 1 and Scope 2 GHG emissions, meets the expectations of Slovene Sovereign Holding Company (SSH) vis-à-vis companies managed by SSH.

SID BANK'S PROGRAMMES AIMED AT ACHIEVING SUSTAINABILITY OBJECTIVES

Through its programmes, SID Bank primarily pursues the objectives of achieving wider social benefits, particularly for Slovenian society, thus also pursuing global sustainable development goals[7] that were adopted under the auspices of the United Nations. Slovenia is among the signatory countries, while SID Bank is involved as a development institution with a view to a cleaner and more inclusive future. It is geared towards achieving these goals.

In 2022, SID Bank still operated in uncertain and changing economic conditions and, in addition to development programmes, also implemented intervention financing programmes. In combatting the consequences of the pandemic and Russia's military aggression against Ukraine, SID Bank targeted its financing towards the most affected activities and for purposes that achieve the maximum macroeconomic effect.

[7] Sustainable development goals (SDG): 1. No poverty; 2. Zero hunger; 3. Good health and well-being; 4. Quality education; 5. Gender equality; 6. Clean water and sanitation; 7. Affordable and clean energy; 8. Decent work and economic growth; 9. Industry, innovation and infrastructure; 10. Reduced inequalities; 11. Sustainable cities and communities; 12. Responsible consumption and production; 13. Climate action; 14. Life below water; 15. Life on land; 16. Peace, justice and strong institutions; 17. Partnerships for the goals.

This way it is contributing to reaching goals 1, 8 and 9, and by strengthening its focus on promoting a sustainable economy it also especially strives to achieve goals 11–15. Through development and promotion programmes for small and medium-sized enterprises, also via commercial banks, SID Bank contributed to the achievement of goals 8–10 in 2022. It contributed to goals 9 and 11 through loans for the financing of comprehensive energy renovation projects in public buildings and loans for the financing of urban development projects, which finance non-profit municipal projects in degraded areas, and to goals 8 and 9 through the programmes for the financing of technological and development projects (RRI 3 and NALOŽBE 3). An additional contribution to achieving goals 12 and 15 was achieved with the LES 1 programme for promoting investment projects in the forestry and wood processing chain, which is environmentally-friendly and strives to take advantage of Slovenia's strategic position with its large share of forested areas and many generations of experience in sustainable forest management. Also in 2022, SID Bank continued to offer favourable financing for other green projects and the circular economy under all programmes.

COMMUNICATION WITH THE PUBLIC

As the main development financial institution in the country, SID Bank has a unique position on the market. Appropriate and coordinated communication with the public functions as support to the Bank's business and operational goals and to its promotional and development role. The entire communication is coordinated in the visual and content-based sense. The corporate identity of SID Bank and the slogan "Promoting the Slovenian Economy" are included on all promotional and communication materials.

The key goals of communication activities in 2022 include the following:

- support for the implementation of the Bank's business policy;
- preservation of the reputation and good name of SID Bank;
- preparation, organisation and performance of events to commemorate the 30th anniversary of SID Bank, all geared towards increasing the Bank's visibility;
- strengthening the Bank's visibility and solidifying its role as a promoter of sustainable development of the Slovenian economy and society;
- presentation of positive messages and news relating to the Bank's role and activity in Slovenia;
- segregation of powers and the role/communication of the management board and supervisory board of SID Bank; and
- prevention of incorrect and inaccurate public information.

In line with the Bank's operational strategy, communication is carried out through direct and indirect approaches, with customers, business partners, various stakeholders (ministries) and the public, as well as in cooperation with other financial and public promotion-oriented institutions. Transparent and unified communication builds lasting relationships with all stakeholders, which also strengthens SID Bank's visibility.

The Bank's central communication channel, which serves as the main source of information, are its websites: *www.sid.si* and *www.skladskladov.si*. Easy and direct 24/7 access to the information on the sites is also provided by the installed web assistants (chatbots) SIDko and SKLADko. The Bank maintains direct contact with its stakeholders through weekly communication on social networks LinkedIn and Facebook, through written, image and video content, and through a monthly e-newsletter to communicate news and current products and services to customers.

In 2022, the Bank maintained and established contact with the business and professional public through its presence in the media and in the networks of business interest associations, such as the Slovenian Chamber of Commerce and Industry, the Chamber of Crafts and Small Business of Slovenia, regional development agencies and similar business associations, as well as main Slovenian media companies. SID Bank representatives took part or were actively involved in 45 domestic and international events that were held in digital, live and hybrid format.

Through effective communication and proactive cooperation, SID Bank builds and maintains strong relationships with all stakeholders. Good cooperation and trust of business partners is crucial for stable and successful business, which is why SID Bank pays great attention to it. In September, the Bank organised a gala event to celebrate its 30th anniversary of operations, inviting business partners, important representatives of the business and financial community, representatives of ministries and ministers, employees and members of the supervisory board of SID Bank.

To mark the extension of the SEGIP Top-up equity financing programme, the Bank organised an event to present the extended SEGIP Top-up programme and the practical examples of SEGIP Top-up financing that have already been implemented. The event was attended by representatives of the European Investment Fund, existing and potential investors, financial intermediaries, fund and company representatives.

In September 2022, the Bank hosted a high-level meeting of the management boards of 18 development banks and promotional financial institutions, the European Investment Fund and the European Commission. The purpose of the event was to share the main strategies and objectives set for the coming years. They highlighted the challenges facing member states and their economies in the aftermath of the energy crisis, the green transition, the new European financial framework and the important role of development banks in addressing these challenges.

Two digital campaigns were carried out in 2022, i.e. one small media campaign to mark SID Bank's 30th anniversary, and online advertising via Google search from March to the end of December. The precise selection of general and demographic data enabled the Bank to achieve high advertising value, as the campaigns were targeted at a selected segment of businesses and entrepreneurs through different online platforms.

To raise the visibility of SID Bank, a corporate and product video of SID Bank had already been produced in 2021, and shorter versions of these videos and an English-language version in 2022. These shorter versions were used at various events (Gazelles, Entrepreneur of the Year, Slovenian Economic Summit, SME Conference, etc.) and on social media, thus strengthening SID Bank's visibility.

Regular and professional performance of activities focusing on public relations is needed for improved visibility. SID Bank regularly informs the public about its activities through press releases, interviews, PR articles and advertisements in various media. Communication is clear, effective and positive. The Bank strives for an open and quality relationship with all media, thus maintaining a positive and, above all, truthful image of SID Bank. This was also evident in the answers to various sets of questions from the press, which contained up-to-date, relevant and clear information. Such proactivity and two-way communication in informing all stakeholders places SID Bank among trustworthy and professional companies.

The Bank's visibility in various media, measured by the number of articles with the SID Bank keywords, increased by 16% in 2022 relative to 2021.

RESPONSIBILITY TO EMPLOYEES

Social responsibility at SID Bank is based on the valid social responsibility policy, which was adopted in the broadest and most comprehensive sense. In addition to SID Bank's core mission – the sustainable development of the Republic of Slovenia – that policy also covers responsibility to customers, employees, society and the environment. The aforementioned policy is a binding document in which the main emphasis is on the participation of all employees in the achievement of objectives in this area.

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

SID Bank actively implements internal measures in the area of social responsibility. These include measures with a direct impact on SID Bank and measures that affect society as a whole. In addition to SID Bank's primary function, measures are also implemented in the area of social responsibility that focus on the Bank's internal work processes. The Bank has a process structure in place that it regularly updates and optimises, and KPIs for processes that it monitors regularly. In the scope of the quality management system, SID Bank carried out regular self-assessment under the proven European model of business excellence developed by the European Foundation for Quality Management.

The Bank strives to maintain a positive organisational culture, in particular to foster a participative organisation and mutual respect, to promote teamwork and cooperation, and to nurture feelings of loyalty and commitment. The Bank's corporate governance policy takes into account, *inter alia*, corporate values, reference governance codes, cooperation with all stakeholders, the policy of transactions between the company and related parties, the commitment to identify conflicts of interest and the independence of management and supervisory bodies, performance assessments and the protection of employees' interests.

Playing an important role in terms of ensuring business ethics is the code of ethics and professional standards, which governs the principles and rules by which SID Bank, its bodies and its employees act in the performance of their activities and tasks in relation to customers, other banks, the economic environment and within SID Bank itself.

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

In the context of internal social responsibility, the Bank promotes different activities that help implement the values of the Bank in the everyday life and work of employees. Employees also attend various meetings and roundtables at which they promote the values of sustainable development and ethical conduct as the basis for socially responsible and sustainable banking.

The Bank encourages employees to submit suggestions for improvements to procedures and processes via a well-established system for promoting creativity and handling suggested improvements that encompasses, in particular, communication with employees about the importance of creativity for the viability and development of the Bank, the regular monitoring of achievements in this area, the rewarding of suggestions and the implementation of improvements in practice.

SID Bank addresses social responsibility in detail in its sustainability report, which is available on its website.

Corporate Governance Statement

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

REFERENCE TO CODES, RECOMMENDATIONS AND OTHER INTERNAL REGULATIONS ON CORPORATE GOVERNANCE, AND ON DEROGATIONS FROM CODES AND RECOMMENDATIONS

SID Bank is a company with a capital asset of the state, and is a public company in the sense of the Financial Instruments Markets Act.

SID Bank complied with the following codes and recommendations in its operations in 2022:

- The Slovenian Corporate Governance Code issued by the Ljubljana Stock Exchange and the Slovenian Directors' Association on 9 December 2021 for the purpose of effective corporate governance came in to force on 1 January 2022 and was used for the first time for the 2022 financial year. The code is available to the public on the website of the Slovenian Directors' Association (*https://www.zdruzenje-ns.si/knjiznica/1838*);
- The Corporate Governance Code for Companies with Capital Assets of the State, which was issued by Slovenski državni holding d.d. in May 2017 (last updated in June 2022, effective 1 July 2022), and the Recommendations and Expectations of Slovenian Sovereign Holding, which was issued by Slovenski državni holding d.d. in August 2020 (last updated in June 2022). Both documents are published on the website of Slovenski državni holding d.d. (*www.sdh.si*).

Details of the derogations from the aforementioned codes and recommendations and the arguments for these derogations are presented below, and primarily proceed from the special statutory arrangements for the operations of SID Bank in the ZSIRB and ZBan-3.

Slovenian Corporate Governance Code

Corporate governance framework

RECOMMENDATION 1

SID Bank operates primarily in accordance with the fundamental principles of operations set out in the ZSIRB. The role, purpose and operations of SID Bank are set out in the Bank's articles of association. One of the five basic principles of SID Bank's operations is the *'principle of the financial value of the Bank's services for the users thereof'*, which specifies that SID Bank provides all services with the aim of generating direct or indirect value-added for the users of SID Bank's financial services and, above all, maintaining and increasing its capital without pursuing the objective of maximising profit (Article 9 of the ZSIRB).

Diversity policy

RECOMMENDATION 4

In terms of its diversity policy, SID Bank primarily undertakes to follow and comply with the applicable banking legislation. To that end and because the persons nominating supervisory board members are ministers, the diversity policy is incorporated in a number of documents, also adding a special dedicated chapter in the published governance policy and also in policies governing the selection of management body members.

Corporate governance statement

RECOMMENDATION 5.6

For reasons of cost considerations, the Bank does not provide a periodic external assessment of its corporate governance statement.

Relations with shareholders

RECOMMENDATION 8

The ownership of SID Bank is prescribed by the law. The Republic of Slovenia is the only shareholder in SID Bank. This recommendation is thus applied mutatis mutandis (Article 4 of the ZSIRB).

RECOMMENDATION 8.1 and 8.2

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

General Meeting of Shareholders

RECOMMENDATION 10.16

SID Bank only has one shareholder.

Supervisory board

RECOMMENDATION 11 and 12

The manner in which the members of SID Bank's supervisory board are appointed is set out in the ZSIRB and ZBan-3. The ZSIRB, as a special law, specifies that the members of the Bank's supervisory board are appointed by the Republic of Slovenia, six based on the proposal of the minister responsible for finance and one based on the proposal of the minister responsible for the economy. Applicable with regard to other conditions are the provisions of the ZBan-3 and implementing regulations, including the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks and the Regulation on the application of the Guidelines on the assessment of the suitability of members of the management body and key function holders. SID Bank has adopted the appropriate bylaws governing the appointment of members of the Bank's supervisory board (the governance policy, the policy for the selection of supervisory board members and the policy for the assessment of the suitability of members of the management body, etc.).

SID Bank implements its corporate governance arrangements in accordance with the legislation applicable in Slovenia, taking into account its own bylaws (its articles of association, governance policy, and code of ethics and professional standards). SID Bank also takes into account the regulatory framework of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), the legal acts of the ECB, and the regulations and other acts of the Bank of Slovenia.

Evaluation of the supervisory board

RECOMMENDATION 16.4

The Bank of Slovenia conducts an external assessment of the work of the supervisory board on the basis of reports and access to various types of documentation.

Supervisory board committees

RECOMMENDATION 18.1

In accordance with the ZBan-3, SID Bank has three supervisory board committees: an audit committee, a risk committee and a nomination and remuneration committee.

RECOMMENDATION 18.4 and 18.6

In accordance with the ZBan-3, only members of the Bank's supervisory board may serve as members of the latter's committees.

Transparency of operations

RECOMMENDATION 30.3 and 30.4

The ZSIRB specifies the ownership of SID Bank, which is limited exclusively to the Republic of Slovenia. It also specifies that the Bank's distributable profit cannot be used for distribution among shareholders, but is allocated to other profit reserves (Article 4 of the ZSIRB).

Publication of important information

RECOMMENDATION 32.7

The Bank does not publish rules of procedure of the management body and supervisory body due to the broader content covered by both rules of procedure.

Corporate governance code for companies with capital assets of the state

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

RECOMMENDATION 3.6

The composition of SID Bank's management body is specified by the ZBan-3, which defines, *inter alia*, the appropriate representation of both genders on that body (Article 35 of the ZBan-3). SID Bank summarised that legal obligation in its bylaws (policy on the selection of supervisory board members and policy on the selection of management board members) in such a way that if there are two candidates of different gender who meet all of the conditions to fill a position and they are equally assessed, the person selected to fill that position is the one who contributes to the diversity of the body's composition and the appropriate representation of both genders. The Bank also creates a profile of missing management body members on the basis of the composition of the Bank's management board and/or supervisory board, which in addition to diversity in terms of gender, also takes into account other aspects, such as knowledge, skills, experience for the in-depth understanding of the Bank's activity and risks to which the Bank is exposed. With the commencement of the work of new management board members, the diversity policy was implemented in its entirety in 2022, but has yet to be implemented in the supervisory body in relation to diversity in terms of gender, as the Bank still only has male members sitting on the supervisory board.

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

RECOMMENDATION 4.2

Taking into account the legal provision (Article 4 of the ZSIRB), SID Bank has one shareholder. That is the Republic of Slovenia.

5. Position of companies with capital assets of the state

RECOMMENDATION 5.1

SID Bank is a specialised development and promotional bank, with legal mandates primarily set out in the ZSIRB and the ZZFMGP. The state may also adopt specific/special laws empowering the Bank to perform additional tasks (e.g. the guarantee scheme for young people). The above facts place the Bank in a privileged position vis-à-vis other entities. Notwithstanding the above, the Bank is committed to operating in accordance with the fundamental principles of law, including the principles of non-competition, non-discrimination and transparency of operations.

6. Supervisory board

RECOMMENDATION 6.5 and 6.7

The composition of SID Bank's supervisory board is governed by the ZSIRB and the ZBan-3. The recommendation is applied *mutatis mutandis*.

Members of SID Bank's supervisory board are appointed by the government, at the proposal of the competent ministers (Article 18 of the ZSIRB). The procedure for assessing candidates is conducted in accordance with the ZBan-3, the EBA guidelines and the Bank's bylaws in the manner described in detail in the section relating to the work of the committee for the assessment of the suitability of members of the management body.

RECOMMENDATION 6.8 and 6.9

In addition to the ZBan-3 and the ZGD-1, the procedures for the nomination and appointment of supervisory board members are also governed by the ZSIRB, as a special law.

The proposers of candidates for members of the supervisory board are the ministers responsible for finance and the economy. The committee for the assessment of the suitability of members of the management body and the nomination and remuneration committee of the Bank's supervisory board participate in the fit and proper assessment process for candidates for the Bank's supervisory board appointed by the Slovenian government. The recommendation is applied *mutatis mutandis*.

RECOMMENDATION 6.11 and 6.14

SID Bank is required to comply with Article 51 of the ZBan-3, which stipulates that, the ZGD-1 and ZSDU notwithstanding, only members of a bank's supervisory board may sit on its supervisory board committees. Since SID Bank is an important bank, it must also have a nomination and remuneration committee.

8. Transparency of operations and reporting

RECOMMENDATION 8.1.1

SID Bank is required to comply with the ZBan-3 with regard to disclosures, and more precisely in the compilation of its business report it is required to take into account the requirements set out in Chapter 4 of the ZBan-3 (Articles 102 to 109), and Article 70 of the ZGD-1. In the Appendix to annual report the disclosures of information set out in Part Eight of the CRR (Articles 431 to 451) are included in the format and with the content stipulated by Commission Implementing Regulation (EU) No 2021/637 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council. In accordance with the requirement under Article 294b of the ZGD-1, SID Bank prepares a report on remuneration, which after discussion at the general meeting is published.

Recommendations and Expectations of Slovenian Sovereign Holding

Sponsorship and donations

RECOMMENDATION 3.8

SID Bank has a renewed communication strategy, which, among other things, addresses sponsorship and donation issues. Once formally adopted, it will be published on the website in the relevant part. Information about sponsorship and donation agreements is published on SID Bank's website *(https://www.sid.si/o-banki/informacije-javnega-znacaja)*.

RECOMMENDATION 3.11

SID Bank is financed from public funds only in a small portion. For this reason, the restrictions referred to in section 3.11 do not apply to it. The earmarking of funds for sponsorships and donations is a part of the Bank's financial plan.

Cost optimisation

RECOMMENDATION 4.4

SID Bank paid annual leave allowance in 2022 in the amount of the average monthly wage in the Republic of Slovenia, and the performance-related payment in line with SID Bank's own collective agreement, which sets out the procedures and criteria for defining payments. Given that the payment details constitute a trade secret, SID Bank did not publish this information.

RECOMMENDATION 4.5

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

MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN CONNECTION WITH THE FINANCIAL REPORTING PROCEDURE

Internal control mechanisms, the functioning of which is in place for all of SID Bank's business processes in proportion to the materiality and risk of an individual process, include:

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

The implementation of internal controls is primarily carried out on the basis of:

- documented rules and procedures for ensuring the compliance of the Bank's operations with regulations, standards (including ethical standards) and bylaws, and the requirements of Bank of Slovenia and other competent supervisory authorities, and best practices;
- monitoring of the compliance of business transactions and investments with adopted risk limits;
- oversight of the proper implementation of the prescribed work procedures in connection with operational and organisational activities on the part of employees;
- verification of the accuracy of internal and external reports;
- safeguarding of the Bank's assets;
- the development and security of the Bank's information systems and information; and
- a suitable response in the event of identified deviations from documented rules and best practices, including the enhancement of the control environment where appropriate.

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

Internal control functions at SID Bank include the internal audit department, risk management department, compliance department and the information security department.

The supervisory board has established an audit committee, whose work focuses in particular on financial reporting and internal controls, and a risk committee, whose responsibilities primarily relate to supervision and the provision of advice on risk management. The AML/CFT officer also reports to the risk committee, while the information security department and the compliance department report directly to the supervisory board. Irrespective of this system of reporting, the report on the work of AML/CFT officer in 2022 was included in the report on the work of the compliance department as an exception.

Compliance

The compliance department is an independent and impartial organisational unit that is functionally and organisationally separate from the Bank's other organisational units, and is answerable directly to the management board. The director of the compliance department has direct access to the Bank's management board and supervisory board, which also applies to the AML/CFT officer. The anti-money laundering and countering terrorist financing function is classified under the compliance department in terms of organisational structure.

The Bank's compliance department has been functioning since 2009. The responsibilities and powers of the department meet the requirements of banking and other relevant legislation. With the entry into force of the ZVOP-2, the compliance department also took over the function of the data protection officer (hereinafter: DPO), which until the ZVOP-2 came into force had been carried out by the department responsible for information security. In addition to its regular tasks, the department also performs the functions of the AML/CFT officer, the DPO function, while the director of the department is a member of the committee for the assessment of suitability, which cooperates with the nomination and remuneration committee of the Bank's supervisory board in the process of drafting an assessment of the suitability of the members of the management body. In 2022, the department has been actively engaged in the area of whistleblower protection and has already covered this area in a separate bylaw, which will enter into force on the effective date of the law (2023). The Bank has been invited by the proposer of the law (the Ministry of Justice) to actively participate in the process of drafting a Slovenian law governing whistleblower protection. Another area where the compliance department has paid more attention this year is the implementation of restrictive measures, in particular in relation to the restrictive measures taken by the EU against Russia as a result of its aggression against Ukraine.

The compliance department's primary tasks are to identify and asses regulatory compliance risks and reputation risk, and to also identify and assess the Bank's compliance risks to which the Bank is or could be exposed in its operations due to the breach of valid regulations, valid agreements, prescribed or best practices and ethical standards on the one hand, and the strengthening of corporate ethics and integrity on the other, including reporting to the management body on established facts and the potential need to adopt corrective measures. The department is actively involved in the preparation of reputation risk acceptability policies, where it cooperates with other departments of the Bank in defining acceptable or unacceptable sectors suitable for SID Bank financing, as well as in the formulation of the policy on the acceptability of customers in terms of negative media coverage, potential minor offence, criminal or other official proceedings initiated against the customer or persons related thereto. In 2023, these policies are expected to be approved by the decision-making bodies and published on the Bank's website.

Notwithstanding the above, in accordance with the adopted code of ethics and professional standards at the Bank, which the Bank is expected to completely update in 2023, all of the Bank's employees are responsible for ensuring compliance with regard to their role and level of responsibility. It is the right and obligation of employees to undergo training in the area of compliance risk management. Compliance risk is the risk of a significant financial loss or loss of reputation owing to legal sanctions and measures by supervisory authorities that the Bank could suffer because of the wilful or accidental failure of its operations to comply with applicable legislation and standards of good practice.

The department had four employees at the end of 2022. The department operates in accordance with an annual work plan, which, in addition to regular audits of compliance, also includes an advisory function to the Bank's management board, supervisory board and individual organisational units. The compliance department advises in particular on the introduction of new products, the prevention of money laundering and terrorist financing, the implementation of restrictive measures by the EU, the United Nations and third countries, the management of fraud risks, an assessment of the legality and ethics of the conduct of the Bank's stakeholders, participation in the Bank's criminal and civil proceedings, and the training of employees and the Bank's management body. As mentioned above, the department also performs the function of AML/CFT officer. In line with the revised guidelines and the law governing this area, the Bank has updated its bylaws covering this area. The Bank holds a monthly AML/CFT coordination meeting to provide both training and implementation of the second level of control. In the same manner, the compliance department, in its capacity as the DPO, has advised other departments on personal data protection issues. Due to a change in legislation, the department/data protection officer will update the bylaw governing this area in 2023, addressing the protection of personal data also through educational content. The department is also responsible for handling complaints and whistleblowing from customers, employees and third parties, and is the central point of contact for such matters. In 2022, the department focused a great deal of attention on monitoring the valid restrictive measures, adopted by the EU and the international community in response to Russia's aggression in Ukraine, and on educating staff on their proper implementation. In doing so, it assessed not only the regulatory compliance of the Bank with the restrictive measures, but also the impact on the Bank's own reputation risk in the event of further cooperation/business with Russia, in particular with sectors that do not fall under the restrictive measures regime.

In the area of preventing money laundering and terrorist financing, the Bank is proceeding with the process of digitalisation and computerisation, in the scope of a broader project to develop a new credit application.

The compliance department also cooperates with the product development and EU programmes department in the area of acquiring a pillar assessment. Special focus in the scope of this project is given to the question of identifying the avoidance of the payment of tax. In 2022, the Bank has regulated this area accordingly, and in the first stage will hire external contractors to implement the adopted policies, who will also be responsible for training employees in relation to this area.

The compliance department also pays special attention to the implementation of received (internal audit department) and issued recommendations. It reports half-yearly to the management body on the realisation of the annual work plan, and on the implementation of recommendations issued on a quarterly basis. The department also reports to the management body separately regarding compliance with the code of ethics and professional standards.

This also includes reporting on the number of received and justified complaints, and reports on suspected breaches of bylaws and best practices. The Bank's system for reporting suspected breaches/complaints (whistleblowing) facilitates anonymous reporting. Detailed procedures are accessible on the website *https://www.sid.si/o-banki/druzbena-odgovornost-etika*.

In the event of detecting increased compliance risk, the director of the compliance department may also propose an extraordinary audit of compliance. This was not utilised in 2022. Nor was any external audit imposed by the Bank's supervisory board or management board.

The department dedicates a great deal of attention to strengthening the corporate ethics and integrity of SID Bank's employees, which is reflected in employee training and annual verifications of the compliance of employee conduct with the code of ethics and professional standards for individual categories of employees for whom the highest risk of unethical conduct and conflicts of interest was identified. The compliance department also informs the management board annually of these findings. The Bank has seen a positive development in this area, with significantly fewer breaches of the code by employees in 2022 compared to the previous year, or fewer than three breaching parties. Furthermore, the department assesses signs/elements of criminal and civil liability of the Bank's employees and other stakeholders, or suspicions of internal and external fraud and informs the management board and also the internal audit department and the risk management department thereof. If there are grounds for suspecting the commission of a criminal offence, the department, with the prior consent of the management board, files criminal charges or proposes other measures, as the Bank has a zero tolerance towards both fraud and corruption.

In 2022, the compliance department collaborated with other organisational units in relation to the detection and appropriate handling of loss events in the area of the remuneration policy and new product launches, and with the risk management department on fraud risk and reporting on the Bank's knowledge and implementation of restrictive measures, as well as in relation to the monitoring and assessment of the Bank's outsourced contractors.

Internal auditing

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

The internal audit department operates in accordance with the Zban-3, the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors and the Code of Internal Auditing Principles. The activity of the internal audit department and the procedures of internal auditing are set out in the rules of procedure of internal auditing and in the internal auditing manual.

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

The 2022 annual work plan envisaged nine extensive and complex audits, of which, including due to the five Bank of Slovenia audits, six were completed in 2022 and early 2023. Three audits will be carried out in the first half of 2023 as part of the internal audit department's annual work plan for 2022.

The internal audit department also devoted considerable attention to progress in the implementation of recommendations. In addition to regular audits and the follow-up of the implementation of recommendations, in 2022 the internal audit department also provided advice regarding the development of banking products, IT, informal advice covering a broad range of content and coordination with external institutions.

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

The internal audit department had three employees in 2022, one of whom was a part-time employee. A new member of staff joined the department in December. In addition to the other licences, all employees hold the professional licences and professional titles to perform internal auditing tasks.

INFORMATION ON POINT 4 OF THE FIFTH PARAGRAPH OF ARTICLE 70 OF THE ZGD-1 WITH REGARD TO THE INFORMATION REFERRED TO IN POINTS 3, 4, 6, 8 AND 9 OF THE SIXTH PARAGRAPH OF THE AFOREMENTIONED ARTICLE

The Republic of Slovenia is the sole shareholder in SID Bank pursuant to Article 4 of the ZSIRB. The shareholder's voting rights are not restricted.

Rules on the appointment and replacement of members of management and supervisory bodies, and amendments to the articles of association

Members of the Bank's management body may be appointed/dismissed in accordance with the ZSIRB, ZBan 3, the ZGD-1 and SID Bank's articles of association.

The process of selecting members of the management body is set out in the policy on the selection of management board members and the policy on the selection of supervisory board members.

The changes to the management board in 2022 are set out in this statement in the scope of the information on the composition of the management body.

There were no changes to the articles of association in 2022.

INFORMATION ABOUT THE WORK AND KEY POWERS OF THE GENERAL MEETING, AND DESCRIPTION OF SHAREHOLDER RIGHTS AND THE EXERCISE THEREOF

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

With the supervisory board's consent, the management board may state in the convening of the general meeting of shareholders that the sole shareholder may participate in and cast votes at the general meeting of shareholders by electronic means, without being physically present (electronic general meeting of shareholders).

The general meeting's powers are set out by the ZGD-1 and the Zban-3.

INFORMATION ON THE COMPOSITION AND FUNCTIONING OF MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

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

Supervisory board

The supervisory board monitors and supervises the management and operations of the Bank. The supervisory board operates on the basis of its rules of procedure, which set out in detail the principles, procedures and work methods, while its principal powers and responsibilities are set out by the Bank's articles of association and laws governing the Bank's operations, most notably the ZGD-1, the ZBan-3 and the ZSIRB.

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

In accordance with the ZSIRB, the supervisory board comprises seven members who are appointed by the government. Members of the supervisory board are appointed to a five-year term of office. The procedure and conditions for the selection of suitable members are set out in the ZSIRB and ZBan-3, and in the policy on the selection of supervisory board members. The policy sets out the method for the selection of candidates who possess the relevant knowledge, skills and experience to supervise and monitor the direction of the Bank's business, and the requisite reputation, and ensures that the supervisory board as a whole possesses the relevant knowledge, skills and experience required for the in-depth understanding of SID Bank's activities and the risks to which it is exposed. Diversity is encouraged as much as possible in terms of knowledge, skills and experience, and also with regard to other circumstances, in particular gender, age, qualifications, social status and the other traits of candidates. The policy states that the supervisory board comprises at least one member with knowledge and experience in the areas of (i) financial risk management, (ii) the supervision and auditing of SID Bank's activities, (iii) commercial law and corporate governance, and (iv) management and remuneration, and at least two members with specific banking knowledge and several years of experience in banking.

SID Bank has put in place a process for assessing the suitability of members of the management body. Within the framework of the regular annual assessment of the management body, the supervisory board's work was assessed as suitable, both in terms of individual members and the body as a whole, irrespective of its incomplete composition in accordance with the ZSIRB. It was emphasised during the annual assessment of the work of the Bank's supervisory board that the composition of the supervisory board ensures diversity according to the majority of the criteria referred to in the policy on the selection of supervisory board members. However, the composition lacks balance in terms of gender and, partially, in terms of diverse knowledge and experience in the areas of law, supervision and auditing. As a result, increased focus was placed on these criteria when determining the profiles of supervisory board members to be recruited, which are defined by the nomination and remuneration committee in the procedure for appointing new supervisory board members.

All three committees of the supervisory board (the audit committee, the risk committee and the nomination and remuneration committee) are of the appropriate size and composition, while committee members possess the requisite knowledge and experience to perform the tasks of individual committees that are determined by the law.

There were no changes in the composition of SID Bank's supervisory board in 2022. The term of office of two members, Marjan Divjak and Zlatko Vili Hohnjec, expired on 18 May 2022. However, the government decided to reappoint these two members to a new five-year term of office.

Composition of the supervisory board and its committees in 2022[8]

Name and surname	Function[9]	First appointment to function	End of function/ term of office	Attendance at sessions of the supervisory board[10]	Gender	Nationality	Year of birth	Education	Professional profile	Status of independence in the statement of independence	Existence of conflicts of interest during the financial year[11]	Membership in the supervisory bodies of other companies	Membership on committees	Function	Attendance at committee sessions
Janez Tomšič	Chair	11 September 2020[12]	11 September 2025	23/24	M	Slovene	1979	Bachelor's Degree in Law	• Financial risks • Supervision • Commercial law and corporate governance • Management and remuneration • Banking knowledge/ expertise and experience	YES	YES	Kapitalska družba, d.d.	Nomination and Remuneration Committee	Member	20/20
Leo Knez	Deputy Chair	21 February 2013	22 February 2023	24/24	M	Slovene	1982	Master of Actuarial Science	• Financial risks • Supervision and auditing • Commercial law and corporate governance • Banking knowledge/ expertise and experience	YES	YES	/	Audit Committee Risk Committee	Chair Member	13/13 9/9
Igor Masten	Member	11 September 2020	11 September 2025	21/24	M	Slovene	1975	PhD in Economics	• Financial risks • Supervision and auditing • Banking knowledge/ expertise and experience	YES	YES	/	Risk Committee	Chair	8/9
Zlatko Vili Hohnjec	Member	18 May 2017	18 May 2027	19/24	M	Slovene	1953	Bachelor's Degree in Economics	• Financial risks • Supervision and auditing • Commercial law and corporate governance • Banking knowledge/ expertise and experience • Management and remuneration	YES	NO	Terme Olimia, d.d.	Audit Committee Nomination and Remuneration Committee	Deputy Chair Member	13/13 20/20

[8] In accordance with the ZSIRB, members of the supervisory board are appointed by the government, at the proposal of the competent ministers. There are no employee representatives on the supervisory board. In accordance with the ZBan-3, there are no external members on supervisory board committees.

[9] Function as at 31 December 2022.

[10] The supervisory board met at twenty-four sessions in 2022: fifteen regular and nine correspondence sessions. Attendance also includes the exclusion of members to control conflicts of interest. The nomination and remuneration committee met at twenty sessions in 2022: nineteen regular and one correspondence session. The audit committee met at thirteen sessions in 2022: twelve regular and one correspondence session. The risks committee held nine sessions in 2022.

[11] The specification of a potential conflict of interest does not apply to the consideration of (partial) suitability assessments for individual supervisory board members, where supervisory board members are consistently excluded from consideration.

[12] Janez Tomšič was first appointed to SID Bank's supervisory board on 5 April 2012, and remained on the supervisory board until the end of his term of office on 5 April 2017.

Name and surname	Function	First appointment to function	End of function/ term of office	Attendance at sessions of the supervisory board	Gender	Nationality	Year of birth	Education	Professional profile	Status of independence in the statement of independence	Existence of conflicts of interest during the financial year	Membership in the supervisory bodies of other companies	Membership on committees	Function	Attendance at committee sessions
Marjan Divjak	Member	5 April 2012	19 May 2027	21/24	M	Slovene	1969	Master of Economics Master of Science in Mathematical Finance (Oxford University) Master's in Management of Development (University of Turin) Bachelor of Engineering and Civil Engineering (University of Leeds; technical faculty)	• Financial risks • Supervision and auditing • Commercial law and corporate governance • Banking knowledge/ expertise and experience	YES	NO	/	Nomination and Remuneration Committee	Member	9/9
Marko Tišma	Member	14 July 2016	14 July 2026	24/24	M	Slovene	1967	Bachelor's Degree in Economics	• Financial risks • Commercial law and corporate governance • Banking knowledge/ expertise and experience • Management and remuneration	YES	NO	/	Nomination and Remuneration Committee Audit Committee	Chair Member	20/20 13/13

Supervisory board's nomination and remuneration committee

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

As at 31 December 2022 the supervisory board's nomination and remuneration committee comprised:

Name and surname	Function
Marko Tišma	*Chair*
Zlatko Vili Hohnjec	Deputy Chair
Janez Tomšič	*Member*

Supervisory board's audit committee

In connection with its powers of monitoring and supervision, the audit committee primarily discusses the Bank's annual and interim financial statements, the activities of the internal audit department, the organisation of the system of internal controls, risk management, and any findings by supervisory authorities in the supervision of the Bank. The committee also participates in procedures to select an external auditor, and reviews and monitors the auditor's work and impartiality.

The audit committee comprised the following members as at 31 December 2022:

Name and surname	Function
Leo Knez	*Chair*
Zlatko Vili Hohnjec	Deputy Chair
Marko Tišma	*Member*

Supervisory board's risk committee

Within the scope of its powers, the risk committee primarily provides advice regarding the Bank's general risk appetite and risk management strategy, controls the implementation of strategies, reviews stress and other scenarios and their impact on the risk profile, assists in the implementation of supervision of senior management with regard to the risk management strategy, and verifies whether risks are taken into account in incentives within the framework of the remuneration system and whether the prices of the Bank's products are compatible with its business model and risk management strategy.

The supervisory board's risk committee comprised the following members as at 31 December 2022:

Name and surname	Function
Igor Masten, PhD	*Chair*
Marjan Divjak	Deputy Chair
Leo Knez	*Member*

Management board

SID Bank's business is directed by the management board, which represents it in public and legal matters. The management board is appointed by the supervisory board for a term of five years, and may be reappointed. In accordance with the articles of association, the management board has a maximum of three members, one of whom is appointed president, with the precise number of management board members being determined by the supervisory board. The management board operated with two members in 2022, while the supervisory board conducted the process of selecting the third member of the management board.

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

As of 1 January 2022, the management board assumed office in the composition of Damijan Dolinar as president and Stanka Šarc Majdič as member. The Supervisory Board conducted two procedures for the selection of the third member of the management board in 2022 and appointed Borut Jamnik as a member of the management board at its meeting on 23 December 2022. The decision shall be effective subject to the condition precedent and the condition subsequent of obtaining authorisation from the Bank of Slovenia to perform the function of a member of the management board.

Composition of the management board during the 2022 financial year

Name and surname	Function	Work area as member of the Management Board	First appointment to position	End of function/ term of office	Gender	Nationality	Year of birth	Education	Professional profile	Membership on supervisory bodies of unaffiliated companies
Damijan Dolinar	President of the Management Board	• Pillars 1 and 3, • Strategy, • Sustainable development, • Internal audit, compliance, • AML/CFT and information security	1 January 2022	31 December 2026	M	Slovene	1976	Master of Economics CFA	• Banking knowledge/ expertise and experience • Commercial law and corporate governance • CRO • Supervision and auditing • Management and remuneration • Sustainable development	Supervisory Board of the Three Seas Initiative Investment Fund
Stanka Šarc Majdič	Member of the Management Board	• Pillars 2 and 4, • Risk management, • Assets-liability management, • Credit analyses, • Controlling	1 January 2022	31 December 2026	F	Slovene	1979	Master of Economics	• Banking knowledge/ expertise and experience • Commercial law and corporate governance • CRO • Supervision and auditing • Management and remuneration • ICT Sector	/

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

Credit committee

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

Asset-liability and liquidity management committee

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

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

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

Government operations committee

The purpose of the special government operations committee is the consistent segregation of SID Bank's ordinary operations from its operations on behalf of the Republic of Slovenia. The committee decides on the introduction of new and changes to existing programmes, approvals and changes to transactions that SID Bank concludes on behalf of the Republic of Slovenia, including the financing of international commercial transactions from contingency reserves, insurance and reinsurance, guarantee schemes, and financial instruments funded by European structural and investment funds, and on matters related to these transactions.

The government operations committee has five members, and meets at regular sessions at least once a week.

Distressed investment management committee

The distressed investment management committee, which has five members, manages problematic claims with the status of non-performing loans, where it makes decisions regarding approvals and changes to the terms of investment operations and financial restructuring plans, and regarding all matters associated with non-performing loans (also regarding the enforcement of rights in insolvency proceedings). The committee typically meets once a week.

Sustainable development committee

The committee, which has nine members, was established at the end of 2021. The committee typically meets at monthly sessions, and is primarily responsible for guidance and integration of the sustainable development concept into the operations of SID Bank.

Project committee

The project committee is responsible for the management and supervision of SID Bank's projects. In this scope, it approves the valid portfolio of projects that are managed by the Bank, including the setting of priorities for project implementation, is responsible for keeping the project documents up-to-date, overseeing the quality of projects, and for the achievement of goals by individual projects.

Committees

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

The committee for the assessment of the suitability of members of the management body has three members, who were appointed by the management board, subject to the prior approval of the supervisory board. The committee is autonomous in its work and independent of the management board and supervisory board. The committee functions with two external members with knowledge and experience in banking and financial services, and in recruitment, psychology and related professional fields, while the third member is the director of the compliance department. In 2022, the composition of the committee for the assessment of suitability of members of the management body changed due to the expiry of the contract concluded with an external member with knowledge and experience in recruitment, psychology and related professional fields. The external members of the committee are Viktor Lenče and Maja Fesel Kamenik as at 31 December 2022.

The committee for the assessment of the suitability of members of the management body and the supervisory board's nomination and remuneration committee carry out the fit and proper assessment process for the members of the management body. In 2022, the Bank's management board and supervisory board, also on the basis of recommendations from the Bank of Slovenia, revised and upgraded the Bank's policy governing the procedure for the assessment of the suitability of candidates/members of the management body. The revised policy further emphasises the role of the nomination and remuneration committee in the assessment of candidates/members of the management body, as the sole competent body for drafting the assessment of suitability, while the committee for the assessment of the suitability of members of the management body is tasked with analysing the facts on the part of the candidate and highlighting the areas that require further assessment by the nomination and remuneration committee (potential derogation from the statutory restrictions (limits), need for reputation risk management, etc.).

The fit and proper assessment process for the selection of members of SID Bank's management body complies with the applicable banking legislation[13]. Alongside the selection policy for members of SID Bank's management body, the procedure also takes account of specific elements deriving from the ZSIRB, the corporate governance code and the Corporate Governance Code for Companies with Capital Assets of the State, and the selection policy for members of the supervisory board or management board.

The Bank conducted two search procedures for a third member of the management board in 2022. The first procedure ended with no selection. The committee drew up three (fit & proper) assessments of the suitability of candidates during this procedure. In the repeat procedure the committee drew up two assessments of the suitability of candidates. This procedure ended with the appointment of the third member of the management board, who prior to commencing their term must obtain authorisation from the Bank of Slovenia to perform their function of member of the management board.

The committee drew up four partial suitability assessments, either due to the expiry of the supervisory board member's term of office or due to changed circumstances on the part of the supervisory board member. In 2022, the committee began the process of drawing up suitability assessments for the candidates who had applied to the public call of the Ministry of Finance and the Ministry of Economic Development and Technology for the supervisory board of SID Bank and, due to the expiry of the term of office of a member of the supervisory board in 2022, it also initiated the process of drafting a suitability assessment for this member of the supervisory board.

International trade promotion commission

The government has appointed an international trade promotion commission to coordinate the actions of the relevant government bodies and other bodies and institutions in the implementation of the ZZFMGP, and to ensure the effective implementation of the insurance and financing of international trade and investment. The commission makes decisions regarding all insurance operations that exceed EUR 5 million, or whenever SID Bank itself is involved in a transaction. It also holds decisive powers on other matters related to risk management, such as approvals for:

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

The commission regularly monitors the Bank's operations in areas regulated by the ZZFMGP, which includes the discussion of performance reports and submits its opinion to the Ministry of Finance regarding the Bank's report on the exercising of authorisations under the ZZFMGP.

[13] The ZBan-3, the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, other Bank of Slovenia regulations, EBA and ESMA regulations, most notably the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12) and the EBA Guidelines on internal governance (EBA/GL/2017/11) are taken into account.

The commission met at ten regular sessions in 2022. One of them was an advisory session regarding issues relating to the war in Ukraine and the associated measures set out in the policy on insurance against risks in that country. The commission also took decisions at 14 correspondence sessions.

In 2022, the commission's sessions focused intensively on a policy focusing on insurance towards Ukraine and the related policy towards Russia and Belarus, which have been sanctioned by the international community (EU, US and others). The newly developed situation also required the commission to monitor the value-at-risk, which impacts the level of contingency reserves. It monitored the assessment regularly, with a view to proposing the necessary measures, either to prevent the reduction of the contingency reserves or to increase it from budgetary funds if it were to be reduced too much.

In the area of insurance operations, the commission's main focus has been on the (re)insurance of short-term credits, mainly in Russia, with which sanctions allow business aimed at humanitarian and medical purposes. The remaining decisions relate to measures connected with solving the problem of non-payment of secured loans approved in the past as a result of the war in Ukraine and the global deterioration in operating conditions. Most of these incidents have occurred in Ukraine, Belarus and Africa. Developments in the three main markets of Eastern Europe and negative trends in the global economic growth have led to a significant reduction in reinsurance applications for the primary insurers, Coface Slovenia and Zavarovalnica Triglav, compared to 2021.

Medium-term export credit insurance operations were also discussed at commission meetings to a lesser extent than in previous years. The commission approved the financing of the project in Uzbekistan, but also discussed the planned deals in Africa, in particular a major deal in Angola, and agreed to discuss it further. The commission's decisions also concerned the insurance of non-shareholder loans of Slovenian investors abroad. Slovenian investors are most active in the Balkans, especially in Serbia. The commission also considered changes to country (sovereign) classifications and approved insurance policies towards Armenia, Azerbaijan, Kenya, Tunisia, etc.

At its sessions, the commission also discussed the rules or insurance policy for setting premium rates in cases of the rescheduling of secured loans/investments and agreed to conclude an addendum to the quota share agreement with the primary insurer Coface Slovenia.

Its decision-making to a large extent also concerned the consideration and approval of several amendments to already approved or secured transactions.

The commission functions with six members, and comprises one representative from the Ministry of Finance who has a decisive role (right of veto), two representatives from the Ministry of the Economy, Tourism and Sport, one representative from the Ministry of Foreign Affairs, one representative from the Chamber of Commerce and Industry and one representative from the Bank Association of Slovenia. As at 31 December 2022, the commission comprised Franc Stanonik (chair), Matej Čepeljnik (deputy-chair), Stanislava Zadravec Caprirolo, Bernarda Gradišnik, Iztok Pustatičnik and Jernej Salecl (members). Bernarda Gradišnik replaced Dr Slobodan Šešum in 2022.

DESCRIPTION OF THE DIVERSITY POLICY

SID Bank has transposed requirements regarding the composition of the management body in terms of knowledge, skills, experience and gender balance into its bylaws, including the policy on the selection of supervisory board members and the policy on the selection of management board members. Both policies stipulate that in the event of the availability of several diverse candidates who meet the conditions of appointment, whose individual suitability assessments are equally good, and who would also ensure that the collective suitability of the management body is satisfied, precedence is given to the candidate who would bring greater diversity to the membership of the management body. In 2022, the Bank revised its governance policy, which now includes a chapter on diversity, and published it on its website. With this policy, the Bank has adopted the 40/33/2026 initiative issued by the Slovenian Directors' Association as one of its objectives and will strive to achieve the target gender balance ratios by 2026, in particular targeting 40% of female members on the supervisory board and 33% of female members on the supervisory board and the management board of SID Bank collectively.

The diversity criterion in terms of gender was met in 2022 by the management board, but not by the supervisory board, as only male members sat on the supervisory board. Other criteria relating to professional experience, skills and competencies, and age were satisfied.

Ljubljana, 27 March 2023

Management Board of SID Bank

Stanka Šarc Majdič
Member

Damijan Dolinar
President

Statement of the Management Body on the Appropriateness of the Risk Management Framework

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

on behalf of the management board: Damijan Dolinar, president and Stanka Šarc Majdič, member;

on behalf of the supervisory board: Janez Tomšič, chair;

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

SID Bank has put in place a concept of three lines of defence for the purpose of effective risk management. The risk management framework or function is classed under the second line of defence, and is segregated in organisational terms from the commercial units that take up risks, i.e. within the credit process up to the level of the management board member who is responsible for risks and the executive directors that cover the organisational units that are responsible for the assessment of credit risks of individual business entities with a group of connected clients and investment projects, the monitoring of collateral, the monitoring of debtors, the early warning systems for identifying increased credit risk (EWS), and the management of non-performing exposures. The risk management function at the aggregate level of the Bank reports directly to the management board. This ensures the appropriate implementation of the risk management framework at the level of the Bank's daily activities and the regular notification of the management board and the Bank's other decision-making bodies. Regular independent briefing of the supervisory board's risk committee and the supervisory board on the risks to which the Bank is exposed has also been put in place.

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

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

Ljubljana, 27 March 2023

Management Board of SID Bank

Stanka Šarc Majdič
Member

Damijan Dolinar
President

Supervisory Board

Janez Tomšič
Chair

Significant Events after the End of the Financial Year

On 1 March 2023, SID Bank issued a seven-year bond in the nominal amount of EUR 140 million on the international capital market in a private issue. The bond was issued at a selling price of 100% of its nominal value and at a required yield to maturity equal to the coupon rate of 4.03%. The bond is listed on the multilateral trading facility of the Open Market of the Frankfurt Stock Exchange. In March, SID Bank prematurely repaid a portion of the long-term borrowing under TLTRO-III operations maturing in June 2023 in the amount of EUR 140 million due to the additional surplus liquidity provided by the bond issue.

At the 240th meeting of the supervisory board on 23 December 2022, Borut Jamnik was appointed as a member of the management board. On 20 February 2023, the Bank of Slovenia issued authorisation to perform the function to the newly appointed member. In accordance with the decision of the supervisory board, the term of office of the member of the management board will commence no later than three months after obtaining the authorisation of the Bank of Slovenia.

Zlatko Vili Hohnjec resigned from the supervisory board on 14 March 2023, as did Igor Masten, PhD on 20 March 2023.

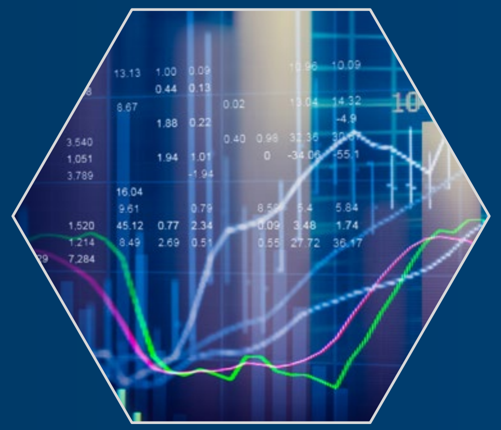
On the proposal of the Ministry of Finance, the Government of the Republic of Slovenia has reappointed Leo Knez to serve as member of the supervisory board of SID Bank for a term of five years, i.e. from 23 February 2023 to 22 February 2028.

The government appointed Gorazd Podbevšek and Matija Šenk to the supervisory board on 17 March 2023. The two newly appointed board members will begin their terms of office once they have obtained authorisation from the Bank of Slovenia to perform this function.

Financial Report

WE ARE NEVER LOSING OUR ESSENCE.

Bees can range from their hives at distances up to seven kilometres and still find their way back. The challenges we face every day are a constant test, and often try to steer us away from the path we have planned. But at SID Bank we do not lose our inner compass, and we remain true to ourselves, our views and our customers.



Management Board's Declaration on the Financial Statements of SID Bank

The management board approved SID Bank's financial statements, and the annual report for the year ending 31 December 2022. The financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU.

The management board believes that SID Bank has sufficient resources to operate as a going concern.

The senior management's responsibilities are:

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

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

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

Ljubljana, 27 March 2023

Management Board of SID Bank

Stanka Šarc Majdič
Member

Damijan Dolinar
President

Independent Auditor's Report on the Financial Statements of SID Bank

Deloitte.

Deloitte revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenia

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

INDEPENDENT AUDITOR'S REPORT

To the shareholder of SID banka, d.d., Ljubljana

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of SID banka, d.d., Ljubljana (hereinafter 'the Company'), which comprise the separate statement of financial position as at 31 December 2022, and the separate profit or loss statement, the separate statement of other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at 31 December 2022, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRS').

Basis for opinion

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

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to non-bank customers (expected credit losses)

In its financial statements for the year ended 31 December 2022 the Company presented loans to non-bank customers in the net amount of EUR 1,425 million and total expected credit loss in the amount of EUR 43 million.

Key audit matter	How our audit addressed the key audit matter
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination and measurement of loss allowance for expected credit losses represents one of the key considerations for the Management. In determining both the timing and the amount of loss allowance for expected credit losses on loans to non-bank customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters; • Estimation of the credit risk related to the exposure; • Assessment of stage allocation; • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses; • Assessment of the forward-looking information;	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from non-bank customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed the following audit procedures with respect to area of loans: • Reviewing the Company's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9; • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses, including utilised applications and information technology tools; • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses; • Testing identified relevant controls for operating effectiveness; • Disaggregating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3,

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• Expected future cash flows from operations; • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of impairment allowances for expected credit losses on loans and receivables from non-bank customers, recognized in accordance with IFRS as a key audit matter in our audit of the financial statements for the year ended 31 December 2022. Management has provided further information about the impairment allowance on loans from non-bank customers in the notes *Financial instruments: Classification and measurement of financial instruments in accordance with IFRS 9; Impairments of financial assets and provisions; Financial assets measured at amortized cost; Impairments; Credit risk.*	individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information vii. re-performing calculation of expected credit losses on a selected sample. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance in the current economic environment iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period.

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	• We also reviewed the information in the separate financial statements to assess whether the disclosures related to asset impairments are adequate in accordance with the requirements of applicable financial reporting standards.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the separate financial statements and our auditor's report thereon. The other information were obtained before the date of the auditor's report, except for the report of the supervisory board and the sustainability report (statement of non-financial operations), which will be available later.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

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

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Those charged with governance are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

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

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

As part of an audit in accordance with International Standards on Auditing and EU Regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

Report on the requirements of the Regulation (EU) No 537/2014 of the European Parliament and of the Council (Regulation EU 537/2014)

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 3 June 2019. Our total uninterrupted engagement has lasted 8 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 27 March 2023 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

The auditor's report on the adequacy of the criteria used and the correctness of their use

We have performed reasonable assurance engagement as to whether the criteria used to allocate income, costs and expenses on individual activities in the preparation of the disclosure *Transparency of financial relations between SID banka and the Republic of Slovenia* for the financial year that ended on 31 December 2022, were appropriate and properly used, all in accordance with the Act on Transparency of Financial Relations and Separate Recording of Various Activities (ZPFOLERD-1).

Responsibility of management and those charged with governance
The management is responsible for the adoption of appropriate criteria and for their correct use in the preparation and presentation of the disclosure of the *"Transparency of financial relations between SID banka and the Republic of Slovenia"* in accordance with the requirements of ZPFOLERD-1, as well as for such internal control as management determines is necessary to enable the preparation of such statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for supervising the preparation of the report.

Auditor's responsibility
Our responsibility is to carry out reasonable assurance engagement and conclude whether the criteria used to allocate income, costs and expenses on individual activities in the preparation of the disclosure

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Transparency of financial relations between SID banka and the Republic of Slovenia for the financial year that ended on 31 December 2022, were appropriate and properly used. Our reasonable assurance engagement was carried out in accordance with *International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000)*, issued by the International Auditing and Assurance Standards Board. Pursuant to the standard, the auditor shall plan and perform the engagement in the way that will allow the auditor to obtain reasonable.

We performed our work in accordance with independence and ethical requirements of EU Regulation no. 537/2014 and the IESBA Code. The Code is prepared based on the principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.
As a part of its compliance with International Standard on Quality Management (ISQM) 1, our company maintains a comprehensive quality management system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work done
Within the scope of the work performed, we carried out procedures of an audit nature, namely:

- We obtained and reviewed the internal regulations of SID banka, d.d., Ljubljana, which determine the rules regarding the allocation of income, costs and expenses to individual activities in accordance with ZPFOLERD-1;
- We checked whether the judgments were approved by the supervisory authority, in accordance with Article 8 ZPFOLERD-1;
- For the criteria used by SID banka, d.d., Ljubljana for the allocation of indirect costs, we checked whether they are based on the activities that cause these costs; if these activities cannot be determined, the indirect costs are allocated based on the share of direct costs.
- We inquired with the management and responsible employees regarding the method, procedures and controls established in the context of cost accounting and the allocation of costs and expenses to individual activities.
- Through additional testing of the data, we verified whether the criteria, as adopted in accordance with Article 8 ZPFOLERD-1, were correctly used for keeping separate accounting records for individual activities.
- We have checked whether the client uses public and other funds received in connection with the activities it performs on the basis of exclusive or special rights or authorization to finance its other activities in violation of paragraph 2 of Article 7 of ZPFOLERD-1.

The criteria we used to evaluate the results of the procedures are derived from Article 8 of the ZPFOLERD-1:

- The company uses criteria to keep separate accounting records for individual activities. The criteria, which are used to allocate the indirect costs per individual activities, are based on accounting principles (paragraph 1 of Article 8 ZPFOLERD-1).
- When allocating indirect costs, criteria based on the activities that cause these costs should be used. If these activities cannot be determined, the indirect costs are allocated based on the share of direct costs (paragraph 2 of Article 8 ZPFOLERD-1).
- Determination and change of criteria are accepted by the supervisory body of an individual contractor with an exclusive or special right or authorization at the proposal of the management body. (Paragraph 3 of Article 8 ZPFOLERD-1).

We believe that the evidence obtained is a sufficient and appropriate basis for our conclusion.

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Conclusion
Based on the procedures carried out and the evidence obtained, in our opinion, the criteria used for the allocation of income, costs and expenses by activity, as shown in the disclosure *"Transparency of financial relations between SID banka and the Republic of Slovenia"*, are appropriate and correctly applied in line with requirements of ZPFOLERD-1.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Tina Kolenc Praznik.

DELOITTE REVIZIJA d.o.o.
Tina Kolenc Praznik
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, 27. marec 2023

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

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

1 Financial Statements of SID Bank

1.1 STATEMENT OF FINANCIAL POSITION OF SID BANK

(EUR thousand)	Note	31 Dec 2022	31 Dec 2021
Cash, cash balances at central banks and demand deposits at banks	2.4.1	413,628	218,126
Non-trading financial assets mandatorily at fair value through profit or loss	2.4.2	38,982	29,302
Financial assets measured at fair value through other comprehensive income	2.4.3	522,450	808,699
Financial assets measured at amortised cost	2.4.4	1,799,364	1,770,072
Debt securities		71,140	0
Loans and advances to banks		343,990	568,769
Loans and advances to customers		1,381,191	1,198,702
Other financial assets		3,043	2,601
Derivatives – hedge accounting	2.4.5	3,415	0
Investments in subsidiaries, associates and joint ventures	2.4.6	0	0
Tangible assets	2.4.7	3,905	4,002
Property, plant and equipment		3,905	4,002
Intangible assets	2.4.7	997	1,054
Tax assets	2.4.8	16,429	1,663
Current tax assets		3,295	0
Deferred tax assets		13,134	1,663
Other assets	2.4.9	538	1,114
TOTAL ASSETS		**2,799,708**	**2,834,032**

The table continues on the next page.

(EUR thousand)	Note	31 Dec 2022	31 Dec 2021
Financial liabilities measured at amortised cost	2.4.10	2,329,090	2,332,797
Deposits from banks and central banks		1,872	0
Loans from banks and central banks		628,803	667,859
Loans from customers		1,034,941	987,512
Debt securities		660,465	675,479
Other financial liabilities		3,009	1,947
Derivatives – hedge accounting	2.4.5	15,849	1,924
Provisions	2.4.11	2,408	2,647
Tax liabilities	2.4.8	0	3,494
Current tax liabilities		0	3,494
Other liabilities	2.4.12	1,492	1,404
TOTAL LIABILITIES		2,348,839	2,342,266
Share capital		300,000	300,000
Share premium		1,139	1,139
Accumulated other comprehensive income		(42,106)	7,042
Profit reserves		189,241	173,495
Treasury shares		(1,324)	(1,324)
Retained earnings (including net profit for financial year)		3,919	11,414
TOTAL EQUITY	2.4.13	450,869	491,766
TOTAL EQUITY AND LIABILITIES		**2,799,708**	**2,834,032**

The notes are an integral part of the financial statements.

1.2 INCOME STATEMENT OF SID BANK

(EUR thousand)	Note	2022	2021
Interest income		33,188	33,177
Interest expenses		(8,974)	(5,171)
Net interest income	**2.5.1**	**24,214**	**28,006**
Dividend income	2.5.2	678	446
Fee and commission income		856	2,033
Fee and commission expenses		(614)	(489)
Net fee and commission income	**2.5.3**	**242**	**1,544**
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	2.5.4	(6,330)	(11,628)
Net gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss	2.5.5	1,807	13,335
Changes in fair value in hedge accounting	2.5.6	(138)	(36)
Net foreign exchange gains/(losses)	2.5.7	12	(31)
Net gains/(losses) on derecognition of non-financial assets		0	5
Other net operating income/(expenses)	2.5.8	6,236	3,482
Administrative expenses	2.5.9	(20,694)	(19,577)
Depreciation and amortisation	2.5.10	(984)	(986)
Net modification gains/(losses)	2.5.11	(171)	(1,399)
Provisions	2.5.12	209	1,972
Impairments	2.5.13	4,972	14,353
Profit before tax from continuing operations		**10,053**	**29,486**
Corporate income tax on continuing operations	2.5.14	(1,802)	(5,456)
Profit after tax from continuing operations		**8,251**	**24,030**
Net profit for the financial year		**8,251**	**24,030**
Attributable to owners of bank		8,251	24,030
Basic earnings per share/diluted earnings per share (in EUR per share)	2.5.15	2.66	7.74

The notes are an integral part of the financial statements.

1.3 STATEMENT OF OTHER COMPREHENSIVE INCOME OF SID BANK

(EUR thousand)	Note	2022	2021
Net profit for the financial year after tax		**8,251**	**24,030**
Other comprehensive income after tax		**(49,148)**	**(8,371)**
Items that will not be reclassified to profit or loss		2,168	1,298
Fair value changes of equity instruments measured at fair value through other comprehensive income	2.4.3	2,677	1,603
Income tax relating to items that will not be reclassified to profit or loss	2.4.8	(509)	(305)
Items that may be reclassified subsequently to profit or loss		(51,316)	(9,669)
Debt instruments measured at fair value through other comprehensive income		(63,353)	(11,937)
Valuation gains/(losses) taken to equity	2.4.3	(62,851)	(11,076)
Transferred to profit or loss		(502)	(861)
Income tax relating to items that may be reclassified subsequently to profit or loss	2.4.8	12,037	2,268
Total comprehensive income for the financial year after tax		**(40,897)**	**15,659**
Attributable to owners of bank		(40,897)	15,659

The notes are an integral part of the financial statements.

1.4 STATEMENT OF CHANGES IN EQUITY OF SID BANK

(EUR thousand)

2022	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE as at 1 Jan 2022	300,000	1,139	7,042	173,495	11,414	(1,324)	491,766
Net profit for the financial year	0	0	0	0	8,251	0	8,251
Other comprehensive income	0	0	(49,148)	0	0	0	(49,148)
Total comprehensive income for financial year after tax	0	0	(49,148)	0	8,251	0	(40,897)
Allocation of net profit to profit reserves	0	0	0	15,746	(15,746)	0	0
CLOSING BALANCE as at 31 Dec 2022	**300,000**	**1,139**	**(42,106)**	**189,241**	**3,919**	**(1,324)**	**450,869**

The notes are an integral part of the financial statements.

(EUR thousand)

2021	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE as at 1 Jan 2021	300,000	1,139	15,413	156,846	4,033	(1,324)	476,107
Net profit for the financial year	0	0	0	0	24,030	0	24,030
Other comprehensive income	0	0	(8,371)	0	0	0	(8,371)
Total comprehensive income for financial year after tax	0	0	(8,371)	0	24,030	0	15,659
Allocation of net profit to profit reserves	0	0	0	16,649	(16,649)	0	0
CLOSING BALANCE as at 31 Dec 2021	**300,000**	**1,139**	**7,042**	**173,495**	**11,414**	**(1,324)**	**491,766**

The notes are an integral part of the financial statements.

1.5 STATEMENT OF CASH FLOWS OF SID BANK

(EUR thousand)	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		10,053	29,486
Depreciation and amortisation	2.5.10	984	986
Impairments/(reversal of impairments) of investments in debt instruments measured at fair value through other comprehensive income	2.5.13	(280)	(409)
Impairments/(reversal of impairments) of loans and other financial assets measured at amortised cost	2.5.13	(4,694)	(13,944)
Impairments of tangible assets (including impairments of investment property), intangible assets and other assets	2.5.13	2	0
Net (gains)/losses from exchange differences	2.5.7	(12)	31
Net modification (gains)/losses	2.5.11	171	1,399
Net (gains)/losses from the sale of tangible assets		0	(5)
Other (gains)/losses from investing activities	2.5.2, 2.5.1	(1,476)	(446)
Other adjustments to total profit or loss before tax	2.3.6, 2.5.4–2.5.6, 2.5.12	4,743	(2,787)
Cash flows from operating activities before changes in operating assets and liabilities		**9,491**	**14,311**
(Increases)/decreases in operating assets (excluding cash and cash equivalents)		**274,660**	**177,340**
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	2.4.2	(7,943)	19,230
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	2.4.3	235,295	66,610
Net (increase)/decrease in loans and other financial assets measured at amortised cost	2.4.4	46,343	91,415
Net (increase)/decrease in assets-derivatives – hedge accounting		391	(15)
Net (increase)/decrease in other assets		574	100
Increases/(decreases) in operating liabilities		**(9,662)**	**(103,565)**
Net increase/(decrease) in deposits and loans measured at amortised cost	2.4.10	4,755	(100,672)
Net increase/(decrease) in issued debt securities measured at amortised cost	2.4.10	(15,014)	(3,848)
Net increase/(decrease) in liability-derivatives – hedge accounting		539	(159)
Net increase/(decrease) in other liabilities		58	1,114

The table continues on the next page.

(EUR thousand)	Note	2022	2021
Cash flows from operating activities		**274,489**	**88,086**
(Paid)/refunded corporate income tax		**(8,500)**	**103**
Net cash flow from operating activities		**265,989**	**88,189**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		**1,053**	**456**
Receipts from the sale of tangible assets		1	10
Other receipts from investing activities	2.4.4, 2.5.2	1,052	446
Cash payments on investing activities		**(71,552)**	**(714)**
(Cash payments to acquire tangible assets)		(510)	(296)
(Cash payments to acquire intangible assets)		(320)	(418)
(Cash payments to acquire debt securities measured at amortised cost)	2.4.4	(70,722)	0
Net cash flow from investing activities		**(70,499)**	**(258)**
Effects of change in exchange rates on cash and cash equivalents		12	8
Net increase/(decrease) in cash and cash equivalents		**195,490**	**87,931**
Opening balance of cash and cash equivalents		**218,126**	**130,187**
Closing balance of cash and cash equivalents		**413,628**	**218,126**

The notes are an integral part of the financial statements.

CASH AND CASH EQUIVALENTS

(EUR thousand)	31 Dec 2022	31 Dec 2021
Cash balances at central banks	413,466	217,868
Demand deposits at banks	162	258
Total	**413,628**	**218,126**

CASH FLOWS FROM INTEREST AND DIVIDENDS

(EUR thousand)	2022	2021
Cash flows from interest and dividends		
Interest received	34,581	37,413
Interest paid	(1,315)	(4,356)
Dividends received	678	446
Total	**33,944**	**33,503**

2 Notes to the Financial Statements of SID Bank

Sections 1.1 to 1.5 of the financial report present the financial position of SID Bank as at 31 December 2022, profit or loss of SID Bank for the 2022 financial year, other comprehensive income of SID Bank for the 2022 financial year, changes in equity of SID Bank for the 2022 financial year and cash flows of SID Bank for the 2022 financial year. Figures for the position as at 31 December 2021 and for the 2021 financial year are disclosed in the aforementioned financial statements for the purposes of comparison.

2.1 BASIC INFORMATION

SID Bank provides banking services under authorisations obtained from the Bank of Slovenia, and undertakes transactions under the authorisation of the Slovenian state (the Republic of Slovenia) and insurance of receivables. The granting of loans to promote development, environmental protection and energy projects represents the majority of its banking activities.

A more detailed description of the services under authorisation is given in section 2.3.29.

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

The Bank's share capital amounts to EUR 300,000,090.70, and is divided into 3,121,741 ordinary registered no-par-value shares released in several issues.

The Republic of Slovenia (the Slovenian state) is the Bank's sole shareholder.

2.2 STATEMENT OF COMPLIANCE

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

2.3 SIGNIFICANT ACCOUNTING POLICIES

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

In compiling the financial statements for 2022 the Bank applied the same accounting policies as those used in compiling the financial statements for 2021, with the exception of the accounting standards and other changes effective as of 1 January 2022 and approved by the EU.

2.3.1 BASIS FOR COMPILING THE FINANCIAL STATEMENTS

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

The accounting policies may only be changed if:

- the change is mandatory under a standard or interpretation, or
- the change results in the financial statements presenting information of greater reliability or relevance.

2.3.2 USE OF ESTIMATES AND JUDGEMENTS AND MATERIAL UNCERTAINTIES

The compilation of the financial statements in accordance with the IFRS at SID Bank requires the use of estimates and judgements that affect the carrying amounts of reported assets and liabilities, the disclosure of contingent assets and liabilities as at the reporting date, and the amount of revenue and expenses in the reporting period.

The most significant assessments in using accounting policies relate to the classification of financial assets to the relevant business model and assessments of whether contractual cash flows are comprised solely of payments of principal and interest. Financial assets are assigned to a category prior to initial recognition of a financial instrument with regard to the policy of SID Bank.

In terms of the area managing environmental, social and governance risks (ESG risks), SID Bank carries out ESG factor-based assessments at the borrower level above a certain exposure. The result of the comprehensive assessment of ESG factors in the form of a sustainability report enters SID Bank's credit process as an input parameter and can impact the loan rejection/approval and the terms of financing. The limitations in assessing and addressing environmental and climate risks are mainly related to the poor data availability, and the lack of historical links between the transitional activities of companies, physical climate events and the financial performance of companies. More details on this can be found in section Disclosure of environmental, social and governance risks of part Disclosures on the basis of part eight of the CRR.

The Bank used the estimates for:

- impairments of financial assets measured at amortised cost, provisions for contingent liabilities and impairments of financial assets measured at fair value through other comprehensive income (see note in section 2.3.8 under the title Impairments of financial assets and provisions);
- estimates of the fair value of financial assets and liabilities (see note in section 2.3.8 under the title Principles applied in valuation at fair value);
- valuation of derivatives (see notes in section 2.3.9 Derivatives and hedge accounting);
- depreciation and amortisation period of property, plant and equipment and intangible assets (see notes in section 2.3.11 Property, plant and equipment and intangible assets);
- potential tax items (see notes in section 2.3.26 Taxes); and
- provisions for commitments to employees (see notes in section 2.3.15 Employee benefits).

Although the estimates used are based on the best knowledge of current developments and activities, the actual results may differ from the estimates.

SID Bank regularly assesses the estimates and assumptions used, and recognises their effects during the period of the revision.

Uncertainty in the use of estimates and assumptions applied in the compilation of financial statements was further increased in 2022 by key factors linked to the Russia-Ukraine war (energy crisis, high inflation and the resulting tightening of monetary policy and general uncertainty about the macroeconomic situation). During the year, SID Bank monitored and carried out more detailed analyses of the indirect impact of the war in Ukraine on the operations of the companies in its portfolio, and assessed the credit risk of the identified companies accordingly. SID Bank has no direct exposure to the Russian Federation and all direct exposures to Ukraine and Belarus have already been reclassified to nonperforming exposures.

2.3.3 CONSOLIDATION

In addition to SID Bank, the SID Bank Group includes the Centre for International Cooperation and Development (CMSR) and the Prvi Faktor Group (joint venture). SID Bank is a co-founder of the CMSR, in which it does not have any financial stake, but holds 33% of the voting rights (associate).

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

A joint venture is a company jointly controlled by SID Bank on the basis of a contractual agreement.

The investments in the joint venture and associate are accounted for in the consolidated financial statements according to the equity method.

Based on the principle of immateriality, which defines as immaterial information whose omission or non-disclosure does not influence the decision-making of users of the financial statements SID Bank has not consolidated any of these companies because none of them is a subsidiary and their total assets are less than 1% of SID Bank's total assets.

SID Bank only compiled separate financial statements for 2022.

2.3.4 FUNCTIONAL AND REPORTING CURRENCY

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

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

2.3.5 TRANSLATION OF TRANSACTIONS AND ITEMS IN FOREIGN CURRENCY

All transactions in foreign currency are converted into the functional currency at the exchange rate on the transaction date.

Assets and liabilities denominated in foreign currencies are converted in the Bank's financial statements using the reference European Central Bank exchange rate applicable on the reporting date.

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

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

Foreign exchange differences arising on non-monetary items such as equities classified as financial assets measured at fair value through profit or loss are recognised as part of the fair value gain or loss in the income statement.

2.3.6 STATEMENT OF CASH FLOWS

The statement of cash flows is compiled using the indirect method.

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

Under the indirect method, cash flows from operating activities are determined by adjusting pre-tax profit for the effects of changes in operating receivables and liabilities, the effects of non-cash items (e.g. depreciation and amortisation, impairments, and foreign exchange differences) and other adjustments to net profit (e.g. provisions, fair value changes in hedge accounting, changes in the fair value of non-trading financial assets mandatorily at fair value through profit or loss, and gains/losses from the provision of loan funds and Fund of Funds transactions incurred on the basis of a first loss contract clause).

SID Bank includes the effects of changes in issued debt securities in net cash flows from operating activities.

A direct method is used to disclose cash flows from investing activities in accordance with the Regulation on the books of account and annual reports of banks and savings banks, despite the Bank compiling the statement of cash flows under the indirect method. Cash flows from investing activities include dividends received under receipts from investing activities and receipts from the sale of property, plant and equipment, while cash payments on investing activities include acquisitions of property, plant and equipment, and acquisitions of intangible assets, and acquisition of debt securities measured at amortised cost.

2.3.7 CASH AND CASH EQUIVALENTS

Cash equivalents in the statement of cash flows include balances in settlement accounts and business accounts at banks, deposits at central bank and other banks, and loans to banks, and debt securities with an original maturity of no more than three months.

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

2.3.8 FINANCIAL INSTRUMENTS

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS IN ACCORDANCE WITH IFRS 9

Business model

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

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

SID Bank assesses the business model on the basis of how it manages a portfolio of financial assets in order to achieve business goals. Given its role and framework of operation, SID Bank manages financial assets under the first two basic business models, and only classifies financial assets under the third business model when they fail to meet the conditions of one of the first two business models.

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

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

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

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

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

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

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

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

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

Categories of financial assets

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

Financial assets measured at amortised cost

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

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

Financial assets measured at fair value through other comprehensive income

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

The Bank includes debt securities in this category.

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

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

In individual cases, the Bank also values equities at fair value through other comprehensive income, when the relevant standards allow such measurement. In the case of measurement at fair value through other comprehensive income, only dividend income is recognised in profit or loss. Effects accumulated under other comprehensive income are never transferred to profit or loss, even upon derecognition.

Financial assets at fair value through profit or loss

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

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

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

The Bank would classify debt instruments that passed the SPPI test but that were defined as hedging instruments upon initial recognition under financial assets designated for measurement at fair value through profit or loss, if such classification would materially reduce or eliminate accounting discrepancies that occur due to the use of different valuation methods. The Bank does not currently hold such assets.

ACCOUNTING TREATMENT OF THE RECOGNITION OF MODIFIED FINANCIAL ASSETS

If a financial asset is modified, it is necessary to determine whether the change results in the derecognition of an existing asset and the recognition of a new asset, or whether it is simply a change in or modification to an existing financial asset.

In so doing, the Bank takes into account the following criteria, which result in the derecognition of a financial asset:

- whether the change results in the reclassification of an on-balance-sheet exposure and a transition to measurement at fair value;
- whether this involves a new contract based on which the original debtor's debt is repaid, or an annex to a contract under which a new debtor replaces the original debtor in the credit relationship;
- whether this is a consolidation of several financial assets into a single or modified structure of new financial assets with a new cash flow scheme;
- whether this is a change in contractual currency; and
- whether this is a partial conversion of debt to equity.

For all other changes in a financial asset, derecognition is carried out if a change is material. When the net present value of the modified contractual cash flows of a financial asset differs by more than 10% from the net present value of other cash flows prior to the modification, it is recognised as a material change that results in derecognition. In that respect, the modification of contractual cash flows is not deemed a change if the modification of contractual cash flows is carried out under the original contractual conditions.

If the modification causes the derecognition of a financial asset, all costs and fees are disclosed in profit or loss upon derecognition of the original financial asset, and the new financial asset is recognised at fair value, i.e. less expected credit losses as appropriate. If a change does not result in the derecognition of an existing asset, the present value of modified contractual cash flows is calculated using, as the discount rate, the original effective interest rate or the credit-adjusted effective interest rate in the case of purchased or originated credit-impaired financial assets. The gross carrying amount of an asset is adjusted by the amount of the identified difference and the effect recognised in profit or loss. The amount by which the gross carrying amount of the asset is adjusted as the result of modified repayment terms is accrued over the entire remainder of the lifetime of the financial asset and is disclosed in profit or loss as interest income.

RECLASSIFICATION OF FINANCIAL INSTRUMENTS BETWEEN CATEGORIES

The Bank only reclassifies financial assets if the Bank's business model for financial asset management is modified. If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date.

The Bank did not carry out any reclassifications during the reporting periods.

Reclassifications of financial liabilities shall not be permitted.

WRITE-OFF OF INVESTMENT OPERATIONS

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

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

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

- for unsecured exposures, when bankruptcy proceedings are initiated against the customer and the order initiating bankruptcy proceedings is final; and
- for secured exposures, when a period of more than the following has passed since the order initiating bankruptcy proceedings became final:
  - › seven years for exposures secured by real estate, and
  - › five years for exposures secured by movable property or other forms of credit protection (e.g. guarantees, securities and monetary claims), and the aforementioned assets have not been liquidated in the interim. If the exposure is secured by collateral of various types, the longer of the periods regarding the other assets is taken into account.

The write-off of an exposure may also occur:

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

FINANCIAL LIABILITIES

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

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

Financial liabilities measured at fair value through profit or loss comprise: financial liabilities held for trading, under which derivatives not used to hedge against risk are classified, and hedging derivatives, which include derivatives that meet the conditions for hedge accounting.

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

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

PRINCIPLES APPLIED IN VALUATION AT FAIR VALUE

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

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

- the transaction is executed under duress, or the seller is forced to accept the price in the transaction (which may be the case if the seller is experiencing financial difficulties);
- the transaction is executed between related parties;
- the transaction is executed in a market that is not the most advantageous; or
- the transaction price includes transaction costs.

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

IMPAIRMENTS OF FINANCIAL ASSETS AND PROVISIONS

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

Estimated expected credit losses must be estimated for the following financial instruments:

- financial assets measured at amortised cost;
- debt securities classified as financial assets measured at fair value through other comprehensive income;
- lease receivables; and
- off-balance-sheet exposures from loan commitments given and financial guarantee contracts.

IFRS 9 distinguishes between the recognition of expected credit losses during a 12-month period, and lifetime expected credit losses. SID Bank classifies financial assets for which expected credit losses must be estimated in accordance with IFRS 9 into the following stages:

- financial instruments where there has not yet been a significant increase in credit risk, and for which impairments and/or provisions for credit losses are measured on the basis of expected credit losses over a 12-month period are classified as Stage 1. Interest income from these financial instruments is calculated on the basis of the gross carrying amount;
- financial instruments where there has been a significant increase in credit risk in the period between initial recognition and the date for which the Bank estimates expected credit losses are classified as Stage 2. Allowances and provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime of the financial instrument. Interest income from these financial instruments is calculated on the basis of the gross carrying amount; and
- financial instruments where there has been a default event on the part of the debtor are classified as Stage 3. Allowances and provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime of the financial instrument. When calculating the interests for these financial instruments, SID Bank excludes interest income associated with these financial instruments in its entirety, and treats it as created allowances for credit losses and does not recognise that income in the income statement until payment. Upon payment, only interest that relates to the unimpaired portion of principal is recognised in the income statement under interest income. Interest relating to the impaired portion of principal is recognised under revenues from the reversal of impairments in the event of payment.

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

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

In the case of a purchased or originated credit-impaired financial asset (POCI item), SID Bank calculates lifetime expected credit losses until derecognition.

The requirements of IFRS 9 with regard to the assessment of expected credit losses are complex and require critical assessments by the management, and estimates and assumptions particularly in the following areas described in detail below:

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

Measurement of expected credit losses

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

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available on the reporting date without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

Definition of default

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

- the debtor is more than 90 days past due on any material credit obligation to SID Bank; and
- it is unlikely that the debtor will settle its credit obligations to SID Bank in full, without recourse by the Bank to actions such as liquidation of collateral or other procedures.

Significant increase in credit risk

SID Bank assesses on each reporting date whether the credit risk inherent in a financial instrument has increased significantly since initial recognition. It assesses significant increases in credit risk using reasonable and supportable information at the level of the individual financial instrument, taking into account the following criteria:

- a change in credit rating with respect to the initial recognition;
- a change in the weighted lifetime probability of default with respect to the initial recognition;
- the number of days past due at the level of the financial instrument is more than 30;
- the financial instrument becomes a performing forborne exposure; and
- the fair value is lower (by a specified percentage) than the amortised cost of a marketable debt security over a specified period.

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

Inputs used to calculate expected credit losses

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

- a methodology for Stages 1 and 2;
- a methodology for Stage 3 (estimate of cash flows); and
- a methodology for Stage 3 (estimate of collateral).

The inputs used to calculate expected credit losses on the basis of the methodology for Stages 1 and 2 are as follows:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD); and
- discount factor.

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

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

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

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

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

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

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

Forward-looking information

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

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

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

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

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

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

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

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

The table below indicates the annual GDP growth rates that SID Bank took into account in the calculation of expected credit losses according to the situation as at 31 December 2022. In its baseline scenario of growth in Slovenian GDP, SID Bank took into account the forecasts of the Institute of Macroeconomic Analysis and Development, and the macroeconomic forecasts of the European Commission, European Central Bank and IMF in the forecast of GDP growth for the euro area.

	Annual GDP growth, %							
	Slovenia				Euro area			
	2022	2023	2024	2025	2022	2023	2024	2025
Baseline scenario	5.0	1.4	2.6	2.5	3.1	0.9	1.9	2.0
Favourable scenario	6.0	2.5	3.5	3.5	3.5	2.0	2.5	2.5
Adverse scenario	3.8	-1.0	0.0	0.7	2.3	-0.8	0.3	0.7

Sensitivity analysis of macroeconomic variables

The table below presents a sensitivity analysis of the effect of a change in GDP growth by +/- 100 basis points on the level of probability of default (PD), loss given default (LGD) and expected credit losses (ECL) according to the situation as at 31 December 2022. A change in GDP under the baseline scenario in the period 2023 to 2025 is taken into account.

Change in GDP growth	Impact on PD (basis points)	Impact on LGD (basis points)	Impact on ECL (in EUR thousand)
+100 basis points	-14.50	-134.65	-1,698
-100 basis points	15.50	147.51	1,796

Forborne loans

Forborne loans are loans for which forbearance measures were applied. Those measures comprise concessions (allowances) to a customer that is experiencing or will soon experience difficulties in meeting its financial commitments (financial difficulties).

The Bank assesses financial difficulties and the ability to repay a debt at the customer level during the forbearance of loans. In doing so, account is taken of all the legal entities within the customer's group that are subject to consolidation for accounting purposes, and the natural persons who control this group.

A concession relates to one of the following actions:

- a change in the terms of the repayment of the investment transaction when such a change would have been otherwise unapproved had the customer not found themselves in a difficult situation with regard to meeting its financial commitments; and
- partial or complete refinancing of the investment transaction when such refinancing would have been otherwise unapproved had the customer not found itself in a difficult situation with regard to meeting its financial commitments.

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

For the purpose of making a decision on the adoption of a forbearance measure, the Bank obtains information on the effects of forbearance on its financial assets and, as a rule, information on the economic effects of forbearance compared to other alternative solutions (e.g. the liquidation of collateral, the sale of financial assets).

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

HEDGE ACCOUNTING

New developments in hedge accounting brought about by the introduction of IFRS 9 in 2018 include: the abolition of the measurement of hedge effectiveness, time value of options and forward points, determination of the total exposure of hedged items, the possibility of hedging separate components of risk, and a prohibition on the voluntary discontinuation of hedging relationships.

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

Eligible hedging instruments include:

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

2.3.9 DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

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

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

Fair value hedge

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

The Bank uses interest rate swaps as hedging instruments.

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

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

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

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

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

Cash flow hedge

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

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

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

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

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

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

2.3.10 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

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

Impairment tests are carried out for investments in accordance with the commercial expectations of the individual investment.

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

2.3.11 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment

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

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

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

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

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

Depreciation rates applied in 2022 and 2021:

(%)	
Buildings and parts of buildings	5.0
Computer equipment	50.0
Cars	12.5
Furniture	11.0
Other equipment	25.0
Small inventory	25.0

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

- the fair value less cost to sell; or
- the value in use, whichever is higher.

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

Intangible assets with determinable useful life

This item includes investments in software and licences. In 2022 and 2021, software and licences were subject to amortisation at a rate of 20%. Amortisation is charged on a straight-line basis.

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

- the fair value less cost to sell; or
- the value in use, whichever value is higher.

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

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

2.3.12 ACCOUNTING FOR LEASES

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

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

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

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

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

The Bank applied the following practical expedients provided for by the standard:

- the Bank does not separate non-lease components from lease components; instead all lease components and the associated non-lease components are treated as a single lease component; and
- the Bank does not apply IFRS 16 to leases of intangible assets.

The Bank applies the following exemptions permitted by the standard at the time of recognition:

- short-term leases (leases of up to 12 months); and
- low-value leases (the original cost of a new asset under lease does not exceed the euro equivalent of USD 5,000, regardless of the age of the asset).

The Bank recognises lease payments associated with such leases as leasing costs over the entire lease term using the straight-line method.

2.3.13 OTHER ASSETS

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

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

2.3.14 PROVISIONS FOR LIABILITIES AND COSTS

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

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

SID Bank recognises provisions for off-balance-sheet liabilities on the basis of the procedures cited in section 2.3.8 under the title Impairments of financial assets and provisions.

2.3.15 EMPLOYEE BENEFITS

Employee benefits include current and non-current employee benefits.

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

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

Legislation stipulates that employees generally retire after 40 years of service, and are then entitled to a one-off termination benefit at retirement, provided that the stipulated conditions are met. Employees are also entitled to jubilee benefits in accordance with the collective agreement. The aforementioned commitments and all corresponding gains/losses are included in profit or loss.

The requisite provisions on this basis are calculated in the amount of the present value of future expenses, taking into account certain assumptions. The major assumptions are: a discount factor of the weighted average interest rate on government debt securities published by the Ministry of Finance for the purposes of pension insurance, the headcount on the final day of the year, and the average wage of employees in the final quarter. Provisions of this type are calculated every year.

2.3.16 OTHER LIABILITIES

Other liabilities include liabilities for wages, wage compensation and contributions from wages, liabilities for accrued and deferred income, tax liabilities and advances received.

2.3.17 SHAREHOLDER EQUITY

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

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

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

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

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

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

Treasury shares are are disclosed as a deduction to equity in the amount of the consideration therefor.

2.3.18 INTEREST INCOME AND EXPENSES

Interest income and interest expense include interest on financial instruments measured at amortised cost, interest on interest-bearing financial assets measured at fair value through other comprehensive income and, non-trading financial assets mandatorily measured at fair value through profit or loss, and interest on hedging derivatives and other assets and liabilities.

Income and expenses for interest on financial instruments measured at amortised cost and interest-bearing financial assets measured at fair value through other comprehensive income are recognised in the income statement in the relevant period using the effective interest rate method.

Due to technical barriers, when disclosing interest on Stage 3 financial assets and thus interest on non-performing financial assets that are measured at fair value through profit or loss, the Bank applies a conservative approach under which a higher amount of interest (including interest that relates to the unimpaired portion of principal) is credited to impairments for credit losses. This interest is not recognised in the income statement until its payment is made. Upon payment, only interest from the unimpaired portion of the loan principal is recognised under interest income in the income statement if the loan is measured at amortised cost, or interest from the loan's fair value if the loan is measured at fair value. In the event of payment, the interest relating to the remainder of the principal is recognised by the Bank under revenues from the reversal of impairments if the loan is measured at amortised cost, or under net gains on financial assets mandatorily measured at fair value through profit or loss if the loan is measured at fair value.

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

2.3.19 DIVIDEND INCOME

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

2.3.20 FEES AND COMMISSION RECEIVED AND PAID

Fees and commission included in the calculation of the effective interest rate of a financial asset or financial liabilities are disclosed under interest income or interest expenses. The item 'fee and commission income' thus includes fees and commission on issued guarantees and approved credit operations, which are not included in the effective interest rate, while 'fee and commission expenses' comprise fees and commission for borrowings, stock exchange transactions, guarantees received and other services provided (services related to the payment and management of the Bank's assets at another institution).

Fee and commission income, except for those comprising a constituent part of the effective interest rate, are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. In accordance with IFRS 15, revenue is recognised when the Bank fulfils (or is fulfilling) its performance obligation by transferring the services (i.e. asset) promised to the customer. An asset is deemed to have been transferred when the customer obtains control of the asset. If the performance obligation is fulfilled at a specific point in time, the associated revenues are recognised in the income statement when a service is rendered. If the performance obligation is fulfilled over a certain time period, the associated revenues are recognised in the income statement in accordance with the progress made in fulfilling obligations. Due to these rules, the Bank recognises the fees and commission from approved credit operations at the moment when a service is rendered, while it recognises the fees and commission for guarantees issued over the duration of the contract.

The amount of revenues associated with fees and commission is measured on the basis of contractual provisions. If the amount provided in the contract depends entirely or partially on variability, revenues are booked in the amount of the most probable value that the Bank expects.

Fees and commission are generally recognised in profit or loss, when a service has been rendered.

2.3.21 NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gains/losses on financial assets not measured at fair value through profit or loss include gains/losses realised from the sale, upon maturity or other derecognition of financial assets not measured at fair value through profit or loss, i.e. financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost.

The Bank disclosed gains/losses from the operations of loan funds established together with MEDT and MoI under net gains/losses on financial liabilities not measured at fair value through profit or loss. They are recognised on the basis of a contractually agreed first loss clause: any loss on the part of the funds is first covered by the priority participation of the MEDT and MoI in loan fund risks by reducing the liabilities to the MEDT and MoI, which the Bank discloses under financial liabilities measured at amortised cost.

2.3.22 NET GAINS/LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gains/losses on non-trading financial assets mandatorily at fair value through profit or loss include realised and unrealised gains/losses relating to equities, as well as the effects of measurement and realised effects associated with debt securities, loans and other financial assets that do not meet the conditions for measurement at amortised cost.

2.3.23 CHANGES IN FAIR VALUE IN HEDGE ACCOUNTING

In connection with fair value hedging, which fulfils the conditions for hedge accounting, the gains or losses associated with hedging instruments are recognised immediately in profit or loss under the item of changes in fair value in hedge accounting. Gains or losses associated with a hedged item are also recognised under changes in fair value in hedge accounting.

In connection with cash flow hedges that fulfil the hedge accounting conditions, a portion of the gains or losses associated with a hedge instrument, which is defined as the effective part of a hedge, are recognised directly in equity (in other comprehensive income), while the ineffective part of a hedge is recognised in profit or loss under the item of changes in fair value in hedge accounting. Gains or losses recognised in equity are reclassified to profit or loss in the same period in which the hedged item affects net profit or loss.

2.3.24 OTHER NET OPERATING INCOME/EXPENSES

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

Income for non-banking services include fees charged for services provided under authorisation and other services.

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

Other operating expenses mostly comprise expenses for donations.

2.3.25 GOVERNMENT GRANTS

The Bank recognises government grants when there is an acceptable assurance that it will receive the grants and will meet all the relevant conditions. Government grants received by the Bank as compensation for previously incurred expenses or losses or as immediate aid not associated with any additional costs are recognised in profit or loss in the period for which the Bank receives the grants. The Bank deducts grants associated with income from the expenses disclosed in relation to these grants. The Bank received no government grants in 2022 and 2021.

2.3.26 TAXES

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

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

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

In accordance with IAS 12, deferred tax assets and liabilities are netted with each other.

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

2.3.27 CALCULATION OF NET EARNINGS PER SHARE

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

2.3.28 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS GIVEN

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

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

The risks related to contingent liabilities and financial commitments given are assessed on the basis of valid accounting policies and internal regulations in connection with risk management described in section 2.3.8 under the title Impairments of financial assets and provisions. Any increase in liabilities dependent on risk is reflected in the item of provisions.

2.3.29 OPERATIONS FOR THE ACCOUNT OF THE REPUBLIC OF SLOVENIA

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

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

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

The operations of the FI 2014–2020 Fund of Funds and the COVID-19 Fund of Funds that SID Bank manages on its own behalf and for the account of the Republic of Slovenia are recorded as separate items. The assets and liabilities relating to these funds are not included in the Bank's statement of financial position.

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

2.3.30 REPORTING BY OPERATING SEGMENT

Under IFRS 8, SID Bank has one operating segment: banking. The banking segment constitutes a single operating segment, as the operations at the Bank do not vary significantly in terms of risk or return.

The majority of SID Bank's operations are on the domestic market, for which reason it does not disclose additional itemisations by geographical area.

2.3.31 NEW STANDARDS AND INTERPRETATIONS IN THE REPORTING PERIOD AND ISSUED/APPROVED STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE AND APPLIED

Accounting standards, and amendments to and interpretations of existing standards that are effective as of 1 January 2022 and were issued by the IASB and adopted by the EU

- Amendment to IFRS 3 Business Combinations – Reference to the Conceptual Framework with amendments to IFRS 3, as adopted by the EU on 28 June 2021 and effective 1 January 2022. The amendment updates the reference in IFRS 3 to the Conceptual Framework without changing the accounting requirements for business combinations.
- Amendment to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use, as adopted by the EU on 28 June 2021 and effective 1 January 2022. The amendment relates to proceeds that arise before an item of property, plant and equipment is ready for use. If items that are produced as part of the testing of an asset are sold on the market, proceeds from their sale and the associated production costs are recognised in profit or loss in accordance with the relevant standards. The reduction of the cost of property, plant and equipment for proceeds from the sale of items produced while preparing an asset for its intended use is prohibited.

- Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract, as adopted by the EU on 28 June 2021 and effective 1 January 2022. The amendment relates to the costs that a company must include in contract fulfilment costs when assessing whether a contract is onerous. Contract fulfilment costs comprise costs that are directly related to a contract.
- Annual Improvements to the IFRS 2018–2020, adopted by the EU on 28 June 2021 and effective 1 January 2022. Those annual improvements include amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.

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

Accounting standards, and amendments to and interpretations of existing standards that were issued by the IASB and adopted by the EU, but are not yet in effect for the financial year beginning on 1 January 2022

- New IFRS 17 Insurance Contracts, including amendments to IFRS 17, as adopted by the EU on 19 November 2021 and effective for annual periods beginning on 1 January 2023. It provides a comprehensive framework for the measurement and presentation of all insurance contracts.
- Amendment to IFRS 17 Insurance Contracts – Initial Application of IFRS 17 and IFRS 9: Comparative Information, adopted by the EU on 8 September 2022 and effective 1 January 2023.
- Amendment to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies, adopted by the EU on 2 March 2022 and effective 1 January 2023.
- Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, adopted by the EU on 2 March 2022 and effective 1 January 2023.
- Amendment to IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities arising from a Single Transaction, adopted by the EU on 11 August 2022 and effective 1 January 2023.

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

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

- Amendment to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current, effective 1 January 2023.
- Amendment to IAS 1 Presentation of Financial Statements: Non-current Liabilities with Covenants, effective 1 January 2024.
- Amendment to IFRS 16 Leases: Lease Liability in a Sale and Leaseback, effective 1 January 2024.

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

2.4 NOTES TO THE STATEMENT OF FINANCIAL POSITION OF SID BANK

2.4.1 CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS AT BANKS

	31 Dec 2022	31 Dec 2021
Cash balances at central banks	413,466	217,868
Demand deposits at banks	162	258
Total	**413,628**	**218,126**

SID Bank is obliged to meet the obligatory reserve requirement at the central bank. The obligatory reserve requirement is 1% of the stock of deposits received and issued debt securities with an agreed maturity of up to two years. At the end of 2022, the obligatory reserve requirement was EUR 0 (31 December 2021: EUR 0).

2.4.2 NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	31 Dec 2022	31 Dec 2021
Equity instruments	37,646	28,306
Shares (of independent undertakings)	2,653	2,653
Investment coupons	33,836	24,156
Equity holdings	1,157	1,497
Loans and advances	1,336	996
Loans and advances to customers	1,336	996
Total	**38,982**	**29,302**

The increase in the value of equity instruments in 2022 is mostly the result of the Slovene Equity Growth Investment Programme (SEGIP), which was put in place in 2017 at the initiative of SID Bank in collaboration with the European Investment Fund (EIF) and on the basis of additional payments into the Three Seas Initiative Investment Fund.

Changes in non-trading financial assets mandatorily at fair value through profit or loss – equity instruments

	2022	2021
Equity instruments		
Balance as at 1 Jan	28,306	17,432
Increase	14,353	21,212
Acquisition	11,570	15,169
Changes in fair value	2,783	6,043
Decrease	(5,013)	(10,338)
Sale/derecognition	(2,980)	(7,170)
Changes in fair value	(2,033)	(3,168)
Balance as at 31 Dec	**37,646**	**28,306**

Changes in non-trading financial assets mandatorily at fair value through profit or loss – loans and advances

	2022	2021
Loans and advances		
Balance as at 1 Jan	996	17,765
Increase	1,847	13,341
Calculated interest, fees and commissions	41	400
Changes in fair value	1,806	12,941
Decrease	(1,507)	(30,110)
Repayments	(759)	(29,457)
Changes in fair value	(748)	(653)
Balance as at 31 Dec	**1,336**	**996**

2.4.3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Breakdown by type of financial asset measured at fair value through other comprehensive income

	31 Dec 2022	31 Dec 2021
Debt securities	507,271	796,197
Bonds	504,309	795,205
Government	300,698	496,861
Republic of Slovenia	112,595	278,110
Other countries	188,103	218,751
Banks	89,871	162,167
Non-financial corporations	82,917	98,337
Financial institutions	30,823	37,840
Treasury bills and commercial paper	2,962	992
Equities	15,179	12,502
Shares	15,179	12,502
Total	**522,450**	**808,699**
Quoted	496,119	784,180
Unquoted	26,331	24,519
Total	**522,450**	**808,699**
Allowances for credit losses	(209)	(489)

In its securities portfolio management, SID Bank strives for a combination of safety, liquidity and profitability in order to ensure liquidity and ALM. To this end, the debt securities portfolio contains a large proportion of marketable government securities and other highly liquid securities.

The rise in market interest rates and credit spreads in 2022 led to a negative valuation of debt securities. The Bank has been reducing its investments in debt securities measured at fair value through other comprehensive income in order to reduce the volatility of other comprehensive income.

In 2022, the Bank carried out a reversal of impairments on debt securities measured at fair value through other comprehensive income amounting to EUR 280 thousand (in 2021: EUR 408 thousand).

The changes in impairments for debt securities and accumulated other comprehensive income are disclosed on the following pages.

Equities comprise an investment in a strategic partner, i.e. the EIF. The increase in the value of equities is the result of a positive valuation of the investment. In 2021 and 2022, the Bank did not generate any net gains/losses on derecognition of equities measured at fair value through other comprehensive income, meaning that there was no transfer to retained earnings.

The total carrying amount of pledged financial assets measured at fair value through other comprehensive income was EUR 455,844 thousand at the end of 2022 (as at 31 December 2021: EUR 435,752 thousand). The securities were pledged as collateral for targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia and ECB.

Changes in financial assets measured at fair value through other comprehensive income – debt securities

	2022			2021		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Balance as at 1 Jan	795,170	1,027	796,197	876,566	0	876,566
Recognition of new financial assets	18,684	0	18,684	250,390	0	250,390
Transfer from Stage 1 to Stage 2	0	0	0	(1,858)	1,858	0
Transfer from Stage 2 to Stage 1	1,012	(1,012)	0	0	0	0
Accrued interest	1,382	15	1,397	2,359	39	2,398
Interest paid	(7,376)	(30)	(7,406)	(11,832)	(52)	(11,884)
Net changes in fair value	(63,073)	0	(63,073)	(11,530)	0	(11,530)
Effect of change in fair value of hedged financial instruments	(4,294)	0	(4,294)	(463)	1	(462)
Derecognition of financial assets	(234,234)	0	(234,234)	(308,462)	(819)	(309,281)
Balance as at 31 Dec	**507,271**	**0**	**507,271**	**795,170**	**1,027**	**796,197**

Changes in loss allowances from financial assets measured at fair value through other comprehensive income – debt securities

	2022			2021		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Balance as at 1 Jan	(461)	(28)	(489)	(897)	0	(897)
Transfer from Stage 1 to Stage 2	0	0	0	36	(36)	0
Transfer from Stage 2 to Stage 1	(8)	8	0	0	0	0
Impairments	(38)	0	(38)	(274)	(111)	(385)
Reversal of impairments	298	20	318	674	119	793
Balance as at 31 Dec	**(209)**	**0**	**(209)**	**(461)**	**(28)**	**(489)**

Changes in accumulated other comprehensive income from financial assets measured at fair value through other comprehensive income – debt securities

	2022	2021
Balance as at 1 Jan	5,304	14,973
Net changes in fair value	(62,851)	(10,668)
Transfer of (gains)/losses to profit or loss upon sale	(222)	(861)
Impairments	(280)	(408)
Deferred tax	12,037	2,268
Balance as at 31 Dec	**(46,012)**	**5,304**

Changes in financial assets measured at fair value through other comprehensive income – equities

	2022	2021
Balance as at 1 Jan	12,502	6,540
Recognition of new financial assets	0	4,359
Net changes in fair value	2,677	1,603
Balance as at 31 Dec	**15,179**	**12,502**

Changes in accumulated other comprehensive income from financial assets measured at fair value through other comprehensive income – equities

	2022	2021
Balance as at 1 Jan	1,738	440
Net changes in fair value	2,677	1,603
Deferred tax	(509)	(305)
Balance as at 31 Dec	**3,906**	**1,738**

2.4.4 FINANCIAL ASSETS MEASURED AT AMORTISED COST

Breakdown by type of financial asset measured at amortised cost

	31 Dec 2022	31 Dec 2021
Debt securities	71,140	0
Loans and advances to banks	343,990	568,769
Loans and advances to customers	1,381,191	1,198,702
Other financial assets	3,043	2,601
Total	**1,799,364**	**1,770,072**

In 2022, the Bank classified a portion of the debt securities purchased under treasury business, whose aim is to manage liquidity, interest rate and currency risk and to provide resources for financing needs, to business model 1 upon initial recognition. Such financial assets whose primary purpose is to generate cash flows are disclosed under financial assets measured at amortised cost. Securities classified in this way are not subject to active management and sales prior to maturity, and must therefore meet certain criteria that will allow the objective of collecting cash flows to be achieved. The Bank has reduced the volatility of other comprehensive income by reducing the proportion of debt securities measured at fair value through other comprehensive income in the liquid asset structure to cover liquidity outflows and to ensure the Bank's business continuity.

Debt securities

	31 Dec 2022	31 Dec 2021
Bonds		
Government	52,649	0
Banks	18,497	0
Gross exposure	71,146	0
Loss allowances	(6)	0
Net exposure	**71,140**	**0**

In 2022, the Bank recognised an impairment of EUR 6 thousand on debt securities measured at amortised cost (in 2021: EUR 0).

Changes in impairments are disclosed on the following page.

The total carrying amount of pledged debt securities measured at amortised cost at the end of 2022 was EUR 69,143 thousand (as at 31 December 2021: EUR 0). The securities were pledged as collateral for targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia and ECB.

Changes in debt securities (gross exposure)

	Gross exposure	
2022	**Stage 1**	**Total**
Balance as at 1 Jan	0	0
Increases	70,722	70,722
Accrued interest	798	798
Interest paid	(374)	(374)
Balance as at 31 Dec	**71,146**	**71,146**

Changes in debt securities (loss allowances)

	Loss allowances	
2022	Stage 1	Total
Balance as at 1 Jan	0	0
Impairments	(17)	(17)
Reversal of impairments	11	11
Balance as at 31 Dec	**(6)**	**(6)**

Loans and advances to banks

	31 Dec 2022	31 Dec 2021
Loans and advances	311,485	493,515
Deposits	34,293	76,453
Gross exposure	345,778	569,968
Loss allowances	(1,788)	(1,199)
Net exposure	**343,990**	**568,769**

The classification of loans and advances to banks with respect to rating grade is presented in section 3.1 Credit risk under Analysis of credit quality – financial assets measured at amortised cost – loans and advances to banks.

Changes in loans and advances to banks (gross exposure)

	Gross exposure			
2022	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 Jan	569,968	0	0	569,968
Transfer from Stage 1 to Stage 2	(35,242)	35,242	0	0
Transfer from Stage 2 to Stage 3	0	(31,456)	31,456	0
Increase due to new loan drawdowns	50,295	0	0	50,295
Decrease due to repayments	(269,727)	(3,830)	(2,250)	(275,807)
Other net changes	866	44	158	1,068
Net changes due to modification of contractual cash flows (excluding derecognition)	254	0	0	254
Balance as at 31 Dec	**316,414**	**0**	**29,364**	**345,778**

	Gross exposure	
2021	Stage 1	Total
Balance as at 1 Jan	786,470	786,470
Increase due to new loan drawdowns	175,479	175,479
Decrease due to repayments	(391,059)	(391,059)
Other net changes	(75)	(75)
Net changes due to modification of contractual cash flows (excluding derecognition)	(847)	(847)
Balance as at 31 Dec	**569,968**	**569,968**

Changes in loans and advances to banks (loss allowances)

	Loss allowances			
2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 Jan	(1,199)	0	0	(1,199)
Transfer from Stage 1 to Stage 2	42	(42)	0	0
Transfer from Stage 2 to Stage 3	0	271	(271)	0
Increase due to new loan drawdowns	(23)	0	0	(23)
Decrease due to repayments	319	43	119	481
Net change due to change in credit risk	561	(272)	(1,082)	(793)
Net changes with effects on profit or loss	899	0	(1,234)	(335)
Other changes without effects on profit or loss	0	0	(254)	(254)
Net changes without effects on profit or loss	0	0	(254)	(254)
Balance as at 31 Dec	**(300)**	**0**	**(1,488)**	**(1,788)**

	Loss allowances	
2021	**Stage 1**	**Total**
Balance as at 1 Jan	(2,745)	(2,745)
Increase due to new loan drawdowns	(108)	(108)
Decrease due to repayments	456	456
Net change due to change in credit risk	1,198	1,198
Net changes with effects on profit or loss	1,546	1,546
Balance as at 31 Dec	**(1,199)**	**(1,199)**

Loans and advances to customers

	31 Dec 2022	31 Dec 2021
Loans and advances	1,373,828	1,192,294
Government	157,235	123,101
Non-financial corporations	1,215,213	1,068,363
Financial institutions	1,380	830
Receivables from factoring	50,811	56,653
Gross exposure	1,424,639	1,248,947
Loss allowances	(43,448)	(50,245)
Net exposure	**1,381,191**	**1,198,702**

The classification of loans and advances to customers with respect to rating grade is presented in section 3.1 Credit risk under Analysis of credit quality – financial assets measured at amortised cost – loans and advances to customers.

The Bank pledged the loans as collateral for targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia and ECB. The total carrying amount of pledged loans was EUR 103,203 thousand as at 31 December 2022 (31 December 2021: EUR 99,908 thousand).

Changes in loans and advances to customers (gross exposure)

2022	Gross exposure Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	1,053,355	151,494	36,056	8,042	1,248,947
Transfer from Stage 1 to Stage 2	(76,821)	76,821	0	0	0
Transfer from Stage 1 to Stage 3	(600)	0	600	0	0
Transfer from Stage 2 to Stage 3	0	(21,508)	21,508	0	0
Transfer from Stage 2 to Stage 1	68,883	(68,883)	0	0	0
Transfer from Stage 3 to Stage 2	0	303	(303)	0	0
Increase due to new loan drawdowns/recognitions	442,071	1,006	0	0	443,077
Decrease due to repayments/derecognition	(241,806)	(18,988)	(4,740)	(1,136)	(266,670)
Other net changes	1,772	42	(333)	492	1,973
Net changes due to modification of contractual cash flows (excluding derecognition)	(117)	(5)	200	(113)	(35)
Write-offs	0	0	(2,614)	(39)	(2,653)
Balance as at 31 Dec	**1,246,737**	**120,282**	**50,374**	**7,246**	**1,424,639**

2021	Gross exposure Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	909,974	196,419	25,838	11,225	1,143,456
Transfer from Stage 1 to Stage 2	(66,370)	66,370	0	0	0
Transfer from Stage 1 to Stage 3	(4,673)	0	4,673	0	0
Transfer from Stage 2 to Stage 3	0	(13,575)	13,575	0	0
Transfer from Stage 2 to Stage 1	77,216	(77,216)	0	0	0
Increase due to new loan drawdowns/recognitions	405,510	15,503	0	0	421,013
Decrease due to repayments/derecognition	(266,551)	(36,476)	(730)	(3,885)	(307,642)
Other net changes	(1,612)	189	1,039	759	375
Net changes due to modification of contractual cash flows (excluding derecognition)	(139)	(3)	3	(57)	(196)
Write-offs	0	0	(8,342)	0	(8,342)
Foreign exchange differences	0	283	0	0	283
Balance as at 31 Dec	**1,053,355**	**151,494**	**36,056**	**8,042**	**1,248,947**

Changes in loans and advances to customers (loss allowances)

2022	Loss allowances Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	(8,380)	(19,265)	(25,370)	2,770	(50,245)
Transfer from Stage 1 to Stage 2	412	(412)	0	0	0
Transfer from Stage 1 to Stage 3	32	0	(32)	0	0
Transfer from Stage 2 to Stage 3	0	1,357	(1,357)	0	0
Transfer from Stage 2 to Stage 1	(6,681)	6,681	0	0	0
Transfer from Stage 3 to Stage 2	0	(204)	204	0	0
Increase due to new loan drawdowns/recognitions	(2,579)	(131)	0	0	(2,710)
Decrease due to repayments/derecognition	2,452	4,573	2,918	804	10,747
Net change due to change in credit risk	7,770	(3,954)	(5,997)	543	(1,638)
Net changes with effects on profit or loss	1,406	7,910	(4,264)	1,347	6,399
Other changes without effects on profit or loss	0	(1)	(1,877)	(377)	(2,255)
Write-offs	0	0	2,614	39	2,653
Net changes without effects on profit or loss	0	(1)	737	(338)	398
Balance as at 31 Dec	**(6,974)**	**(11,356)**	**(28,897)**	**3,779**	**(43,448)**

2021	Loss allowances Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	(13,513)	(33,812)	(20,687)	(1,649)	(69,661)
Transfer from Stage 1 to Stage 2	535	(535)	0	0	0
Transfer from Stage 1 to Stage 3	930	0	(930)	0	0
Transfer from Stage 2 to Stage 3	0	2,783	(2,783)	0	0
Transfer from Stage 2 to Stage 1	(8,752)	8,752	0	0	0
Increase due to new loan drawdowns/recognitions	(4,456)	(1,919)	0	0	(6,375)
Decrease due to repayments/derecognition	3,718	4,332	450	958	9,458
Net change due to change in credit risk	13,158	1,179	(8,461)	3,847	9,723
Foreign exchange differences	0	(45)	0	0	(45)
Net changes with effects on profit or loss	5,133	14,547	(11,724)	4,805	12,761
Other changes without effects on profit or loss	0	0	(1,301)	(386)	(1,687)
Write-offs	0	0	8,342	0	8,342
Net changes without effects on profit or loss	0	0	7,041	(386)	6,655
Balance as at 31 Dec	**(8,380)**	**(19,265)**	**(25,370)**	**2,770**	**(50,245)**

Other financial assets

	31 Dec 2022	31 Dec 2021
Fee and commission receivables	16	18
Trade receivables	1,398	955
Receivables on other bases	1,630	1,637
Gross exposure	3,044	2,610
Loss allowances	(1)	(9)
Net exposure	**3,043**	**2,601**

Receivables on other bases include receivables for refunds, funds in the fiduciary account, sales of securities, vouchers, and receivables from employees.

The classification of other financial assets with respect to rating grade is presented in section 3.1 Credit risk under Analysis of credit quality – financial assets measured at amortised cost – other financial assets.

Changes in other financial assets (gross exposure)

	Gross exposure		
2022	**Stage 1**	**Stage 3**	**Total**
Balance as at 1 Jan	2,601	9	2,610
Transfer from Stage 1 to Stage 3	(1)	1	0
Increase due to new recognitions	260,712	0	260,712
Decrease due to repayments	(260,269)	(9)	(260,278)
Balance as at 31 Dec	**3,043**	**1**	**3,044**

	Gross exposure			
2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 Jan	1,230	0	9	1,239
Transfer from Stage 2 to Stage 1	2	(2)	0	0
Increase due to new recognitions	349,781	16	0	349,797
Decrease due to repayments	(348,412)	(14)	0	(348,426)
Balance as at 31 Dec	**2,601**	**0**	**9**	**2,610**

Changes in other financial assets (loss allowances)

2022	Loss allowances Stage 3	Total
Balance as at 1 Jan	(9)	(9)
Increase due to new recognitions	(4)	(4)
Decrease due to repayments	13	13
Net change due to change in credit risk	(1)	(1)
Balance as at 31 Dec	**(1)**	**(1)**

	Loss allowances		
2021	Stage 1	Stage 3	Total
Balance as at 1 Jan	0	(9)	(9)
Increase due to new recognitions	(1)	0	(1)
Decrease due to repayments	1	0	1
Balance as at 31 Dec	**0**	**(9)**	**(9)**

2.4.5 DERIVATIVES – HEDGE ACCOUNTING

Derivatives - hedge accounting, breakdown by risk category and hedge type

	31 Dec 2022			31 Dec 2021		
		Fair value			Fair value	
	Contractual value	Assets	Liabilities	Contractual value	Assets	Liabilities
Interest-rate risk						
Fair value hedge						
Interest rate swaps						
Hedging of bonds measured at fair value through other comprehensive income	65,000	3,415	0	15,000	0	622
Hedging of issued bonds measured at amortised cost	175,000	0	15,849	175,000	0	1,302
Total	**240,000**	**3,415**	**15,849**	**190,000**	**0**	**1,924**

Through the use of interest rate swaps, the Bank hedges against the interest rate risk associated with asset and liability items in accordance with the internally approved interest rate limits. When concluding interest rate swaps, the Bank applies rules governing the accounting treatment of hedges against fair value hedge risks.

As at 31 December 2022, the Bank held six long-term interest rate swaps as fair value hedges, four of which intended as fair value hedges of assets with a total contractual value of EUR 65,000 thousand, and the other two intended to hedge the fair value of bonds issued in 2020 with a total contractual value of EUR 175,000 thousand.

As at 31 December 2021, the Bank held four long-term interest rate swaps as fair value hedges, two of which intended as fair value hedges of assets with a total contractual value of EUR 15,000 thousand, and the other two intended to hedge the fair value of bonds issued in 2020 with a total value of EUR 175,000 thousand.

In 2021 and 2022, the Bank did not have any cash flow hedging instruments or hedges of its net investment in a foreign transaction.

Changes in fair value in hedge accounting are presented in section 2.5.6.

Accumulated amount of adjustments to fair value hedging against the hedged item risk

	31 Dec 2022		31 Dec 2021	
	Carrying amount of hedged item	Accumulated change in fair value of the hedged item	Carrying amount of hedged item	Accumulated change in fair value of the hedged item
Fair value hedge				
Financial assets measured at fair value through other comprehensive income				
Fixed interest rate bonds	58,758	(3,763)	16,617	530
Financial liabilities measured at amortised cost				
Fixed interest rate bonds	159,594	(15,289)	173,243	(1,554)

The table above shows the accumulated change in the fair value of the hedged item arising from hedges that is included in the carrying amount of the hedged item recognised in the statement of financial position. The accumulated change in fair value is presented in the same item of the statement of financial position as the hedged item.

2.4.6 INVESTMENTS IN EQUITY OF JOINT VENTURES

31 Dec 2022	Prvi faktor, Ljubljana (in liquidation)	Prvi faktor, Beograd (in liquidation)	Total
Equity investments	15,337	279	15,616
Allowances for equity investments	(15,337)	(279)	(15,616)
Total	0	0	0

31 Dec 2021	Prvi faktor, Ljubljana (in liquidation)	Prvi faktor, Beograd (in liquidation)	Total
Equity investments	15,337	279	15,616
Allowances for equity investments	(15,337)	(279)	(15,616)
Total	0	0	0

Data on joint ventures

31 Dec 2022	Voting rights, %	Shareholder equity of undertaking	Net profit
Prvi Faktor Group	50	5,802	857

31 Dec 2021	Voting rights, %	Shareholder equity of undertaking	Net profit
Prvi Faktor Group	50	4,945	869

2.4.7 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Changes in property, plant and equipment and intangible assets

2022	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	10,069	1,397	972	12,438	4,312
Increase	0	558	456	1,014	538
Decrease	0	(387)	(253)	(640)	(222)
Balance as at 31 Dec	10,069	1,568	1,175	12,812	4,628
Accumulated depreciation and amortisation					
Balance as at 1 Jan	(6,591)	(1,242)	(603)	(8,436)	(3,258)
Depreciation and amortisation	(345)	(167)	(94)	(606)	(378)
Decrease	0	109	26	135	5
Balance as at 31 Dec	(6,936)	(1,300)	(671)	(8,907)	(3,631)
Carrying amount as at 31 Dec	**3,133**	**268**	**504**	**3,905**	**997**

2021	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	9,992	1,376	956	12,324	3,899
Increase	156	236	210	602	810
Decrease	(79)	(215)	(194)	(488)	(397)
Balance as at 31 Dec	10,069	1,397	972	12,438	4,312
Accumulated depreciation and amortisation					
Balance as at 1 Jan	(6,250)	(1,125)	(613)	(7,988)	(2,907)
Depreciation and amortisation	(341)	(214)	(75)	(630)	(356)
Decrease	0	97	85	182	5
Balance as at 31 Dec	(6,591)	(1,242)	(603)	(8,436)	(3,258)
Carrying amount as at 31 Dec	**3,478**	**155**	**369**	**4,002**	**1,054**

SID Bank had no pledged fixed assets or assets acquired on the basis of leases as at 31 December 2022.

2.4.8 TAX ASSETS AND LIABILITIES

	31 Dec 2022	31 Dec 2021
Current tax assets	3,295	0
Netted deferred tax assets	13,134	1,663
Total tax assets	**16,429**	**1,663**
Current tax liabilities	0	3,494
Total liabilities	**0**	**3,494**

Current tax assets in the amount of EUR 3,295 thousand at the end of 2022 comprise the Bank's receivables from the Financial Administration of the Republic of Slovenia (FARS) from overpaid prepayments of corporate income tax for 2022 relative to the tax liability, while in 2021, due to higher tax base and lower prepayments, Bank showed current tax liabilities to the FARS in the amount of EUR 3,494 thousand.

The higher deferred tax assets at the end of 2022 compared to 2021 are due to deductible temporary differences related to the negative valuation of financial assets measured at fair value through other comprehensive income as a result of an increase in market interest rates and credit spreads.

Deferred taxes in connection with the valuation of financial instruments measured at fair value through other comprehensive income are disclosed directly in other comprehensive income, while other deferred taxes were recognised in the income statement.

Breakdown by type of deferred tax

	31 Dec 2022	31 Dec 2021
Deferred tax assets, from:		
Equity investments	2,967	2,967
Provisions for pensions and jubilee benefits	140	159
Financial assets measured at fair value through other comprehensive income	10,859	454
Financial assets measured at amortised cost	1	0
Fixed assets	110	96
Total deferred tax assets	**14,077**	**3,676**
Deferred tax liabilities, from:		
Financial assets measured at fair value through other comprehensive income	943	2,013
Total deferred tax liabilities	**943**	**2,013**
Net deferred taxes	**13,134**	**1,663**

	2022	2021
Included in income statement, from:		
Impairment of financial assets measured at fair value through other comprehensive income	(53)	(78)
Impairment of financial assets measured at amortised cost	1	0
Provisions for pensions and jubilee benefits	(19)	11
Amortisation/depreciation above the prescribed tax rate	14	15
Total included in income statement	**(57)**	**(52)**
Included in other comprehensive income, from:		
Revaluation of financial assets measured at fair value through other comprehensive income	11,528	1,963
Total included in other comprehensive income	**11,528**	**1,963**

SID Bank had no unrecognised deferred taxes as at 31 December 2022.

2.4.9 OTHER ASSETS

	31 Dec 2022	31 Dec 2021
Tax assets	0	81
Receivables for advances	2	0
Prepayments	504	335
Accrued income	32	698
Gross exposure	538	1,114
Net exposure	**538**	**1,114**

2.4.10 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

	31 Dec 2022	31 Dec 2021
Deposits and loans from banks and central banks	630,675	667,859
Loans and advances	628,803	667,859
Deposits	1,872	0
Deposits and loans from customers	1,034,941	987,512
Loans and advances	1,034,941	987,512
Debt securities	660,465	675,479
Other financial liabilities	3,009	1,947
Total	**2,329,090**	**2,332,797**

There was no significant change in the structure of funding in 2022. Other financial liabilities and loans from customers as a proportion of total financial liabilities increased slightly.

Deposits and loans from banks and central banks were down due to regular and early repayment of the loans from foreign banks.

Deposits and loans from customers increased due to the additional drawdowns of funds from the Fund of Funds and additional drawdowns of long-term loans from foreign entities, as well as due to a positive overall result from the loan funds.

The value of debt securities decreased in 2022 mainly as a result of the change in fair value hedge accounting.

2.4.11 PROVISIONS

Breakdown by type of provision

	31 Dec 2022	31 Dec 2021
Provisions for commitments given	610	1,091
Guarantees	66	148
Undrawn loans	544	943
Provisions for employee benefits	1,798	1,556
Total	**2,408**	**2,647**

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

Changes in provisions for commitments given

	Guarantees		Undrawn loans			
2022	Stage 1	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 Jan	148	148	466	477	0	943
Transfer from Stage 1 to Stage 2	0	0	(12)	12	0	0
Transfer from Stage 2 to Stage 1	0	0	433	(433)	0	0
Transfer from Stage 2 to Stage 3	0	0	0	(18)	18	0
Increase due to additional commitments given	34	34	949	0	0	949
Decrease due to a reduction in commitments given	(23)	(23)	(986)	(123)	0	(1,109)
Net change due to change in credit risk	(93)	(93)	(384)	85	60	(239)
Balance as at 31 Dec	**66**	**66**	**466**	**0**	**78**	**544**

	Guarantees			Undrawn loans		
2021	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Balance as at 1 Jan	234	21	255	879	2,057	2,936
Transfer from Stage 1 to Stage 2	0	0	0	(105)	105	0
Transfer from Stage 2 to Stage 1	14	(14)	0	291	(291)	0
Increase due to additional commitments given	46	0	46	2,379	0	2,379
Decrease due to a reduction in commitments given	(44)	0	(44)	(2,961)	(1,707)	(4,668)
Net change due to change in credit risk	(102)	(7)	(109)	(17)	313	296
Balance as at 31 Dec	**148**	**0**	**148**	**466**	**477**	**943**

Changes in provisions for employee benefits

	2022	2021
Balance as at 1 Jan	1,556	1,444
Created	358	316
Reversed	(87)	(187)
Used	(29)	(17)
Balance as at 31 Dec	**1,798**	**1,556**

SID Bank had provisions for termination benefits at retirement and jubilee benefits as at 31 December 2022 that were created based on an internal calculation. The Bank had 221 employees as at 31 December 2022 (31 December 2021: 223). The calculation is based on the assumption that all employees on permanent contracts included in the calculation will remain employed at the Bank until the payment of all pertaining jubilee benefits and until retirement. The calculated amounts are discounted using a discount rate of 1.0008 (31 December 2021: 1.0027).

2.4.12 OTHER LIABILITIES

	31 Dec 2022	31 Dec 2021
Liabilities for wages, wage compensation and contributions from wages	1,169	1,280
Current deferred income	202	46
Tax liabilities	121	78
Total	**1,492**	**1,404**

2.4.13 SHAREHOLDER EQUITY

	31 Dec 2022	31 Dec 2021
Share capital	300,000	300,000
Profit reserves	189,241	173,495
Regulatory reserves	16,059	15,646
Reserves for treasury shares	1,324	1,324
Reserves under the articles of association	84,698	80,779
Other profit reserves	87,160	75,746
Share premium	1,139	1,139
Accumulated other comprehensive income	(42,106)	7,042
Treasury shares	(1,324)	(1,324)
Net profit for financial year (including retained earnings)	3,919	11,414
Total	**450,869**	**491,766**

The rise in market interest rates and credit spreads in 2022 led to a negative valuation of debt securities measured at fair value through other comprehensive income, which led to a reduction in accumulated other comprehensive income and, consequently, in equity.

There were no changes to the treasury shares reserve in 2022. SID Bank held 18,445 own shares, ticker symbol SIDR, in the total amount of EUR 1,324 thousand as at 31 December 2022.

Under a general meeting resolution, the undistributed profit for 2021 in the amount of EUR 11,414 thousand was allocated to other profit reserves.

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

Breakdown of accumulated other comprehensive income

	31 Dec 2022	31 Dec 2021
Financial assets measured at fair value through other comprehensive income – equity instruments	3,906	1,738
Revaluation	4,822	2,145
Deferred taxes	(916)	(407)
Financial assets measured at fair value through other comprehensive income – debt securities	(46,012)	5,304
Revaluation	(56,805)	6,548
Deferred taxes	10,793	(1,244)
Total	**(42,106)**	**7,042**

2.4.14 DISTRIBUTABLE PROFIT

	31 Dec 2022	31 Dec 2021
Net profit for the financial year	8,251	24,030
Increase in profit reserves	(4,332)	(12,616)
Regulatory reserves	(413)	(1,202)
Reserves under the articles of association	(3,919)	(11,414)
Distributable profit	**3,919**	**11,414**

In accordance with the articles of association, the management board used SID Bank's net profit for 2022 in the amount of EUR 8,251 thousand (2021: EUR 24,030 thousand) to create regulatory reserves in the amount of EUR 413 thousand (2021: EUR 1,202 thousand) and reserves under the articles of association in the amount of EUR 3,919 thousand (2021: EUR 11,414 thousand). The distributable profit from 2021 in the amount of EUR 11,414 thousand was allocated to other profit reserves.

Under the ZSIRB, SID Bank's distributable profit may not be used for distribution to shareholders. The Bank's management board and the supervisory board will propose to the general meeting that it pass a resolution whereby the distributable profit for the 2022 financial year in the amount of EUR 3,919 thousand should be allocated to other profit reserves.

2.5 NOTES TO THE INCOME STATEMENT OF THE SID BANK

2.5.1 NET INTEREST

	2022	2021
Interest income		
Interest income recognised at effective interest rate	33,237	30,663
Financial assets measured at fair value through other comprehensive income	1,793	2,974
Financial assets measured at amortised cost	28,322	24,000
Debt securities	798	0
Loans and advances to banks	3,715	4,536
Loans and advances to customers	23,809	19,464
Demand deposits at banks and central banks	1,475	0
Interest on financial liabilities carrying negative interest rate	1,647	3,689
Other interest income, excluding the effective interest rate method	(49)	2,514
Non-trading financial assets mandatorily at fair value through profit or loss	41	2,227
Derivatives – hedge accounting	(90)	287
Total interest income	33,188	33,177
Interest expenses		
Financial liabilities measured at amortised cost	(6,933)	(3,264)
Loans and deposits from banks	(993)	(297)
Loans and deposits from customers	(3,820)	(827)
Debt securities issued	(2,120)	(2,140)
Derivatives – hedge accounting	(697)	(136)
Interest on financial assets carrying negative interest rate	(1,344)	(1,771)
Total interest expenses	(8,974)	(5,171)
Net interest income	**24,214**	**28,006**

Interest income from the negative interest rate on financial liabilities mainly includes interest on targeted longer-term refinancing operations (TLTROs).

Interest expenses from financial assets deriving from negative interest rates include interest on deposits at banks and the central bank, and in 2021 also interest on securities.

SID Bank generated net interest income of EUR 24,214 thousand in 2022, a decrease of 13.5% relative to 2021. The decrease in net interest income was driven by higher interest expenses, most notably in the area of loans received, as a result of higher market interest rates while total interest income remained at the 2021 level. While higher market interest rates and more favourable conditions for the accrual of interest on cash balances at the central bank had a favourable impact on the increase in interest income, higher interest income was generated in 2021 in the area of loans measured at fair value through profit or loss as a result of the early repayment of non-performing loans, for which the Bank takes a more conservative approach to the recognition of interest income. That income is not recognised in the income statement until payment.

The Bank classified interest income and expenses from derivatives held for hedging to the item interest income or expenses in 2022 based on the overall economic effect of interest from the hedged item.

2.5.2 DIVIDEND INCOME

	2022	2021
Non-trading financial assets mandatorily at fair value through profit or loss	625	446
Financial assets measured at fair value through other comprehensive income	53	0
Investments held at end of reporting period	53	0
Total	**678**	**446**

The Bank received dividends in the amount of EUR 625 thousand in 2022 (2021: EUR 446 thousand) from investments in the scope of the Slovene Equity Growth Investment Programme (SEGIP) and EUR 53 thousand for its investment in the EIF.

2.5.3 NET FEE AND COMMISSION INCOME

	2022	2021
Fee and commission income		
Fee and commission income from financial instruments not measured at fair value through profit or loss	856	2,033
Fee and commission income from loan operations	625	1,783
Fee and commission income from guarantees given	231	250
Total fee and commission income	856	2,033
Fee and commission expenses		
Fee and commission expenses from financial instruments not measured at fair value through profit or loss	(383)	(264)
Fees and commission for loan operations	(2)	(61)
Fees and commission for stock exchange transactions	(154)	(193)
Fees and commission for guarantees received	(222)	(5)
Fees and commission for other services	(5)	(5)
Fee and commission expenses from financial instruments measured at fair value through profit or loss	(231)	(225)
Fees and commission for other services	(231)	(225)
Total fee and commission expenses	(614)	(489)
Net fee and commission income	**242**	**1,544**

The item fee and commission income for loan operations includes fees and commission from loan operations that are not subject to the effective interest rate.

Net fee and commission income in 2022 was down relative to the previous year due to a reduction in fee and commission income. Higher fee and commission income in 2021 was mostly attributed to fees received from the early repayment of loans.

2.5.4 NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
Financial assets measured at fair value through other comprehensive income	222	861
Gains	1,484	1,384
Losses	(1,262)	(523)
Financial liabilities measured at amortised cost	(6,552)	(12,489)
Gains	4,782	359
Losses	(11,334)	(12,848)
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	**(6,330)**	**(11,628)**

Net gains/losses on financial assets measured at fair value through other comprehensive income include gains/losses realised upon the sale, maturity or other derecognition of securities. The reported gains on financial assets measured at fair value through other comprehensive income are derived from transactions in debt securities.

SID Bank manages four loan funds established in conjunction with the MEDT and another fund established together with the MoI in May 2021 in the scope of its business for its own account.

A first loss clause was contractually agreed for all funds, i.e. any loss on the part of the funds is first covered by the priority participation of the government in loan fund risks by reducing the liabilities to the government and recognising gains on financial liabilities measured at amortised cost. If the loan funds operate profitably over the subsequent periods, the liability to the government is increased, and losses are recognised under financial liabilities measured at amortised cost.

The volume of lending from the loan funds was down in 2022 relative to 2021. However, impairments were released, meaning the overall result of the funds was positive in the amount of EUR 6,753 thousand (positive in the amount of EUR 12,521 thousand in 2021) which, due to the agreed first loss clause, was reflected in recognised losses on financial liabilities measured at amortised cost.

The Bank also recognised gains of EUR 201 thousand in 2022 in the same item (2021: EUR 32 thousand) from financial liabilities measured at amortised cost deriving from the direct provision of financial instruments of the Fund of Funds.

2.5.5 NET GAINS/LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT AND LOSS

	2022	2021
Equity instruments	750	2,875
Gains	2,783	6,043
Losses	(2,033)	(3,168)
Loans and advances	1,057	10,460
Gains	1,763	10,714
Losses	(706)	(254)
Net gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss	**1,807**	**13,335**

Net gains on non-trading financial assets mandatorily at fair value through profit or loss were down, mainly due to lower gains on loans mandatorily measured at fair value through profit or loss. In terms of loans, the higher gains in 2021 were mainly from the one-off effects of the early repayments of loans.

2.5.6 CHANGES IN FAIR VALUE IN HEDGE ACCOUNTING

	2022	2021
Fair value hedge		
Net gains/(losses) on derivatives held for hedging	(9,580)	(2,164)
Interest rate swaps	(9,580)	(2,164)
Net gains/(losses) on hedged items	9,442	2,128
Bonds measured at fair value through other comprehensive income	(4,293)	(463)
Issued bonds measured at amortised cost	13,735	2,591
Total gains/(losses) from hedge accounting	**(138)**	**(36)**

In both reported years, all the hedge relationships between hedging instruments (interest rate swaps) and hedged items (purchased or issued long-term bonds) according to international accounting standards were effective, with the actual hedge ratio ranging from 80–125%. This means that the gains or losses from the valuation of interest rate swaps, which are recognised in the income statement, could be neutralised due to the valuation of hedged items in the opposite direction. In 2022, losses in that regard amounted to EUR 138 thousand (2021: EUR 36 thousand).

As at 31 December 2021 and 31 December 2022, the Bank did not have any cash flow hedging instruments or hedges of its net investment in a foreign transaction.

2.5.7 NET FOREIGN EXCHANGE GAINS/LOSSES

	2022	2021
Financial assets and liabilities not measured at fair value through profit or loss		
Net foreign exchange gains	21	876
Net foreign exchange losses	(9)	(907)
Net foreign exchange gains/(losses)	**12**	**(31)**

2.5.8 OTHER NET OPERATING INCOME/EXPENSES

	2022	2021
Gains	6,255	3,495
Income from activities under Republic of Slovenia authorisation	4,733	2,572
Other operating income	1,522	923
Losses	(19)	(13)
Other operating expenses	(19)	(13)
Net operating income/(expenses)	**6,236**	**3,482**

The Bank recognised income of EUR 4,733 thousand in 2022 (2021: EUR 2,572 thousand) from the provision of services under authorisation. Of that amount EUR 1,740 thousand (2021: EUR 1,740 thousand) was from the management of contingency reserve assets, EUR 1,522 thousand (2021: EUR 1,188 thousand) from the management and performance of funds, EUR 7 thousand (2021: EUR 7 thousand) from guarantee schemes, EUR 1,441 thousand from guarantee schemes under the ZIUZEOP, ZDLGPE and ZSJSM, under which the Slovenian government authorised SID Bank to execute all transactions in connection with these schemes in its name and on its behalf, and EUR 23 thousand (2021: EUR 24 thousand) from other services under authorisation.

2.5.9 ADMINISTRATIVE EXPENSES

	2022	2021
Labour costs	(15,924)	(14,567)
Gross salaries	(11,748)	(10,718)
Pension insurance costs	(1,040)	(946)
Social security costs	(862)	(787)
Other labour costs	(2,274)	(2,116)
General and administrative costs	(4,770)	(5,010)
Costs of materials	(199)	(177)
Cost of services	(4,209)	(4,438)
Taxes and membership fees	(362)	(395)
Total	**(20,694)**	**(19,577)**

The largest proportion of administrative expenses is accounted for by labour costs, which increased mainly because the Bank has already included performance bonuses for 2022 in the costs for that year.

The costs of services include expenses for short-term leases in the amount of EUR 256 thousand (2021: EUR 250 thousand).

Total amount spent on auditors

	2022	2021
Auditing of the annual report	48	66
Other auditing services	8	2
Total	**56**	**68**

2.5.10 DEPRECIATION AND AMORTISATION

	2022	2021
Depreciation of property, plant and equipment	(606)	(630)
Amortisation of intangible assets	(378)	(356)
Total	**(984)**	**(986)**

2.5.11 NET MODIFICATION GAINS/LOSSES

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Gains	0	1	202	203	1	3	2	6
Losses	(181)	(8)	(185)	(374)	(1,270)	(24)	(111)	(1,405)
Net gains/(losses) on modification of financial assets	**(181)**	**(7)**	**17**	**(171)**	**(1,269)**	**(21)**	**(109)**	**(1,399)**

The total amortised cost of financial assets modified during the reporting period and the net gains or losses on modifications recognised for financial assets for which the contractual cash flows have been modified during the reporting period, and the allowance for losses on those assets measured at the time of the modification at an amount equal to the expected credit losses over the entire life of the asset are presented in Section 3.1 Credit risk, under the section Modified financial assets. The same section also discloses the total gross carrying amount at the end of the reporting period for those financial assets that have been modified since initial recognition, when the allowance for losses was still measured at an amount equal to the expected credit losses over the lifetime of that asset, and for which the allowance for losses has changed during the reporting period to an amount equal to expected credit losses over a 12-month period.

2.5.12 PROVISIONS

	2022	2021
Provisions for commitments given	480	2,101
Guarantees	82	107
Undrawn loans	398	1,994
Other provisions	(271)	(129)
Total	**209**	**1,972**

The stocks of off-balance-sheet liabilities for which provisions have been created are disclosed in the table in section 2.6.1 Contingent liabilities and commitments given. The decrease in provisions for commitments given was mainly driven by new macroeconomic scenarios affecting estimates of credit parameters and estimates of expected credit losses. More details on this can be found in section 3.1 Credit risk under Analysis of credit quality – financial assets measured at amortised cost and off-balance-sheet liabilities.

Other provisions include provisions for termination benefits at retirement and jubilee benefits.

2.5.13 IMPAIRMENTS

	2022	2021
Impairments of financial assets measured at fair value through other comprehensive income	280	409
Impairments of financial assets measured at amortised cost	4,694	13,944
Debt securities	(6)	0
Loans and advances to banks	(410)	1,546
Loans and advances to customers	5,102	12,398
Other financial assets	8	0
Impairments of non-financial assets	(2)	0
Total	**4,972**	**14,353**

The main factor in the increase in the impairments of loans to banks was the reclassification of customers from Belarus from Stage 1 to Stage 3 (non-performing financial assets), where allowances for credit losses are measured based on the lifetime expected credit losses on a financial instrument.

The reduction in impairments on loans to customers was driven by new macroeconomic scenarios affecting estimates of credit parameters and expected loss estimates. The credit parameters for 2022 also included an expected deterioration of the credit portfolio stemming from the delayed effects of COVID-19, which did not materialise to the extent expected, hence, despite a less favourable macroeconomic outlook for 2023, a net release of impairments was recorded. More details on this can be found in section 3.1 Credit risk under Analysis of credit quality – financial assets measured at amortised cost and off-balance-sheet liabilities.

2.5.14 CORPORATE INCOME TAX

	2022	2021
Corporate income tax	(1,745)	(5,404)
Deferred taxes	(57)	(52)
Total	**(1,802)**	**(5,456)**

The corporate income tax rate remained unchanged relative to the previous year, and stood at 19% in 2022. Corporate income tax differs from tax calculated using the prescribed tax rate, and is disclosed in the table below. An analysis of deferred taxes disclosed in profit or loss is given in section 2.4.8.

	2022	2021
Profit before tax	10,053	29,486
Tax calculated at prescribed rate of 19%	(1,910)	(5,602)
Non-taxable income	189	268
Non-deductible expenses	(189)	(265)
Reduction in tax base for expenses that were not recognised for tax purposes in the past	4	2
Increase in tax base	(6)	(5)
Tax allowances	167	141
Tax repaid from previous year	0	57
Net created/(used) deferred taxes	(57)	(52)
Total	**(1,802)**	**(5,456)**

Non-taxable income arises from the reversal of impairments that were not recognised for tax purposes at the time of creation, and exempt dividends. Non-deductible expenses derive primarily from expenses for bonuses and other employment-related payments, costs of representation (entertainment) and of the supervisory board, amount of depreciation that exceeds the prescribed rate, and from the revaluation of debt securities measured at fair value through other comprehensive income.

SID Bank's effective tax rate (calculated as the ratio of expenses for corporate income tax to profit before tax) for the 2022 financial year was 17.4% (2021: 18.5%).

2.5.15 BASIC AND DILUTED EARNINGS PER SHARE

	2022	2021
Number of ordinary registered no-par value shares	3,121,741	3,121,741
Treasury shares	18,445	18,445
Number of ordinary shares (excluding treasury shares)	3,103,296	3,103,296
Net profit for the financial year (in EUR thousand)	8,251	24,030
Basic and diluted earnings per share (in EUR)	**2.66**	**7.74**

Basic earnings per share is calculated as the ratio of the net profit in the period to the weighted average number of ordinary registered no-par-value shares less treasury shares. Diluted earnings per share equals basic earnings per share.

2.6 OTHER NOTES TO THE FINANCIAL STATEMENTS OF THE SID BANK

2.6.1 CONTINGENT LIABILITIES AND COMMITMENTS GIVEN

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

	31 Dec 2022	31 Dec 2021
Commitments given		
Guarantees	92,344	80,218
Undrawn loans	145,101	90,336
Uncalled unpaid capital	41,921	50,867
Total	**279,366**	**221,421**
Provisions for commitments given		
Guarantees	(66)	(148)
Undrawn loans	(544)	(943)
Total	**(610)**	**(1,091)**

The value of guarantees given increased in 2022 as a result of newly issued portfolio guarantees and an increase in the value of existing portfolio guarantees, i.e. the guarantee instrument introduced in 2020 in the scope of the Fund of Funds that chosen commercial banks and savings banks can use when financing corporate investments and the current operations of sole traders, micro and small and medium-sized enterprises.

The amount of undrawn loans approved for customers stood at EUR 142,024 thousand as at 31 December 2022 (2021: EUR 84,714 thousand), while the amount of loans approved for banks stood at EUR 3,077 thousand (2021: EUR 5,622 thousand).

Uncalled unpaid capital reduced in 2022 due to the call-up of capital into the Three Seas Initiative Investment Fund and the SEGIP programme.

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

	Guarantees		Undrawn loans				
2022	**Stage 1**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Uncalled unpaid capital**
Balance as at 1 Jan	80,218	80,218	83,835	6,501	0	90,336	50,867
Transfer from Stage 1 to Stage 2	0	0	(4,077)	4,077	0	0	0
Transfer from Stage 2 to Stage 1	0	0	5,696	(5,696)	0	0	0
Transfer from Stage 2 to Stage 3	0	0	0	(1,689)	1,689	0	0
Increase in commitments given	18,852	18,852	481,308	0	0	481,308	82
Decrease in commitments given	(6,726)	(6,726)	(423,350)	(3,193)	0	(426,543)	(9,028)
Balance as at 31 Dec	**92,344**	**92,344**	**143,412**	**0**	**1,689**	**145,101**	**41,921**

	Guarantees			Undrawn loans			
2021	**Stage 1**	**Stage 2**	**Total**	**Stage 1**	**Stage 2**	**Total**	**Uncalled unpaid capital**
Balance as at 1 Jan	69,863	1,500	71,363	151,421	20,922	172,343	26,934
Transfer from Stage 1 to Stage 2	0	0	0	(4,120)	4,120	0	0
Transfer from Stage 2 to Stage 1	1,500	(1,500)	0	3,029	(3,029)	0	0
Increase in commitments given	13,500	0	13,500	342,765	0	342,765	36,230
Decrease in commitments given	(4,645)	0	(4,645)	(409,260)	(15,512)	(424,772)	(12,297)
Balance as at 31 Dec	**80,218**	**0**	**80,218**	**83,835**	**6,501**	**90,336**	**50,867**

Contractual value of derivatives

	31 Dec 2022	31 Dec 2021
Derivatives – hedge accounting		
Interest rate swaps	240,000	190,000
Total	**240,000**	**190,000**

The contractual value of hedging derivatives amounted to EUR 240,000 thousand (2021: EUR 190,000 thousand). Derivatives that meet the criteria for hedge accounting are used to hedge against interest rate risk. The Bank had not concluded derivatives held for trading as at 31 December 2022 and 31 December 2021.

The fair values and economic effects are disclosed in sections 2.4.5 and 2.5.6.

2.6.2 RELATED PARTY DISCLOSURES

In the scope of continuing operations, certain banking transactions were concluded with related parties, i.e. parties where one party controls the other or has a significant influence over its financial and business decisions.

Major transactions between SID Bank and related parties are disclosed below.

Significant relations of SID Bank with joint ventures

	31 Dec 2022	31 Dec 2021
Receivables		
Loans and advances	297	298
Gross exposure	297	298
Loss allowances	(2)	(40)
Net exposure	**295**	**258**

	2022	2021
Interest income	3	259
Impairments	38	200
Total	**41**	**459**

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

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

Exposure to:	2022	2021
Bank of Slovenia		
Balance as at 31 Dec		
ASSETS		
Cash, cash balances at central banks and demand deposits at banks	413,466	217,868
LIABILITIES		
Loans from banks and central banks	363,209	364,856
Other financial liabilities	479	426
For period		
Interest income	3,122	3,678
Interest expenses	(803)	(877)
Fee and commission expenses	(44)	(41)
Administrative expenses	(447)	(383)
Republic of Slovenia		
Balance as at 31 Dec		
ASSETS		
Financial assets measured at fair value through other comprehensive income	112,595	278,110
Loans and advances to customers	207,626	179,199
Other financial assets	1,410	937
Current tax assets	16,429	1,663
Other assets	34	339
LIABILITIES		
Loans from customers	281,979	251,864
Other financial liabilities	14	32
Provisions	0	8
Current tax liabilities	0	3,494
Other liabilities	646	684
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	3,094	4,324

The table continues on the next page.

	2022	2021
For period		
Interest income	2,703	4,878
Interest expenses	(523)	(41)
Fee and commission income	2	9
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	(5,251)	(11,381)
Changes in fair value in hedge accounting	(4,303)	(463)
Other net operating income/(expenses)	6,137	3,381
Administrative expenses	(173)	(80)
Net modification gains/(losses)	0	(172)
Impairments and provisions	38	(2)
Government-owned undertakings		
Balance as at 31 Dec		
ASSETS		
Cash, cash balances at central banks and demand deposits at banks	54	202
Financial assets measured at fair value through other comprehensive income	11,647	12,782
Debt securities measured at amortised cost	18,218	0
Loans and advances to banks	0	69,930
Loans and advances to customers	344,721	285,305
Other financial assets	0	16
Other assets	48	25
LIABILITIES		
Other financial liabilities	225	70
Provisions	196	25
Other liabilities	44	0
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	73,431	15,744
For period		
Interest income	5,752	5,230
Fee and commission income	36	1,214
Fee and commission expenses	(70)	(92)
Administrative expenses	(586)	(414)
Net modification gains/(losses)	(5)	(3)
Impairments and provisions	487	4,780

2.6.3 REMUNERATION

	2022	2021
Members of the management board	684	658
Other employees on individual contracts	983	1,150
Members of the supervisory board	207	220
Total	**1,874**	**2,028**

In accordance with Article 69 of the ZGD-1, the table presents the remuneration of members of the management board and supervisory board, and employees on individual contracts in gross amounts (except repayments of costs and supplementary pension insurance).

The remuneration of members of the management board and employees on individual contracts includes wages, annual leave allowance, premiums for supplementary pension insurance and voluntary health insurance, bonuses, other remuneration from employment and the reimbursement of costs. As the new management board took office on 1 January 2022, the remuneration for 2022 includes the fixed remuneration of the new management board members (they have not yet received variable remuneration) and the variable remuneration of the two management board members from the previous term of office. The remuneration of members of the supervisory board includes remuneration for the performance of their functions and session fees, the reimbursement of costs and benefits in the form of liability insurance.

2.6.4 SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On 1 March 2023, SID Bank issued a seven-year bond in the nominal amount of EUR 140 million on the international capital market in a private issue. The bond was issued at a selling price of 100% of its nominal value and at a required yield to maturity equal to the coupon rate of 4.03%. The bond is listed on the multilateral trading facility of the Open Market of the Frankfurt Stock Exchange. In March, SID Bank prematurely repaid a portion of the long-term borrowing under TLTRO-III operations maturing in June 2023 in the amount of EUR 140 million due to the additional surplus liquidity provided by the bond issue.

3. Risk Management

Risk management at SID Bank

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

To this end, SID Bank has put in place a risk management strategy that defines the basic principles applying to the take-up and management of risks at SID Bank risk, and establishes a framework and basis for the drawing up of documents that define in detail the processes of taking up and managing specific types of risks, including organisational rules that apply to the risk management , internal control mechanisms, steps taken to ensure compliance and the public disclosure of information relating to the Bank.

SID Bank's approach to risk management

On the basis of the risk management strategy, SID Bank has developed policies for managing specific types of risk, as well as other bylaws regulating the business processes in which the Bank takes up risks. The policies and other bylaws define the procedures, methods and methodologies used by the Bank in the risk management for any type of risk.

The aim of the risk management strategy is to establish an effective risk management process for identifying, measuring and assessing, managing and monitoring risk, including reporting on the risks to which the Bank is or could be exposed in its operations, by providing:

- definition of specific types of risk;
- risk capacity;
- risk appetite;
- a risk management action plan, i.e. risk identification, measurement and assessment, management and monitoring procedures;
- appropriate internal control mechanisms; and
- internal relations with regard to responsibilities.

The key strategic focuses relating to risk, which take into account the Bank's business model and business strategy, are defined in risk capacity and risk appetite, as presented below as part of the management body's concise statement on SID Bank's approach to the realisation of risk appetite.

Risk capacity means the largest overall risk level that SID Bank is able to take up, taking into account its available capital, liquidity and other restrictions (risk management and control measures, stress test results, and other restrictions). The Bank defines risk capacity as the higher of the normative and the economic perspectives, with the ICAAP representing the economic perspective and the SREP the normative perspective.

The scope of risk take-up complements the set of internal policies for the management of individual types of risk, via which SID Bank transfers risk appetite into operational restrictions for the appropriate direction of the business. Risk management policies and internal rules set out the limits for the management of credit risk, market risk, currency risk and liquidity risk, including the procedures for dealing with breaches and notification of the management board.

SID Bank carries out a comprehensive internal capital adequacy assessment process, tailored to the risks taken up and to risk appetite, at least once a year, and reports to the management body, and thus ensures that the risks taken up remain within the limits of SID Bank's risk capacity. The assessed risk capacity is taken into account when preparing business strategy and business objectives and defining risk appetite.

Risk appetite indicators are adopted and regularly monitored by SID Bank's management body. For 2023 SID Bank upgraded its methodology for defining and monitoring risk appetite by expanding the selection of levels thus determining risk appetite on multiple levels (escalated), where each superior level sets the upper threshold for the subordinate level of limits. The revised methodology is directly linked to the ICAAP, the annual plan and stress testing.

In accordance with its business strategy, business objectives, risk capacity and risk management strategy, SID Bank takes up risks in its operations within a long-term sustainable target risk profile. It gives priority to the security and stability of its operations to maintain or increase the value of its equity in the long term, maintain the Bank's reputation, and maximise the benefits for users of SID Bank's services and other stakeholders.

SID Bank's risk appetite defines the material risks that the Bank is willing to take up in order to realise its business objectives, strategies, policies and plans. Risk appetite thresholds are expressed in the form of indicators. The risk appetite is defined in the applicable risk management strategy and through internally set limits. SID Bank's risk appetite, taking into account its risk capacity, is assessed by the Bank at least once a year, or more frequently in the event of significant changes in risk exposure.

The management body is briefed comprehensively on the area of risk management via regular quarterly reports on performance, reports on risks and reports on developments on the financial markets. Regular risk reports include detailed information on SID Bank's exposure to credit risk at the level of the entire credit portfolio, the monitoring of risk appetite, review of information on exposure to currency, liquidity, interest rate and operational risks, a report on the internal capital adequacy assessment process (ICAAP), and an assessment of future trends, with a view to informing management about the Bank's exposure to major risks.

In addition to risk management under normal operating conditions, SID Bank also performs regular stress tests. At the end of 2022, SID Bank upgraded its credit risk stress test methodology to follow the European Banking Authority's (EBA) stress test methodology. Stress tests are performed on the basis of two internal acts, i.e. the rules on internal stress testing and the methodological notes to the rules on internal stress testing. Together, the two bylaws make up the stress-testing framework at SID Bank. The rules primarily cover general stress testing and set out responsibilities. The methodological notes cover procedural aspects, where SID Bank defines data sources, the IT infrastructure, methodologies and scenarios. The stress tests also include the burden on capital due to ESG-related risks. According to both internal acts, stress testing is followed by the drafting of reports which, in addition to the above, also include key assumptions, the results of stress testing and planned measures.

SID Bank performs the following types of stress tests:

- ICAAP stress tests (internal stress test);
- ILAAP stress tests (internal stress test);
- regulatory stress tests: stress tests are performed in accordance with the methodology and assumptions provided by the regulatory body; and
- other occasional stress tests (i.e. when launching a new product).

The general risk management framework, including the organisational aspect and the segregation of roles in the risk management process, internal control mechanisms and the way in which the risk appetite is defined, is presented in detail in the business report in the section Risk management.

3.1 CREDIT RISK

SID Bank is most exposed in its operations to credit risk, i.e. the risk of losses arising from a counterparty's inability to settle contractual liabilities by the originally agreed deadline without the liquidation of collateral. SID Bank manages credit risk, continuously improves risk management procedures and methods, and upgrades the credit risk management methodology.

In the scope of its bylaws governing risk management, SID Bank has in place a risk management culture that represents the Bank's standards and values regarding awareness of credit risk. Via the work of the management body and employees included in the take-up and management of credit risk and their attitude towards credit risk, and taking into account the recommendations of internal control functions, the credit risk management culture is reflected in those persons' decisions regarding the take-up and management of credit risk. Through the annual verification of compliance with the credit risk management culture, SID Bank ensures that the culture is effectively implemented at all levels of the Bank's operations, and that all employees included in the take-up and management of credit risk are fully briefed on the culture and are responsible for their actions.

The umbrella document governing the management of credit risk in SID Bank's operations is the Credit Risk Management Policy. That policy defines the attitude towards the take-up of credit risk in relation to SID Bank's business objectives and strategy in the scope of the risk appetite, mechanisms and procedures for identifying, measuring and assessing, monitoring, managing and reporting on credit risks, and the powers and responsibilities of the management body, the relevant committees and individual organisational units in relation to the management of credit risk. The Credit Risk Management Policy also incorporates the main substantive points of the valid bylaws and regulations that govern credit risk management.

Credit risk management includes all active investment operations that give rise to credit risk, i.e. loans, including contingent liabilities and commitments given, deposits placed, factoring, transactions involving investments in securities that SID Bank manages for the purpose of ensuring liquidity and asset-liability management, other financial assets and transactions involving derivatives that the Bank uses exclusively for the purpose of hedging open foreign-exchange and interest-rate positions.

The level to which credit risk is taken up is determined in accordance with the adopted risk appetite, which is reflected by limits placed on exposure to credit risk. The credit risk appetite is adopted by the management body within the framework of SID Bank's ICAAP and its annual operational plan process, risk management strategy and, if necessary, in the event of major changes, in which the scope and focus of credit risk, the composition of the credit portfolio, including its concentration, and diversification targets in relation to business lines, geographic areas, economic sectors and products may be determined.

In terms of the identification and assessment and measurement of credit risk, credit risk management at SID Bank includes activities linked to the assessment of debtors' creditworthiness, the compilation of credit-rating reports and the assignment of debtors to the appropriate rating grades. The credit committee or another competent body approves exposure in accordance with authorisations for the approval of transactions as set out in SID Bank's bylaws and articles of association, and in accordance with the value of an investment and existing exposure.

In terms of limiting exposure to credit risk, account is first taken of the regulatory limits set out in the applicable banking legislation concerning exposure to individual clients, groups of connected clients or persons in a special relationship with SID Bank. The take-up of credit risk is also limited by SID Bank's articles of association and its internal limits on exposure to credit risk.

Classification of financial assets and commitments given into rating grades

SID Bank assesses clients' credit quality based on an assessment of quantitative and qualitative elements. It classifies clients to one of 21 internal rating grades, which are then combined into five rating pools from A to E, in accordance with the Bank of Slovenia's criteria.

The quantitative elements include an assessment of a client's financial and asset positions, and all identified risk factors, such as delays by SID Bank and other reporting entities in the submission of reports to the SISBIZ, blocked accounts, delays in the payment of taxes and liabilities to employees, and official entries. The qualitative elements take into account all the soft information available to the bank about the client, such as the general and human resources aspects and the characteristics of the assessed company's links with other business entities, the characteristics of the industry in which the company operates, the sales aspect, the financial aspect, the development investment aspect, the environmental aspect and other incentive-based aspects (e.g. the promotion of digital transformation). Before their investment transaction is approved, all clients are assigned the appropriate rating grade. Their operations are then monitored for the duration of the investment transaction, and ongoing assessments are made to verify whether the rating grade is still appropriate.

The Bank has developed separate methodologies for classifying clients to rating grades and for assessing credit quality: a methodology for assessing corporates, sole traders and cooperatives, which includes a methodology for assessing investment projects and newly established corporates, and a methodology for assessing banks and savings banks. The credit ratings of domestic public-sector entities are derived from Slovenia's sovereign credit rating.

Management of credit protection

Before entering into a contractual relationship, SID Bank compiles an assessment of a client's creditworthiness, which represents the primary source of repayment. Collateral is used as a secondary source of loan repayment and is not a replacement for the primary creditworthiness of the debtor. The internal rulebook on collateral for investment operations is a document under which credit protection is implemented in practice. It defines in detail:

- the types and conditions of acceptable collateral with regard to the type of debtor and the investment transaction;
- the competencies of specific organisational units in accordance with internal rules on organisation;
- the ratio between the value of the collateral and the value of the investment transaction per type of collateral;
- the eligibility conditions for each type of collateral that must be met for the collateral to be valued at a value greater than EUR 0;
- the documentation required per individual type of collateral that ensures the legal certainty and enforceability of collateral;
- the methodology for valuing individual types of collateral, which sets out the method, monitoring and frequency of valuation;
- the policy of regularly vetting the independence and qualifications of appraisers and the quality of their valuations;
- the types of collateral requiring a physical inspection of assets pledged as collateral; and
- the liquidation and/or termination of collateral.

The level of detail of the breakdown of collateral is unambiguously defined in the regulatory requirements contained in the CRR and in the Bank of Slovenia's regulations. For the purpose of taking into account collateral in the assessment of expected credit losses, SID Bank values at EUR 0 any collateral that does not meet the requirements of the Regulation on credit risk management at banks and savings banks.

SID Bank values commercial real estate pursuant to a valuation report compiled by an independent certified appraiser in accordance with valuation standards based on a comprehensive inspection of real estate. When valuing real estate, SID Bank takes into account the market value and, in the forced liquidation of collateral, the liquidation value, if the latter is available. Over the lifetime of an exposure, SID Bank regularly monitors the value of assets pledged as collateral, and assesses the value of commercial and residential real estate at least once a year using statistical methods. For real estate used as collateral for an exposure in excess of EUR 3 million or 5% of the Bank's regulatory capital, SID Bank obtains a valuation report at least every three years, or whenever information available to it indicates that the value of the real estate may have decreased significantly relative to the general level of market prices. For commercial and residential real estate used as collateral for non-performing exposures with a gross value in excess of EUR 300 thousand, SID Bank obtains a reassessment from an independent certified appraiser once a year.

Securities traded on a regulated securities market are valued by SID Bank at the average price where available. Otherwise, they are valued at the closing price. Non-marketable equities and participating interests in a company are valued pursuant to a valuation report compiled by an independent certified appraiser in accordance with valuation standards.

SID Bank values business equipment and motor vehicles or trailers based on a purchase agreement or invoice between unconnected parties, where the agreement or invoice may not be more than one year old, or a valuation report compiled by an independent certified appraiser in accordance with valuation standards. SID Bank values inventories based on a credible monthly statement from a debtor's accounting records. Patents, trademarks and models are valued based on a valuation report compiled by an independent certified appraiser in accordance with valuation standards. Assigned receivables are valued based on the monthly reports of debtors, without taking into account past-due claims and claims against legal or natural persons that comprise a group of clients connected with the debtor. SID Bank gives collateral in the form of the assignment of all current and future receivables (global fiduciary assignment) a value of EUR 0. Sureties, accessions to debt and guarantees are valued at the value of exposure or the contractual amount of the surety, accession to the debt or guarantee, whichever is lower. SID Bank only assigns a value exceeding EUR 0 for the sureties of legal persons if the rating grade of the legal entity giving the guarantee is higher than or equal to BBB-, based on the internal credit quality assessment methodology. Sureties from natural persons are assigned a value of EUR 0. Deposits are valued based on the balance of a deposit. SID Bank's insurance policy issued for the account of Slovenia for insurance against commercial risks is valued at the level of the Slovenian government guarantee for commercial risk, as set out in the insurance contract.

Only collateral whose maturity is longer than the maturity of an investment transaction is considered by the Bank to be eligible collateral. As a rule, the currency of collateral is identical to the currency of an investment transaction. In the event of a currency mismatch, the Bank has specified a higher ratio between the amount of collateral and the amount of an investment transaction.

Over the lifetime of the exposure, SID Bank monitors the debtor's rating grade and the coverage of the exposure by collateral. Should the value of the collateral fall, the Bank takes action to establish additional collateral as required. If the ratio between the value of all collateral arising from a specific investment transaction and the current exposure declines by more than 50% relative to the ratio that existed at the time the investment transaction was approved, the debtor concerned is placed on the watch list.

When calculating capital requirements for credit risk using the standardised approach, SID Bank takes into account a reduction in risk-weighted assets as a result of the effects of collateral for exposures secured by collateral from European funds, the EU budget, the European Investment Fund and European Investment Bank. SID Bank does not enter into credit derivative transactions for the purpose of managing capital requirements for credit risk.

Estimation of credit losses

For the estimation of expected credit losses, SID Bank has in place its own methodology in accordance with IFRS 9, which is defined in the internal rulebook and includes:

- the classification of exposures into stages for the purpose of estimating expected credit losses, including the definition of a methodology for assessing a significant increase in credit risk;
- the segmentation of the portfolio for the calculation of expected credit losses (PD and LGD segments);
- the modelling of probability of default (PD) and loss given default (LGD); and
- the calculation of expected credit losses.

In the scope of managing model risk, SID Bank has in place a methodology for validating estimates of the credit risk parameters that it takes into account in the calculation of expected credit losses.

The estimation of expected credit losses is defined in more detail in section 2.3.8 under the title Impairments of financial assets and provisions.

Credit risk monitoring

SID Bank carries out regular monitoring of investment transactions and in-depth monitoring of credit risk. Regular monitoring of investment transactions also includes the monitoring of the appropriateness of a debtor's credit rating, the monitoring of the fulfilment of financial and other contractual commitments, verification of the adequacy and amount of collateral, and the monitoring of groups of connected clients.

SID Bank carries out in-depth monitoring when it identifies a serious breach of contractual obligations, a deterioration in a debtor's financial and asset position, an increase in the risk derived from the purpose-specific use of a loan, or other circumstances that affect or may affect a debtor's business operations and the successful conclusion of an investment transaction.

In general, SID Bank regularly carries out in-depth monitoring on the basis of a list approved by the credit committee. When creating a watch list, the amount and maturity of an investment transaction, a debtor's rating grade and other criteria that result in a debtor being placed on a watch list and that affect the credit risk are taken into account.

Early warning system for detecting increased credit risk

SID Bank has in place an early warning system (EWS) as part of its credit risk management system that facilitates the early detection of increased credit risk for any exposure and potential defaulter. The EWS is based on internally defined criteria for inclusion on or removal from the list and enables SID Bank to identify any potential difficulties in debt repayment at an early stage and to try to prevent any further deterioration in the credit quality of the exposure by taking timely corrective measures and monitoring the implementation of measures so that a debtor does not transition to a position of default. Certain indicators of potential client difficulties are updated automatically every day from external data sources (e.g. blocks of accounts or delays at other banks, failure to pay tax liabilities, etc.) and the competent departments informed accordingly.

SID Bank monitors exposures with increased credit risk on the watch list and the transitional list of defaulters, which are discussed on a weekly basis by the credit committee. If, after successfully implementing measures, a debtor no longer meets any of the criteria for placement on the watch list, they are returned to ordinary treatment, or are reclassified as distressed investments if they meet the criteria for reclassification of the exposure as a distressed investment.

In 2023, there will be an upgrade to the existing Early Warning System (EWS), which includes the following activities: amendments to the EWS quantitative and qualitative indicators to identify potential debt repayment problems of the debtor, optimisation of the processes for implementing measures after detecting an increase in credit risk, improvement of IT support and verification of the adequacy of the indicators at least once a year.

Management of non-performing exposures

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

SID Bank manages non-performing exposures in accordance with the adopted Strategy for managing and reducing non-performing exposures, which includes time-based definitions of quantitative targets, supported by an appropriate comprehensive operational plan to meet these targets.

In the forbearance of investment transactions, SID Bank takes into account the EBA guidelines on the management of non-performing and forborne exposures (EBA/GL/2018/06) and the Slovenian corporate debt restructuring principles drafted by the Bank of Slovenia together with the Bank Association of Slovenia.

It also takes into account the Restructuring guidelines for micro, small and medium-sized companies and the Bank of Slovenia's Handbook for the effective management and workout of non-performing loans. SID Bank regularly monitors distressed investments on special warning lists, which are generally discussed on a weekly basis by the distressed investment management committee.

Recovery procedure

Recovery is carried out in accordance with internal procedures, and is divided into extra-judicial and judicial recovery. The method of recovery depends primarily on the type of collateral, the duration of a delay, the degree of cooperation displayed by a debtor, and the amount of any past-due and outstanding exposures of SID Bank to the debtor.

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

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

Management and monitoring of credit risk

SID Bank manages credit risk in several ways:

- by defining the risk appetite and risk appetite indicators;
- by setting internal limits in order to limit the concentration of exposure for specific segments, economic sectors and geographical areas;
- by setting thresholds for the allocation of total exposure to credit risks (RWA);
- by limiting leveraged transactions by placing a limit on the total exposure of all leveraged transactions;
- by taking into account the limits of exposure to individual debtors, groups of connected clients and shadow banking entities;
- by setting project financing guidelines;
- by establishing collateral;
- by identifying the risk posed by a specific debtor and creating impairments and provisions for on-balance-sheet assets or off-balance-sheet liabilities; and
- by ensuring sufficient capital to cover unexpected credit risk losses.

SID Bank's risk appetite takes into account environmental, social and governance-related risks (ESG risks), for which it has in place a dynamic limit on total exposure to the highest-risk ESG clients. In terms of ESG risks, it also conducts its assessment at the borrower level above a certain exposure amount.

The monitoring of credit risk begins upon the conclusion of a contractual relationship in the process of credit risk take-up, and ends on the day all of a debtor's contractual and other obligations have been settled.

In credit operations, creditworthiness is determined when an individual investment transaction is reviewed with reference to a company's calculated borrowing capacity, taking into account long-term sustainable EBITDA (defined on the basis of past operations and critically assessed projections of future operations), less the normalised volume of replacement investments, normalised taxes, long-term expected dividends and gains, and the current and envisaged financial debt. When the simplified procedure of processing low-value loans is applied, the assessment of a company's maximum borrowing capacity is calculated on the basis of data derived from past operations. That assessment is then used as the basis for calculating the free portion of a client's borrowing limit, taking into account the client's valid credit rating, current exposure to the client and the maturity of the requested financing.

Credit risk from securities arises from the portfolio managed by SID Bank for the purpose of ensuring liquidity and asset and liability management. SID Bank manages this credit risk primarily by means of limits on exposure with regard to the credit rating, registered office and type of the issuer, and the type of instrument. It also regularly monitors changes in the market values of debt securities in connection with position limits (stop loss) and change in the credit spread. In order to reduce exposure to environmental risk, SID Bank limits the purchase of debt securities of issuers whose core activity is in the fossil fuels segment. The system of limits in this area is designed to ensure investments are made primarily in debt securities of higher credit quality. Generally speaking, it does not allow any investment in the financial instruments of foreign issuers without a credit rating from an international rating agency.

SID Bank has no financial instruments held for trading. Counterparty credit risk is taken into account for derivatives that SID Bank enters into solely for the purpose of hedging open foreign-exchange and interest-rate positions. SID Bank determines counterparty credit risk exposure from derivatives using the original exposure method in accordance with Article 282 of the CRR. When entering into derivative transactions, credit risk is managed in such a way that these transactions can only be entered into with counterparties with which the Bank has signed ISDA Agreements and Credit Support Annexes to the ISDA Agreements.

In accordance with the business model and business strategy adopted by SID Bank, increased concentration is consciously accepted for the following:

- groups of debtors and sectors that are involved in Slovenia's exports to an above-average degree;
- client groups and sectors most affected by the negative consequences of an epidemic, the current economic situation or other types of gaps, with a view to the Bank's intervention (emergency) and counter-cyclical role;
- certain countries that are major destinations for Slovenia's merchandise exports, exports of services and outward FDI; and
- banks involved in exports transactions and banks established in Slovenia, if the banks transfer funding obtained to final beneficiaries in accordance with the Slovene Export and Development Bank Act or another law.

Maximum exposure to credit risk

31 Dec 2022	Maximum credit risk	Collateral in the form of property	Other credit enhancements	Overall reduction in credit risk
Gross on-balance-sheet exposures	**2,770,466**	**1,361,786**	**229,646**	**1,591,432**
Cash, cash balances at central banks and demand deposits at banks	413,628	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	1,336	8,168	0	8,168
Loans and advances to customers	1,336	8,168	0	8,168
Financial assets measured at fair value through other comprehensive income	507,480	0	19,970	19,970
Debt securities	507,480	0	19,970	19,970
Financial assets measured at amortised cost	1,844,607	1,353,618	209,676	1,563,294
Debt securities	71,146	0	0	0
Loans and advances to banks	345,778	0	28,219	28,219
Loans and advances to customers	1,424,639	1,353,618	181,457	1,535,075
Other financial assets	3,044	0	0	0
Derivatives – hedge accounting	3,415	0	0	0
Gross off-balance-sheet exposures	**279,366**	**37,443**	**27,459**	**64,902**
Guarantees	92,344	37,443	27,459	64,902
Assets: undrawn loans	145,101	0	0	0
Uncalled unpaid capital	41,921	0	0	0
Total gross credit risk exposure	**3,049,832**	**1,399,229**	**257,105**	**1,656,334**

31 Dec 2021	Maximum credit risk	Collateral in the form of property	Other credit enhancements	Overall reduction in credit risk
Gross on-balance-sheet exposures	**2,837,333**	**1,131,268**	**157,399**	**1,288,667**
Cash, cash balances at central banks and other demand deposits at banks	218,126	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	996	4,263	21	4,284
Loans and advances to customers	996	4,263	21	4,284
Financial assets measured at fair value through other comprehensive income	796,686	0	21,793	21,793
Debt securities	796,686	0	21,793	21,793
Financial assets measured at amortised cost	1,821,525	1,127,005	135,585	1,262,590
Loans and advances to banks	569,968	0	33,445	33,445
Loans and advances to customers	1,248,947	1,127,005	102,140	1,229,145
Other financial assets	2,610	0	0	0
Gross off-balance-sheet exposures	**221,421**	**23,838**	**28,760**	**52,598**
Guarantees	80,218	20,549	28,760	49,309
Assets: undrawn loans	90,336	3,289	0	3,289
Uncalled unpaid capital	50,867	0	0	0
Total gross credit risk exposure	**3,058,754**	**1,155,106**	**186,159**	**1,341,265**

The table shows that SID Bank's largest exposure to credit risk as at 31 December 2022 arose from balances at the central bank and demand deposits at banks, financial assets mandatorily at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets measured at amortised cost, derivatives held for hedging, and off-balance-sheet liabilities, without taking into account credit protection.

As at 31 December 2022, SID Bank's exposure to credit risk was down by EUR 8,922 thousand relative to 31 December 2021.

The collateral presented in the table includes collateral in the form of residential real estate, commercial real estate, shares and participating interests, loans, other funded credit protection and other forms of loan collateral.

The other credit enhancements presented in the table include collateral in the form of irrevocable Slovenian government guarantees and financial guarantees.

When estimating expected credit losses for exposures assigned to Stages 1 and 2, SID Bank takes collateral into account in the calculation of the loss-given-default (LGD) curves for each homogeneous LGD segment. When calculating loss-given-default (LGD) curves, SID Bank reduces the value of the collateral by the haircut (HC) determined for each type of collateral, and also takes into account forward-looking information when determining the value of the collateral. For collateral in the form of other funded credit protection, SID Bank takes into account a haircut in the amount of 95%.

When estimating expected credit losses for exposures classified as Stage 3, where expected credit losses are calculated using the collateral assessment methodology, SID Bank determines the value of collateral by using the same method used for the calculation of loss-given-default (LGD) curves.

The estimation of expected credit losses is defined in more detail in section 2.3.8 under the title Impairments of financial assets and provisions.

The impact of the Russia-Ukraine war on the quality of the credit portfolio in 2022 is defined in more detail in section of the business report entitled Management of and exposure to risk in 2022 and view to the future.

Types of credit protection

31 Dec 2022	Collateral in the form of irrevocable Slovenian government guarantees	Collateral in the form of financial guarantees that are not irrevocable Slovenian government guarantees	Collateral in the form of commercial real estate	Collateral in the form of residential real estate	Collateral in the form of shares and participating interests	Collateral in the form of loans	Collateral in the form of other funded credit protection	Other forms of loan collateral	Total
Financial assets	**85,825**	**143,821**	**779,912**	**16,442**	**64,356**	**0**	**450,057**	**51,019**	**1,591,432**
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	8,168	0	0	0	0	0	8,168
Loans and advances to customers	0	0	8,168	0	0	0	0	0	8,168
Financial assets measured at fair value through other comprehensive income	213	19,757	0	0	0	0	0	0	19,970
Debt securities	213	19,757	0	0	0	0	0	0	19,970
Financial assets measured at amortised cost	85,612	124,064	771,744	16,442	64,356	0	450,057	51,019	1,563,294
Loans and advances to banks	28,219	0	0	0	0	0	0	0	28,219
Loans and advances to customers	57,393	124,064	771,744	16,442	64,356	0	450,057	51,019	1,535,075
Off-balance-sheet liabilities	**0**	**27,459**	**0**	**0**	**0**	**37,443**	**0**	**0**	**64,902**
Guarantees	0	27,459	0	0	0	37,443	0	0	64,902
Total	**85,825**	**171,280**	**779,912**	**16,442**	**64,356**	**37,443**	**450,057**	**51,019**	**1,656,334**

31 Dec 2021	Collateral in the form of irrevocable Slovenian government guarantees	Collateral in the form of financial guarantees that are not irrevocable Slovenian government guarantees	Collateral in the form of commercial real estate	Collateral in the form of residential real estate	Collateral in the form of shares and participating interests	Collateral in the form of loans	Collateral in the form of other funded credit protection	Other forms of loan collateral	Total
Financial assets	**57,748**	**99,651**	**713,124**	**19,202**	**64,356**	**0**	**319,845**	**14,741**	**1,288,667**
Non-trading financial assets mandatorily at fair value through profit or loss	21	0	4,263	0	0	0	0	0	4,284
Loans and advances to customers	21	0	4,263	0	0	0	0	0	4,284
Financial assets measured at fair value through other comprehensive income	213	21,580	0	0	0	0	0	0	21,793
Debt securities	213	21,580	0	0	0	0	0	0	21,793
Financial assets measured at amortised cost	57,514	78,071	708,861	19,202	64,356	0	319,845	14,741	1,262,590
Loans and advances to banks	33,445	0	0	0	0	0	0	0	33,445
Loans and advances to customers	24,069	78,071	708,861	19,202	64,356	0	319,845	14,741	1,229,145
Off-balance-sheet liabilities	**0**	**28,760**	**3,289**	**0**	**0**	**20,549**	**0**	**0**	**52,598**
Guarantees	0	28,760	0	0	0	20,549	0	0	49,309
Assets: undrawn loans	0	0	3,289	0	0	0	0	0	3,289
Total	**57,748**	**128,411**	**716,413**	**19,202**	**64,356**	**20,549**	**319,845**	**14,741**	**1,341,265**

The total value of SID Bank's collateral amounted to EUR 1,656,334 thousand as at 31 December 2022, an increase of EUR 315,069 thousand relative to 31 December 2021. The collateral meets the requirements of the Regulation on credit risk management at banks and savings banks for the purpose of taking account of credit protection in the assessment of expected credit losses.

In terms of type of collateral, collateral in the form of commercial real estate accounts for the highest proportion in terms of volume, followed by collateral in the form of other funded credit protection, financial guarantees (excluding irrevocable Slovenian government guarantees), irrevocable Slovenian government guarantees, shares and participating interests, other loan collateral, loans and residential real estate.

In terms of collateral in the form of irrevocable Slovenian government guarantees, the largest volume of collateral is provided by SID Bank's insurance policies issued for the account of the Republic of Slovenia to insure against commercial and non-commercial risks, followed by government guarantees issued under the Act on the Guarantee of the Republic of Slovenia for Obligations arising from Credits taken out to Ensure Liquidity on the Organised Electricity Markets and Emission Coupons and Obligations arising from the Purchase of Additional Quantities of Natural Gas Outside the European Union Market (ZPKEEKP).

In terms of collateral in the form of financial guarantees that are not irrevocable Slovenian government guarantees, collateral secured by a guarantee given by the Pan-European Guarantee Fund accounts for the highest proportion in terms of volume, followed by collateral in the form of a sovereign limited conditional subsidiary guarantee, then by bank guarantees, ECB, government and central bank guarantees that are assigned a risk rating of 0 or 1 under the minimum export insurance premiums (MEIP) listing, and corporate guarantees of companies with a rating higher than BBB- based on the internal credit quality assessment methodology.

Collateral in the form of loans includes collateral in the form of European Cohesion Policy funds pledged as collateral for portfolio guarantees.

In terms of collateral in the form of other funded credit protection, collateral in the form of the pledging of inventories accounts for the highest proportion in terms of volume, followed by collateral in the form of the pledging of business equipment and motor vehicles.

As regards other forms of credit protection, collateral in the form of the assignment of claims that are secured accounts for the highest proportion in terms of volume, followed by liens on other rights (patents, trademarks, models).

Securing of loans and claims

	Fully secured and over-secured loans		Unsecured and under-secured loans	
31 Dec 2022	Net value of loans and claims	Fair value of collateral	Net value of loans and claims	Fair value of collateral
Financial assets measured at amortised cost				
Loans and advances to banks	27,876	28,219	316,114	0
Loans and advances to customers	555,455	1,331,473	825,736	203,602
Other financial assets	0	0	3,043	0
Total	**583,331**	**1,359,692**	**1,144,893**	**203,602**

	Fully secured and over-secured loans		Unsecured and under-secured loans	
31 Dec 2021	Net value of loans and claims	Fair value of collateral	Net value of loans and claims	Fair value of collateral
Financial assets measured at amortised cost				
Loans and advances to banks	0	0	568,769	33,445
Loans and advances to customers	495,860	1,088,771	702,842	140,374
Other financial assets	0	0	2,601	0
Total	**495,860**	**1,088,771**	**1,274,212**	**173,819**

Fully secured and over-secured loans are loans and other financial assets measured at amortised cost, where the fair value of the collateral is higher than or equal to the net value of the loan or other financial asset. Unsecured and under-secured loans are loans and other financial assets measured at amortised cost, where the fair value of the collateral is lower than the net value of the loan or other financial asset.

As at 31 December 2022, fully secured loans and the over-secured portion of the loan portfolio comprise new non-performing exposures of foreign banks, secured by SID Bank's insurance policy with 95% coverage provided by the Republic of Slovenia.

Analysis of credit quality – financial assets measured at amortised cost and off-balance-sheet liabilities

	31 Dec 2022	31 Dec 2021
Gross carrying amount	**2,123,973**	**2,042,946**
A	1,039,136	1,011,255
B	929,688	929,152
C	71,743	64,338
D	67,913	24,886
E	15,493	13,315
Allowances and provisions for credit losses	**(45,853)**	**(52,544)**
A	3,834	(1,181)
B	(9,907)	(18,928)
C	(8,420)	(6,199)
D	(16,612)	(14,951)
E	(14,748)	(11,285)
Net carrying amount	**2,078,120**	**1,990,402**

As at 31 December 2022, SID Bank disclosed gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities in the amount of EUR 2,123,973 thousand. This was an increase of EUR 81,027 thousand relative to 31 December 2021.

The proportion of financial assets assigned a rating grade of D increased mostly due to new defaulters, the highest exposure of which is attributed to customers from Ukraine and Belarus.

Financial assets measured at amortised cost and off-balance-sheet liabilities that meet at least one of the following criteria of default are assigned rating grades of D and E:

- the debtor is more than 90 days past due on any material credit obligation to SID Bank; and
- it is unlikely that the debtor will settle its credit obligations to SID Bank in full, without recourse by the Bank to actions such as the liquidation of collateral or other procedures.

As at 31 December 2022, 3.9% of financial assets measured at amortised cost and off-balance-sheet liabilities were assigned rating grades of D and E (31 December 2021: 1.9%). Gross exposure from financial assets assigned a rating grade of D amounted to EUR 67,913 thousand as at 31 December 2022, an increase of EUR 43,027 thousand relative to 31 December 2021.

Gross exposure from financial assets assigned a rating grade of E amounted to EUR 15,493 thousand as at 31 December 2022, an increase of EUR 2,178 thousand relative to 31 December 2021.

As at 31 December 2022, SID Bank created total allowances for credit losses and provisions of EUR 45,853 thousand. These allowances have decreased by EUR 6,691 thousand compared to the balance as at 31 December 2021.

The decrease in the allowances for credit losses and provisions was mainly driven by the transitions from Stage 2 to Stage 1 and by new macroeconomic scenarios affecting the estimates of credit parameters and expected credit losses, respectively. The IFRS 9 accounting standard estimates credit parameters on the basis of historical events (based on through-the-cycle values), but taking into account a forward-looking perspective and the inclusion of current macroeconomic data (point-in-time). The credit parameters for 2022 also included an expected deterioration of the credit portfolio stemming from the delayed effects of COVID-19, which did not materialise to the extent expected, hence, despite a less favourable macroeconomic outlook for 2023, a net release of impairments was recorded.

The relatively small increase in the allowance for credit losses for rating grades D and E, relative to the increase in non-performing exposures, is due to the prime collateral held by the largest new non-performing exposures (SID Bank's insurance policy with 95% coverage of the Republic of Slovenia).

As at 31 December 2022, SID Bank held eight POCI items, including two performing exposures. Allowances for credit losses from POCI items are positive and amounted to EUR 3,779 thousand as at 31 December 2022 (allowances for credit losses were positive in the amount of EUR 2,770 thousand as at 31 December 2021). The positive allowance for credit losses on two performing POCI items has a dominant impact on the total allowance for credit losses in rating grade A.

Under IFRS 9, the Bank must recognise, for POCI items, the amount of a change in the lifetime expected credit losses on a financial instrument in profit or loss as an impairment gain or loss. The Bank is obliged to recognise favourable changes to lifetime expected credit losses on a financial instrument as an impairment gain, even if the lifetime expected credit losses are lower than the amount of the expected losses included in the estimated cash flows at initial recognition. Under IFRS 9, POCI items are initially recognised at fair value in the statement of financial position. Upon subsequent measurement, this represents the basis for measurement at amortised cost.

The estimation of expected credit losses is defined in more detail in section 2.3.8 under the title Impairments of financial assets and provisions.

Analysis of credit quality – non-trading financial assets mandatorily at fair value through profit or loss – loans and advances to customers

	31 Dec 2022		31 Dec 2021	
Gross carrying amount	**3,437**	**100.0%**	**4,155**	**100.0%**
D	3,020	87.9%	3,238	77.9%
E	417	12.1%	917	22.1%
Accumulated fair value changes owing to credit risk	**(1,941)**	**100.0%**	**(3,159)**	**100.0%**
D	(1,524)	78.5%	(2,242)	71.0%
E	(417)	21.5%	(917)	29.0%
Accumulated fair value changes owing to other risks	**(160)**	**100.0%**	**0**	**0.0%**
D	(160)	100.0%	0	0.0%
Net carrying amount	**1,336**		**996**	

Non-trading financial assets mandatorily at fair value through profit or loss comprise non-performing loans to customers, where the fair value is calculated by discounting the estimated cash flows. The decrease in the fair value of financial assets mandatorily at fair value through profit or loss is the result of the early repayment of loans.

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

31 Dec 2022	Stage 1	Total	
Gross carrying amount	507,480	507,480	100.0%
A	491,384	491,384	96.8%
B	16,096	16,096	3.2%
Allowances for credit losses	(209)	(209)	100.0%
A	(61)	(61)	29.2%
B	(148)	(148)	70.8%
Net carrying amount	507,271	507,271	

31 Dec 2021	Stage 1	Stage 2	Total	
Gross carrying amount	795,631	1,055	796,686	100.0%
A	779,358	0	779,358	97.8%
B	16,273	1,055	17,328	2.2%
Allowances for credit losses	(461)	(28)	(489)	100.0%
A	(244)	0	(244)	49.9%
B	(217)	(28)	(245)	50.1%
Net carrying amount	795,170	1,027	796,197	

As at 31 December 2022, SID Bank disclosed gross exposure from financial assets (debt securities) measured at fair value through other comprehensive income in the amount of EUR 507,480 thousand.

Under IFRS 9, the Bank is obliged to estimate expected credit losses on financial assets measured at fair value through other comprehensive income, which amounted to EUR 209 thousand.

All financial assets measured at fair value through other comprehensive income are classified as Stage 1 (no significant increase in credit risk since the initial recognition), where impairments for credit losses are measured on the basis of 12-month expected credit losses.

Analysis of credit quality – financial assets measured at amortised cost – debt securities

31 Dec 2022	Stage 1	Total	
Gross carrying amount	71,146	71,146	100.0%
A	71,146	71,146	100.0%
Allowances for credit losses	(6)	(6)	100.0%
A	(6)	(6)	100.0%
Net carrying amount	71,140	71,140	

As at 31 December 2022, SID Bank disclosed exposure from financial assets (debt securities) measured at amortised cost in the amount of EUR 71,146 thousand. According to IFRS 9, for financial assets measured at amortised cost, the Bank is required to estimate expected credit losses, which amount to EUR 6 thousand.

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

31 Dec 2022	Stage 1	Stage 3	Total	
Gross carrying amount	316,414	29,364	345,778	100.0%
A	233,823	0	233,823	67.6%
B	82,591	0	82,591	23.9%
D	0	29,364	29,364	8.5%
Allowances for credit losses	(300)	(1,488)	(1,788)	100.0%
A	(74)	0	(74)	4.1%
B	(226)	0	(226)	12.7%
D	0	(1,488)	(1,488)	83.2%
Net carrying amount	316,114	27,876	343,990	

31 Dec 2021	Stage 1	Total	
Gross carrying amount	569,968	569,968	100.0%
A	355,403	355,403	62.4%
B	214,565	214,565	37.6%
Allowances for credit losses	(1,199)	(1,199)	100.0%
A	(309)	(309)	25.8%
B	(890)	(890)	74.2%
Net carrying amount	568,769	568,769	

As at 31 December 2022, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to banks) in the amount of EUR 345,778 thousand. Customers from Belarus were reclassified to Stage 3 (non-performing financial assets) in 2022, where allowances for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument. Total receivables assigned to Stage 3 amounted to EUR 29,364 thousand, while allowances for credit losses to EUR 1,488 thousand.

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

31 Dec 2022	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount	1,246,737	120,282	50,374	7,246	1,424,639
A	584,337	3,220	0	5,268	592,825
B	653,700	54,019	0	0	707,719
C	8,700	63,043	0	0	71,743
D	0	0	35,782	1,077	36,859
E	0	0	14,592	901	15,493
Allowances for credit losses	(6,974)	(11,356)	(28,897)	3,779	(43,448)
A	(552)	(136)	0	4,675	3,987
B	(5,733)	(3,489)	0	0	(9,222)
C	(689)	(7,731)	0	0	(8,420)
D	0	0	(14,301)	(743)	(15,044)
E	0	0	(14,596)	(153)	(14,749)
Net carrying amount	1,239,763	108,926	21,477	11,025	1,381,191

31 Dec 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount	1,053,355	151,494	36,056	8,042	1,248,947
A	519,396	701	0	0	520,097
B	524,667	101,668	0	0	626,335
C	9,292	49,125	0	5,906	64,323
D	0	0	23,766	1,120	24,886
E	0	0	12,290	1,016	13,306
Allowances for credit losses	(8,380)	(19,265)	(25,370)	2,770	(50,245)
A	(731)	(17)	0	0	(748)
B	(6,738)	(10,334)	0	0	(17,072)
C	(911)	(8,914)	0	3,627	(6,198)
D	0	0	(15,110)	159	(14,951)
E	0	0	(10,260)	(1,016)	(11,276)
Net carrying amount	1,044,975	132,229	10,686	10,812	1,198,702

As at 31 December 2022, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to customers) in the amount of EUR 1,424,639 thousand.

A total of EUR 1,246,737 thousand in loans and advances to customers and the associated allowances for credit losses in the amount of EUR 6,974 thousand were classified as Stage 1 (no significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of 12-month expected credit losses.

As SID Bank also approves loan transactions for rating grade C in the scope of individual financing programmes involving elements of state aid, EUR 8,700 thousand in loans and advances to customers was classified as Stage 1.

A total of EUR 120,282 thousand in loans and advances to customers and the associated allowances for credit losses in the amount of EUR 11,356 thousand were classified as Stage 2 (significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of the lifetime expected credit losses on a financial instrument.

A total of EUR 50,374 thousand in loans and advances to customers and the associated allowances for credit losses in the amount of EUR 28,897 thousand were classified as Stage 3 (non-performing financial assets), where allowances for credit losses are measured on the basis of the lifetime expected credit losses on a financial instrument.

The gross carrying amount of POCI items was EUR 7,246 thousand as at 31 December 2022. Allowances for credit losses from POCI items were positive and amounted to EUR 3,779 thousand.

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

31 Dec 2022	Stage 1	Stage 3	Total	
Gross carrying amount	**3,043**	**1**	**3,044**	**100.0%**
A	3,043	0	3,043	100.0%
D	0	1	1	0.0%
Allowances for credit losses	**0**	**(1)**	**(1)**	**100.0%**
D	0	(1)	(1)	100.0%
Net carrying amount	**3,043**	**0**	**3,043**	

31 Dec 2021	Stage 1	Stage 3	Total	
Gross carrying amount	**2,601**	**9**	**2,610**	**100.0%**
A	2,600	0	2,600	99.6%
B	1	0	1	0.0%
E	0	9	9	0.4%
Allowances for credit losses	**(0)**	**(9)**	**(9)**	**100.0%**
A	(0)	0	(0)	0.3%
B	0	0	0	0.0%
E	0	(9)	(9)	99.7%
Net carrying amount	**2,601**	**0**	**2,601**	

SID Bank disclosed exposure from financial assets measured at amortised cost (other financial assets) in the amount of EUR 3,044 thousand as at 31 December 2022.

A total of EUR 3,043 thousand in financial assets measured at amortised cost (other financial assets) was assigned to Stage 1 (no significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of 12-month expected credit losses.

A total of EUR 1 thousand in financial assets measured at amortised cost (other financial assets) and the associated allowances for credit losses in the amount of EUR 1 thousand were classified as Stage 3 (non-performing financial assets), where allowances for credit losses are measured on the basis of the lifetime expected credit losses on a financial instrument.

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

31 Dec 2022	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount	1,637,340	120,282	79,739	7,246	1,844,607
A	892,349	3,220	0	5,268	900,837
B	736,291	54,019	0	0	790,310
C	8,700	63,043	0	0	71,743
D	0	0	65,147	1,077	66,224
E	0	0	14,592	901	15,493
Allowances for credit losses	(7,280)	(11,356)	(30,386)	3,779	(45,243)
A	(632)	(136)	0	4,675	3,907
B	(5,959)	(3,489)	0	0	(9,448)
C	(689)	(7,731)	0	0	(8,420)
D	0	0	(15,790)	(743)	(16,533)
E	0	0	(14,596)	(153)	(14,749)
Net carrying amount	1,630,060	108,926	49,353	11,025	1,799,364

31 Dec 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount	1,625,924	151,494	36,065	8,042	1,821,525
A	877,399	701	0	0	878,100
B	739,233	101,668	0	0	840,901
C	9,292	49,125	0	5,906	64,323
D	0	0	23,766	1,120	24,886
E	0	0	12,299	1,016	13,315
Allowances for credit losses	(9,579)	(19,265)	(25,379)	2,770	(51,453)
A	(1,040)	(17)	0	0	(1,057)
B	(7,628)	(10,334)	0	0	(17,962)
C	(911)	(8,914)	0	3,627	(6,198)
D	0	0	(15,110)	159	(14,951)
E	0	0	(10,269)	(1,016)	(11,285)
Net carrying amount	1,616,345	132,229	10,686	10,812	1,770,072

Analysis of credit quality – off-balance-sheet items

31 Dec 2022	Stage 1	Stage 3	Total	
Gross carrying amount	277,677	1,689	279,366	100.0%
A	138,300	0	138,300	49.5%
B	139,377	0	139,377	49.9%
C	0	1,689	1,689	0.6%
Provisions	(532)	(78)	(610)	100.0%
A	(73)	0	(73)	12.0%
B	(459)	0	(459)	75.3%
C	0	(78)	(78)	12.7%
Net carrying amount	277,145	1,611	278,756	

31 Dec 2021	Stage 1	Stage 2	Total	
Gross carrying amount	214,920	6,501	221,421	100.0%
A	133,155	0	133,155	60.1%
B	81,750	6,501	88,251	39.9%
C	15	0	15	0.0%
Provisions	(614)	(477)	(1,091)	100.0%
A	(124)	0	(124)	11.4%
B	(489)	(477)	(966)	88.5%
C	(1)	0	(1)	0.1%
Net carrying amount	214,306	6,024	220,330	

SID Bank disclosed exposure from off-balance-sheet liabilities in the amount of EUR 279,366 thousand as at 31 December 2022.

A total of EUR 277,677 thousand in off-balance-sheet liabilities and the associated provisions for credit losses in the amount of EUR 532 thousand were classified as Stage 1 (no significant increase in credit risk since the initial recognition), where provisions for credit losses are measured on the basis of 12-month expected credit losses.

A total of EUR 1,689 thousand in off-balance sheet liabilities and EUR 78 thousand for the provisions created for these liabilities were assigned to Stage 3 (non-performing financial assets).

Maturity of financial assets

	Gross carrying amount					Allowances for credit losses				
31 Dec 2022	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks										
Non-past-due	316,414	0	17,649	0	334,063	(300)	0	(892)	0	(1,192)
Up to 29 days past due	0	0	326	0	326	0	0	(17)	0	(17)
90 to 180 days past due	0	0	11,389	0	11,389	0	0	(579)	0	(579)
Total loans and advances to banks	**316,414**	**0**	**29,364**	**0**	**345,778**	**(300)**	**0**	**(1,488)**	**0**	**(1,788)**
Loans and advances to customers										
Non-past-due	1,244,099	108,871	32,526	7,088	1,392,584	(6,933)	(11,219)	(11,805)	3,938	(26,019)
Up to 29 days past due	2,638	11,159	0	158	13,955	(41)	(105)	0	(159)	(305)
30 to 89 days past due	0	252	751	0	1,003	0	(32)	(485)	0	(517)
90 to 180 days past due	0	0	281	0	281	0	0	(169)	0	(169)
More than 180 days past due	0	0	16,816	0	16,816	0	0	(16,438)	0	(16,438)
Total loans and advances to customers	**1,246,737**	**120,282**	**50,374**	**7,246**	**1,424,639**	**(6,974)**	**(11,356)**	**(28,897)**	**3,779**	**(43,448)**
Other financial assets										
Non-past-due	3,043	0	0	0	3,043	(0)	0	0	0	(0)
More than 180 days past due	0	0	1	0	1	0	0	(1)	0	(1)
Total other financial assets	**3,043**	**0**	**1**	**0**	**3,044**	**(0)**	**0**	**(1)**	**0**	**(1)**

	Gross carrying amount					Allowances for credit losses				
31 Dec 2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to banks										
Non-past-due	569,968	0	0	0	569,968	(1,199)	0	0	0	(1,199)
Total loans and advances to banks	**569,968**	**0**	**0**	**0**	**569,968**	**(1,199)**	**0**	**0**	**0**	**(1,199)**
Loans and advances to customers										
Non-past-due	1,053,355	151,494	15,902	7,026	1,227,777	(8,380)	(19,265)	(8,734)	3,786	(32,593)
Up to 29 days past due	0	0	499	0	499	0	0	(258)	0	(258)
30 to 89 days past due	0	0	5,875	0	5,875	0	0	(5,425)	0	(5,425)
90 to 180 days past due	0	0	432	0	432	0	0	(170)	0	(170)
More than 180 days past due	0	0	13,348	1,016	14,364	0	0	(10,783)	(1,016)	(11,799)
Total loans and advances to customers	**1,053,355**	**151,494**	**36,056**	**8,042**	**1,248,947**	**(8,380)**	**(19,265)**	**(25,370)**	**2,770**	**(50,245)**
Other financial assets										
Non-past-due	2,601	0	0	0	2,601	0	0	0	0	0
More than 180 days past due	0	0	9	0	9	0	0	(9)	0	(9)
Total other financial assets	**2,601**	**0**	**9**	**0**	**2,610**	**0**	**0**	**(9)**	**0**	**(9)**

Past-due financial assets comprise loans and other financial assets measured at amortised cost, where a debtor is past due on any material credit obligation to SID Bank. The whole exposure under a specific loan agreement (rather than only the part of the exposure for which the debtor is past due with payment) is classified as a past-due loan or other financial asset. If the Bank is also exposed to the same debtor under other agreements and the debtor is not past due as regards the exposures under other agreements, such exposures are also classified as past-due loans.

The gross carrying amount of past-due claims from loans and other financial assets measured at amortised cost increased and amounted to EUR 43,771 thousand at the end of 2022 (31 December 2021: EUR 21,170 thousand).

Debt securities

Credit risk from debt securities arises from the portfolio managed by SID Bank for the purpose of ensuring liquidity and managing the balance sheet (ALM).

SID Bank manages credit risk arising from debt securities mainly through the:

- established limit system or restrictions placed on exposures according to the rating grade, registered office and type of issuer and the type of instrument;
- regular monitoring of changes in the market values of debt securities in connection with position (stop loss) limits;
- regular assessment and monitoring of the change in market values of debt securities measured through other comprehensive income due to changes in credit spreads and changes in market interest rates;
- regular monitoring of developments in financial markets and management of the portfolio of debt securities held in the banking book.

At the end of 2022, the proportion of debt securities accounts for 20.7% of SID Bank's total assets. From mid-2021, the Bank will not make new investments in debt securities of issuers whose core business is in the fossil fuels segment. The current stock of such investments represents 2.9% of the total debt securities portfolio. SID Bank prioritises new investments in green and sustainability bonds. The proportion of the entire portfolio of debt securities accounted for by green and sustainability bonds was 10.5% at the end of 2022. SID Bank has no exposure to Russian or Ukrainian bonds.

According to the situation as at the end of 2022, the Bank has 87.7% of its debt securities portfolio classified as debt securities measured at fair value through other comprehensive income and 12.3% of its portfolio classified as debt securities measured at amortised cost.

Debt securities measured at fair value through other comprehensive income, by rating grade of issuer

The table shows the fair value of debt securities measured at fair value through other comprehensive income, classified in terms of the issuer's rating grade in accordance with SID Bank's methodology.

	31 Dec 2022	31 Dec 2021
AAA	20,316	0
AA- to AA+	29,608	59,387
A- to A+	319,292	562,993
BBB+ to BBB-	122,107	156,734
Lower than BBB-	15,948	17,083
Total	**507,271**	**796,197**

SID Bank's portfolio of debt securities measured at fair value through other comprehensive income was down relative to the end of 2021 to stand at EUR 507,271 thousand at the end of 2022 (end of 2021: EUR 796,197 thousand).

The largest proportion of the debt securities portfolio measured at fair value through other comprehensive income, 62.3% as at 31 December 2022 (31 December 2021: 62.4%) was accounted for by debt securities issued by EU Member States (including the Slovenian government) with a minimum investment-grade rating of BBB-. Of that figure, Slovenian government debt securities account for 22.2% (end of 2021: 34.9%) of the portfolio of debt securities measured at fair value through other comprehensive income. The changes in the structure of SID Bank's debt securities portfolio by rating at the end of 2022 relative to 2021 are mostly due to a decrease in exposure to EU Member States, among them largely to the Republic of Slovenia, and a decrease in exposure to banks. The decrease in exposure in lower rating grades (below BBB-) is driven by the maturing of debt securities of domestic issuers, with the proportion of exposure in rating grades below BBB- accounting for only 3.1% of the portfolio of debt securities measured at fair value through other comprehensive income at the end of 2022.

A detailed breakdown of financial assets measured at fair value through other comprehensive income, by type of issuer, is given under section 2.4.3 Financial assets measured at fair value through other comprehensive income.

Debt securities measured at amortised cost, by rating grade of issuer

	31 Dec 2022	31 Dec 2021
AA- to AA+	52,649	0
BBB+ to BBB-	18,491	0
Total	**71,140**	**0**

The table shows the amortised cost of debt securities classified according to the issuer's rating grade, in line with SID Bank's methodology.

In order to reduce the volatility of other comprehensive income in 2022 SID Bank made purchases of new investments in debt securities, which were classified on initial recognition as debt securities measured at amortised cost. The entire portfolio of debt securities measured at amortised cost consists of bonds of EU issuers with an investment-grade rating (BBB- or above).

A detailed breakdown of financial assets measured at amortised cost by type of issuer is presented in Section 2.4.4 Financial assets measured at amortised cost.

Breakdown of exposure to credit risk by geographical region

The tables illustrate the breakdown of net exposure to credit risk by geographical region as defined by the debtor's registered office.

31 Dec 2022	Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets	**2,196,726**	**474,168**	**40,735**	**13,385**	**2,725,014**
Cash, cash balances at central banks and demand deposits at banks	413,628	0	0	0	413,628
Non-trading financial asset mandatorily at fair value through profit or loss	1,336	0	0	0	1,336
Loans and advances to customers	1,336	0	0	0	1,336
Financial assets measured at fair value through other comprehensive income	128,784	378,487	0	0	507,271
Debt securities	128,784	378,487	0	0	507,271
Financial assets measured at amortised cost	1,652,978	92,266	40,735	13,385	1,799,364
Debt securities	18,491	52,649	0	0	71,140
Loans and advances to banks	278,078	38,036	27,876	0	343,990
Loans and advances to customers	1,354,947	0	12,859	13,385	1,381,191
Other financial assets	1,462	1,581	0	0	3,043
Derivatives – hedge accounting	0	3,415	0	0	3,415
Off-balance-sheet liabilities	**243,930**	**33,216**	**1,610**	**0**	**278,756**
Guarantees	92,278	0	0	0	92,278
Gross exposure	92,344	0	0	0	92,344
Provisions	(66)	0	0	0	(66)
Other off-balance-sheet liabilities	151,652	33,216	1,610	0	186,478
Gross exposure	152,116	33,217	1,689	0	187,022
Provisions	(464)	(1)	(79)	0	(544)
Total	**2,440,656**	**507,384**	**42,345**	**13,385**	**3,003,770**
31 Dec 2021					
Financial assets	2,139,324	584,166	50,009	11,892	2,785,391
Off-balance-sheet liabilities	170,470	41,334	6,237	2,289	220,330
Total	**2,309,794**	**625,500**	**56,246**	**14,181**	**3,005,721**

At the end of 2022, SID Bank's exposure to the Slovenia accounted for 81.3% (end of 2021: 76.8%) of the total exposure from financial assets and off-balance-sheet liabilities. Exposure of financial assets to credit risk increased by EUR 57,402 thousand relative to the end of 2021, mainly due to an increase in loans from customers and cash balances at the central bank and demand deposits at banks.

At the end of 2022, exposure to other EU Member States accounted for most of the credit portfolio's exposure to the rest of the world, and amounted to 16.9% (end of 2021: 20.8%) of the total exposure from financial assets and off-balance-sheet liabilities. Compared to the end of 2021, the total exposure to other EU Member States decreased, mainly due to a decrease in debt securities measured at fair value through other comprehensive income. At the end of 2022, credit risk exposure to countries from the rest of Europe (Europe without EU Member States) accounted for 1.4% (end of 2021: 1.9%) of total exposure, while exposure to other countries accounted for 0.4% (end of 2021: 0.5%) of total exposure.

SID Bank uses internal exposure limits to apply a maximum allowable exposure to individual geographical regions. A detailed presentation of the greater credit risk exposure by individual country is given in separate table.

SID Bank's exposure to Belarus amounts to EUR 29,487 thousand, and its exposure to Ukraine to EUR 11,829 thousand. SID Bank has no direct exposure to Russia.

	31 Dec 2022			31 Dec 2021		
	Financial assets	Off-balance-sheet liabilities	Total exposure	Financial assets	Off-balance-sheet liabilities	Total exposure
Slovenia	2,196,726	243,929	2,440,655	2,139,323	170,471	2,309,794
France	84,781	0	84,781	97,228	0	97,228
Germany	64,708	1,387	66,095	57,430	3,497	60,927
Italy	55,767	0	55,767	84,084	0	84,084
Spain	54,698	0	54,698	67,179	0	67,179
Poland	35,617	0	35,617	37,966	0	37,966
Belgium	32,865	0	32,865	3,387	0	3,387
Belarus	27,876	1,611	29,487	34,730	2,119	36,849
Hungary	25,427	0	25,427	36,850	0	36,850
Austria	21,399	0	21,399	48,438	0	48,438
Netherlands	20,324	48	20,372	34,499	47	34,546
Lithuania	17,922	0	17,922	20,314	0	20,314
Luxembourg	16,274	31,781	48,055	19,067	37,789	56,856
Other	70,630	0	70,630	104,896	6,407	111,303
Total	**2,725,014**	**278,756**	**3,003,770**	**2,785,391**	**220,330**	**3,005,721**

Breakdown of credit risk exposure by sector

31 Dec 2022	Financial and insurance activities	Manufacturing	Public administration and defence	Wholesale and retail trade (maintenance and repair of motor vehicles)	Transportation and storage	Professional, scientific and technical activities	Electricity, gas, steam and air conditioning supply	Other	Total
Financial assets	**898,456**	**425,558**	**552,900**	**183,271**	**154,035**	**44,561**	**223,409**	**242,824**	**2,725,014**
Cash, cash balances at central banks and demand deposits at banks	413,628	0	0	0	0	0	0	0	413,628
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	0	0	0	0	1,336	1,336
Loans and advances to customers	0	0	0	0	0	0	0	1,336	1,336
Financial assets measured at fair value through other comprehensive income	105,987	31,101	302,697	16,518	242	11,134	23,872	15,720	507,271
Debt securities	105,987	31,101	302,697	16,518	242	11,134	23,872	15,720	507,271
Financial assets measured at amortised cost	375,426	394,457	250,203	166,753	153,793	33,427	199,537	225,768	1,799,364
Debt securities	18,491	0	52,649	0	0	0	0	0	71,140
Loans and advances to banks	343,990	0	0	0	0	0	0	0	343,990
Loans and advances to customers	11,344	394,457	196,144	166,753	153,776	33,412	199,537	225,768	1,381,191
Other financial assets	1,601	0	1,410	0	17	15	0	0	3,043
Derivatives – hedge account-ing	3,415	0	0	0	0	0	0	0	3,415
Off-balance-sheet liabilities	**82,340**	**51,241**	**3,094**	**53,338**	**55,361**	**1,213**	**21,363**	**10,806**	**278,756**
Guarantees	37,421	0	0	0	54,857	0	0	0	92,278
Gross exposure	37,443	0	0	0	54,901	0	0	0	92,344
Provisions	(22)	0	0	0	(44)	0	0	0	(66)
Other off-balance-sheet liabilities	44,919	51,241	3,094	53,338	504	1,213	21,363	10,806	186,478
Gross exposure	44,998	51,432	3,094	53,459	510	1,232	21,463	10,834	187,022
Provisions	(79)	(191)	0	(121)	(6)	(19)	(100)	(28)	(544)
Total	**980,796**	**476,799**	**555,994**	**236,609**	**209,396**	**45,774**	**244,772**	**253,630**	**3,003,770**
31 Dec 2021									
Financial assets	979,764	412,048	667,887	160,742	130,587	55,515	145,994	232,854	2,785,391
Off-balance-sheet liabilities	77,541	32,052	3,625	579	57,598	6,061	21,203	21,671	220,330
Total	**1,057,305**	**444,100**	**671,512**	**161,321**	**188,185**	**61,576**	**167,197**	**254,525**	**3,005,721**

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

At the end of 2022, SID Bank was again most heavily exposed to financial and insurance activities, as the majority of its assets still comprise loans and advances to banks established in Slovenia, which transfer funding obtained as such to the final beneficiaries. At the end of 2022, the proportion of exposure to financial and insurance activities accounted for 32.7% (end of 2021: 35.2%) of the total exposure from financial assets and off-balance-sheet liabilities.

The decrease in that proportion relative to the end of 2021 was primarily due to a decrease in the stock of loans and advances to banks established in Slovenia. This was followed by exposure to the public administration and defence sector, where the proportion was down to 18.5% at the end of 2022 (end of 2021: 22.3%). That decrease was the result of a decrease in exposure from debt securities.

New loans granted to customers increased exposure most notably in the electricity, gas and steam supply sectors.

Modified financial assets

In the event of modification to the contractual cash flows of a financial asset that do not result in its derecognition, SID Bank calculates the current value of the modified contractual cash flows using, as the discount rate, the effective interest rate at recognition, or the credit-adjusted effective interest rate in the case of POCI items. SID Bank also adjusts the gross carrying amount of the financial asset by the amount of the difference established. SID Bank accrues the amount by which the gross carrying amount of the financial asset is adjusted as a result of a modification to contractual cash flows for the entire remainder of the lifetime of the financial asset and discloses it in profit or loss as interest income.

The number of contractual cash flows that were modified and did not result in the derecognition of the financial asset decreased in 2022 relative to 2021.

A loss was recognised in profit or loss in the total amount of EUR 374 thousand in response to the modification to contractual cash flows in the case of 13 financial assets, while gains in the total amount of EUR 203 thousand were recognised in the case of 6 financial assets.

Financial assets modified in the period

	2022	2021
Gross carrying amount before the modification	32,341	22,398
Loss allowances before the modification	(10,855)	(6,228)
Net amortised cost before the modification	**21,486**	**16,170**
Net gains/(losses) from the modification	10	(130)
Net amortised cost after the modification	**21,496**	**16,040**

The table shows the effects of modifications to the contractual cash flows of financial assets, where SID Bank measures allowances for credit losses based on the lifetime expected credit losses on a financial instrument (financial assets are classified as Stage 2, Stage 3 or as POCI items), and the modifications did not result in the derecognition of financial assets.

Financial assets modified following initial recognition in a period when loss allowance is based on lifetime ECLs

	31 Dec 2022	31 Dec 2021
Gross carrying amount of financial assets for which allowances for credit losses were changed in the period from the lifetime to the 12-month ECLs	763	458

The table shows the gross carrying amount of financial assets, where the enhancement of the credit quality of financial assets in the period following the modification of contractual cash flows led to a change in the calculation of expected credit losses. Before the modification to contractual cash flows, allowances for credit losses were measured on the basis of lifetime expected credit losses on a financial instrument (financial assets were classified as Stage 2 or Stage 3), while in the period following the modification to contractual cash flows, these allowances began to be calculated on the basis of 12-month expected credit losses (financial assets were reclassified as Stage 1) due to enhancement in credit quality. This change was made to two financial assets in 2022.

Counterparty credit risk

Market interest rates and yield curves are taken into consideration when valuing derivatives. As the market interest rates and yield curves used for the valuation of derivatives contain no counterparty credit risk, credit valuation adjustment (CVA) is calculated for that purpose. CVA represents a value adjustment of the derivative for the counterparty credit risk and is defined as the difference between the value of a financial instrument without taking into account the credit risk and the value taking into account the credit risk. For a valuation adjustment, counterparty credit risk (CVA) must be taken into account on the one hand and own credit risk on the other hand. SID Bank does not calculate its own credit risk.

CVA is calculated on a monthly basis for each derivatives transaction. Any collateral is also taken into consideration in the calculation. The Bank does not calculate CVA in the case of collateral or clearing in accordance with the provisions of the EMIR.

SID Bank only concludes transactions outside the regulated stock market (OTC transactions) with banks with which it concluded a framework agreement on transactions in derivatives (ISDA Master Agreement). For the purpose of mitigating counterparty credit risk in derivatives transactions, the Bank has signed a credit support annex (CSA) as a legal supplement to the master agreement, based on a system of providing cash margins through the exchanges of collateral depending on the daily fair value of the derivative.

The Bank carries out the daily monitoring of counterparty credit risk on the basis of the fair value of the derivative. If adverse changes in the fair value of a derivative result in insufficient coverage of exposure by collateral for a counterparty, the Bank asks that counterparty to provide additional collateral.

SID Bank agreed on cash deposits as collateral with counterparties with whom it concluded derivatives transactions in 2022.

SID Bank recognises the calculated CVA amount in profit or loss in months in which the total amount of the calculated CVA for all derivatives exceeds 10 basis points of the last total risk exposure amount, as set out in the third paragraph of Article 92 of the CRR.

Taking into account collateral in the form of cash deposits with counterparties for all derivatives transactions, CVA was not calculated according to the situation as at 31 December 2022.

3.2 LIQUIDITY RISK

Liquidity risk is the risk of a loss occurring when the Bank is unable to settle all of its maturing liabilities, or when it is obliged to obtain sources of liquidity at costs significantly higher than average market costs due to its inability to provide sufficient funding to settle its liabilities at maturity. The greater the mismatch between flows of interest and principal on the asset side and the liability side, and in off-balance-sheet items, the higher the risk of illiquidity.

Liquidity risk in the narrower sense arises when the Bank is unable to repay its liabilities via investment operations. These liabilities are usually settled using cash inflows, readily convertible assets and borrowed funding. Liquidity risk in the broader sense is the risk that the Bank will have to undertake additional borrowing at a higher interest rate, and the risk that the Bank will be compelled to sell non-monetary investments at a discount as a result of the need for liquidity. Given the level and structure of secondary liquidity, a significant proportion of which consists of government securities and other high-quality and highly liquid securities, this risk is assessed as low at SID Bank.

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

Take-up and management of liquidity risk

SID Bank takes up liquidity risk in accordance with the business strategy, its risk capacity and its risk appetite and the risk management strategy, with the primary objective of ensuring the prudent and secure operations of the Bank. Liquidity management includes the prudent management of assets and liabilities (on-balance-sheet and off-balance-sheet) and a balanced borrowing strategy so that the Bank is capable of meeting its due liabilities (liquidity) at any given moment and in due time, and is capable of meeting all its liabilities (solvency) on a continuous basis.

The process of the taking-up and managing liquidity risk is conducted in line with the adopted liquidity risk management policy, which is discussed and adopted at least once a year by the Bank's management body. The Bank's management body discusses and adopts the report on the internal liquidity adequacy assessment process (ILAAP) on an annual basis. The liquidity risk management action plan includes the framework for the management of liquidity and the securing of funding, procedures for identifying, measuring and managing liquidity risk, including the methods used to monitor and report on the Bank's liquidity position, and procedures for implementing liquidity risk management measures. Exposure to liquidity risk is discussed and monitored on a regular basis through weekly and monthly reports at meetings of the asset-liability and liquidity management committee, and through quarterly reports at meetings of the management body.

The Bank defines an adequate liquidity position or an adequate level of the liquidity buffer and stable funding structure through the adopted liquidity risk appetite, and particularly through the setting of a minimum liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), and through the strategic indicator of the proportion of total assets accounted for by liquid assets. The scope of the take-up of liquidity risk is monitored annually by the management body as part of the process of adopting the business strategy, the assessment of the risk capacity and the risk management strategy. In determining the extent of liquidity risk to be taken up, the Bank takes into account the existing liquidity position, the planned volumes of asset and liability items aligned with the Bank's business plan and the stress testing results. The adequacy of the internal limits set is also checked as part of the process of adopting the liquidity risk appetite.

The liquidity risk management policy and associated bylaws define additional quantitative limits and measures on the basis of which the Bank manages the take-up of liquidity risk, including the procedures envisaged if the internally set limits are exceeded and the range of possible measures to be implemented if operational or structural liquidity deteriorates, and the responsibilities of the competent committees and relevant organisational units in the area of liquidity risk management.

The Bank presents the key responsibilities of the competent bodies in the area of risk management, risk management functions and individual organisational units in the business report in the section Risk management. The asset-liability and liquidity management committee is responsible for deciding on proposals regarding liquidity risk management, and the approval, guidance and supervision of the implementation of the liquidity policy and investment policy of the treasury department. The risk management department drafts and, at least once a year, reviews and proposes any changes to the liquidity risk management policy in accordance with the Bank's risk profile, the adopted business policy and the liquidity risk appetite. It also ensures the regular briefing of the management body on the Bank's exposure to liquidity risk. The asset and liability management department draws up proposals for achieving the optimal balance sheet structure in terms of liquidity risk, actively participates in the long-term (annual) planning of liquidity as part of the drafting of the business strategy and financial plan, and is responsible for the preparation and management of liquidity simulations, and simulations of the liquidity coverage ratio and net stable funding ratio. The treasury department is responsible for managing, achieving and maintaining daily liquidity, concluding transactions for the purpose of managing liquid assets and carrying out borrowing activities within the adopted risk appetite and liquidity risk policy, established authorisations and the decisions of the competent bodies. The aforementioned organisational units are also involved in the regular process of assessing the internal liquidity adequacy of the Bank and in the comprehensive annual review or assessment of the Bank's liquidity profile in light of the key elements of the report on the internal liquidity adequacy assessment process (ILAAP). The ILAAP report also serves as a basis for supervisory reviews and the evaluation of the Bank's liquidity risk.

Through the regular implementation of the internal liquidity adequacy assessment process (ILAAP), SID Bank ensures the effectiveness of liquidity risk management and the adequacy of the Bank's liquidity relative to its risk profile. That process includes an assessment of liquidity needs and available liquidity within the context of regular operations and of the business strategy for the coming period or the annual operational plan. The Bank's liquidity position is verified on a regular basis by the competent committees through the monitoring of various indicators, including in relation to the achievement of planned indicators. The Bank regularly carries out an assessment of the adequacy of funding, with activities focused in particular on the annual planning of business needs, where the Bank defines the funding policy for the current planning period.

Liquidity risk management at SID Bank comprises:

- the daily management of liquidity;
- the regular planning and monitoring of future liquidity flows;
- the setting of a liquidity risk appetite framework and the limits for liquidity risk management;
- the measurement and monitoring of the liquidity position, and the regular verification of compliance with regulatory ratios and internally set liquidity limits;
- the monitoring of the appropriate structure of liabilities and financial assets;
- the management of a sufficient stock of financial assets as collateral for the central bank's claims;
- the regular verification of the appropriateness of liquidity reserves, assuming a static balance sheet in internally defined stress scenarios;
- the regular verification of the liquidity position, the scope of liquidity reserves and the ratio of liquidity reserves to total assets, and simulations of the LCR and NSFR liquidity ratios, taking into account the financial plan and information from the business units for future periods in the baseline scenario and in internally defined liquidity scenarios.

SID Bank provides liquidity risk management through its activities to secure funding of the appropriate maturities, by adjusting the maturities of asset and liability items and maintaining a suitable level and quality of the liquidity buffer, with debt securities accounting for the majority of this buffer. The Bank has at its continuous disposal a sufficient stock of securities to obtain additional secondary liquidity from the central bank. The Bank manages structural liquidity through the assessment of long-term liquidity position.

SID Bank is obliged to meet the reserve requirement at the central bank. The reserve requirement is 1% of the stock of deposits received and issued debt securities with an agreed maturity of up to two years. At the end of 2022, the reserve requirement was EUR 0.

As a rule, SID bank does not accept customer deposits and therefore is not exposed to the risk of potential outflows of retail and corporate demand deposits, and thus does not have an internal model for determining the stability of customer deposits. This fact and the specific role of the Bank also affect the structure of the funding and mean that there is higher concentration with regard to funding than is the case with commercial banks.

SID Bank obtains funding on the domestic and foreign financial markets. The diversification of funding, particularly in terms of the type and geographical diversification of investors and the type of financial instrument, ensures that SID Bank has stable access to funding. The fact that SID Bank obtains long-term funding supported by Slovenian government guarantees mainly on international financial markets and at similar financial institutions increases the stability of the Bank funding.

Borrowing activities are based on SID Bank's business strategy and the annual financial borrowing plan, which is drafted as part of the annual strategic planning process. The purpose of borrowing is to ensure appropriate funding for the execution of the Bank's asset-side transactions. Adequacy is assessed with regard to maturity, currency, interest-rate type, costs of borrowing and any other characteristics. SID Bank borrows for the purposes set out in the ZSIRB.

Contingent liquidity risk management framework

SID Bank uses internal rules that provide a framework for contingent liquidity risk management. The contingent liquidity risk management framework comprises the following elements:

- procedures for the early identification of possible liquidity shortfalls;
- the contingent liquidity risk management plan and the responsibilities for resolving liquidity crises;
- the criteria for activating the contingent liquidity risk management plan;
- the set of possible measures for resolving a liquidity crisis;
- early warning indicators for adverse liquidity conditions;
- the implementation of internal liquidity stress scenarios, assuming a static balance sheet;

- internal simulations of liquidity flows, liquidity reserves, and LCR and NSFR simulations taking into account market conditions (baseline and stress market scenario), the annual financial plan and information from the business units.

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

Based on the relevant reports, the asset-liability and liquidity management committee regularly discusses and monitors the following:

- the trend in SID Bank's performance indicators;
- the trend in macroeconomic indicators;
- events on financial markets;
- the liquidity coverage ratio and the net stable funding ratio;
- planned and realised liquidity flows;
- early warning indicators for adverse liquidity conditions;
- the results of implementation of internal liquidity scenarios; and
- the results of simulations of liquidity flows, liquidity reserves, and LCR and NSFR taking into account the financial plan and information from the business units for the coming period in the baseline scenario and in internally defined liquidity scenarios.

By regularly monitoring the liquidity position, ratios and indicators, and by verifying liquidity risk management in internally defined scenarios, the Bank is able to identify adverse liquidity conditions in a timely manner and take appropriate measures to overcome any liquidity difficulties.

Liquidity coverage ratio

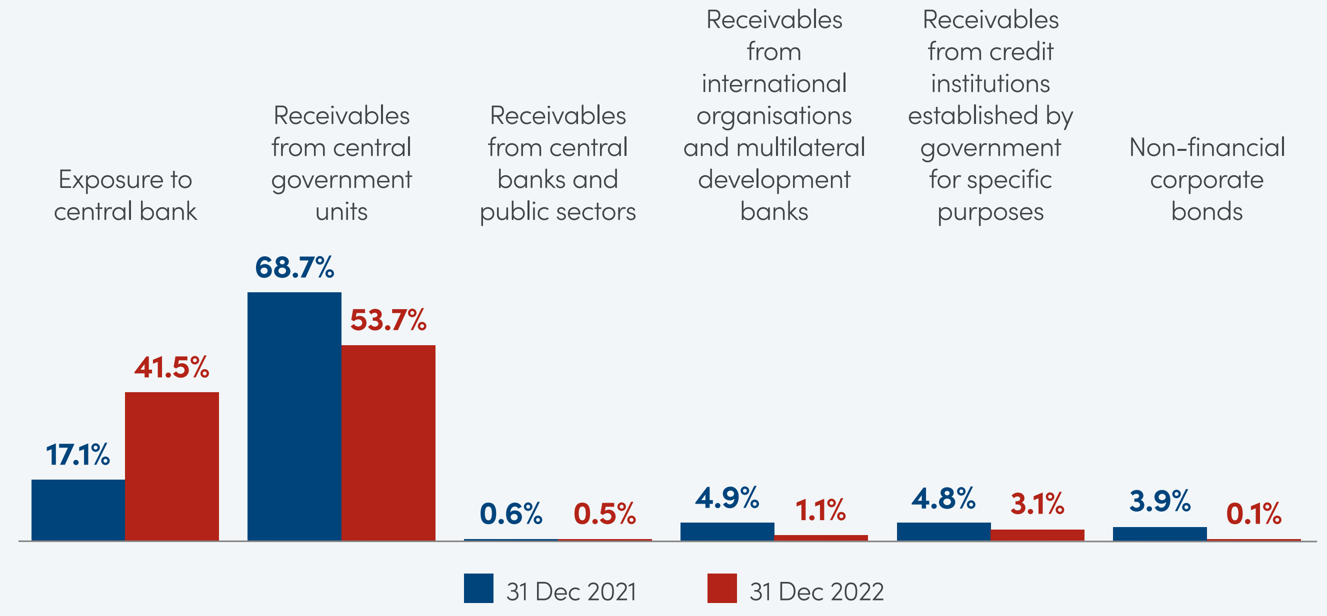
The aim of the liquidity coverage ratio (LCR) is to prevent liquidity risk by reducing credit institutions' dependence on short-term funding and liquidity provided by central banks, by requiring banks to hold sufficient liquid assets to handle any surplus of liquid outflows over inflows that could be expected to occur over a 30-day stress period.

The Bank has in place an internal limit for maintaining the LCR and liquidity buffer that is more stringent than the regulatory requirement (100%). The value of the LCR, changes over time and the compliance of the ratio with adopted internal limits are discussed on a regular basis by the asset-liability and liquidity management committee.

The LCR amounted to 1,814% at the end of 2022 (end of 2021: 2,334%). The average value of the LCR was 6,123% in 2022 (2021: 3,618%), which is evident from the quantitative disclosures in the section Disclosures under Part Eight of the CRR. The Bank maintains the LCR at high levels, but is also volatile, primarily as a result of the fact that the Bank does not have a high stock of maturities in a period of 30 days, except for the maturities of long-term funding.

SID Bank monitors and maintains an adequate buffer of unencumbered, high-quality liquid assets to be held as a contingency against adverse liquidity conditions. The Bank maintained an adequate level, quality and structure of liquid assets in 2022 for covering its expected and unexpected liquidity outflows and for business continuity. The structure of the liquidity buffer at the end of 2022 relative to 2021 indicates that the Bank, due to volatile market conditions, increased balances at the central bank, while slightly reducing the stock of LCR eligible debt securities. The proportion of Level 1 high-quality liquid assets (HQLA), which in addition to high-quality debt securities also includes balances at the central bank, amounted to 99.9% at the end of 2022 (31 December 2021: 96.1%).

Structure of LCR liquidity buffer (after decuction)



As at 31 December 2022, the liquid assets eligible for inclusion in the LCR calculation amounted to EUR 400,309 thousand, after haircuts had been taken into account (31 December 2021: EUR 353,567 thousand), with the liquid assets of central government units accounting for 53.7% (31 December 2021: 68.7%), while exposure to central banks for 41.5% (31 December 2021: 17.1%) of all eligible liquid assets after haircuts had been taken into account.

In addition to regular calculations of the LCR, the Bank regularly prepares and verifies simulations of the liquidity coverage ratio taking into account the financial plan and information from the business units for the coming period of 12 months in the baseline scenario and internally defined liquidity scenarios.

Net stable funding ratio

The net stable funding ratio (NSFR) focuses on constraining banks in the transformation of the maturity structure, and is defined as the ratio between the available stock of stable funding and the required stock of stable funding.

The NSFR was 144.9% at the end of 2022 (end of 2021: 142%). The value of the ratio, changes over time and the compliance of the ratio with adopted internal limits are discussed on a regular basis by the asset-liability and liquidity management committee.

In addition to regular calculations of the NSFR, the Bank regularly prepares and verifies NSFR simulations taking into account the financial plan and information from the business units for the coming period of 12 months in the baseline scenario and internally defined liquidity scenarios.

Exposure to liquidity risk

31 Dec 2022	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**434,000**	**93,981**	**313,646**	**1,304,655**	**881,960**	**3,028,242**
Cash, cash balances at central banks and demand deposits at banks	413,651	0	0	0	0	413,651
Non-trading financial assets mandatorily at fair value through profit or loss	0	6	16	254	1,178	1,454
Loans and advances to customers	0	6	16	254	1,178	1,454
Financial assets measured at fair value through other comprehensive income	61	35,917	77,069	290,539	166,475	570,061
Debt securities	61	35,917	77,069	290,539	166,475	570,061
Financial assets measured at amortised cost	20,288	58,483	235,469	1,010,870	714,242	2,039,352
Debt securities	3,463	28,312	57,326	216,891	64,879	370,871
Loans and advances to banks	15,349	30,171	176,689	744,323	622,646	1,589,178
Loans and advances to customers	0	0	1,454	49,656	25,150	76,260
Other financial assets	1,476	0	0	0	1,567	3,043
Derivatives – hedge accounting	0	(425)	1,092	2,992	65	3,724
Financial liabilities	**3,129**	**7,645**	**506,080**	**1,113,983**	**883,253**	**2,514,090**
Financial liabilities measured at amortised cost	2,927	7,645	502,227	1,098,797	883,253	2,494,849
Deposits from banks and central banks	2	6	27	1,008	1,025	2,068
Loans from banks and central banks	0	5,161	366,831	181,832	106,863	660,687
Loans from customers	94	2,457	56,971	313,944	775,262	1,148,728
Debt securities	0	0	78,398	601,960	0	680,358
Other financial liabilities	2,831	21	0	53	103	3,008
Derivatives – hedge accounting	202	0	3,853	15,186	0	19,241
Liquidity gap	**430,871**	**86,336**	**(192,434)**	**190,672**	**(1,293)**	**514,152**
Off-balance-sheet liabilities	**38,085**	**16,421**	**43,945**	**67,155**	**26,033**	**191,639**
31 Dec 2021						
Financial assets	259,096	96,046	268,798	1,302,734	967,912	2,894,586
Financial liabilities	23,631	8,166	29,427	1,312,011	996,273	2,369,508
Liquidity gap	**235,465**	**87,880**	**239,371**	**(9,277)**	**(28,361)**	**525,078**
Off-balance-sheet liabilities	**39,978**	**4,748**	**39,248**	**38,272**	**23,076**	**145,322**

The table illustrates future cash flows from on- and off-balance-sheet items by expected maturity on the statement of financial position date. Expected cash flows in connection with both individually and collectively impaired loans comprise expected cash flows and not contractual cash flows, with respect to contractual maturity. Cash flows from derivatives used for hedging are settled in net amounts. Expected cash flows from off-balance-sheet liabilities are estimated according to an internal methodology. The Bank does not have at its disposal customer deposits and thus has not developed a methodology for classifying demand deposits over times.

Changes in the structure of liquidity gaps in terms of maturity buckets at the end of 2022 relative to the end of 2021 are also associated with early repayments, in particular of loans to banks, and regular maturities and the shortening of residual maturity of financial assets and liabilities. Around 20% of the financial liabilities have a residual maturity of up to 12 months, the largest of which is the long-term loan raised under TLTRO III operations amounting to EUR 337 million.

3.3 INTEREST-RATE RISK

Interest rate risk is the risk of a change in the interest rates of interest-sensitive asset and liability items that could have an adverse impact on profit or loss and the economic value of equity. Exposure to interest rate risk derives primarily from interest-sensitive assets with different maturities and a different repricing dynamic compared with interest-sensitive liabilities (income aspect). Another element of interest rate risk is the sensitivity of the fair value of assets, liabilities and off-balance-sheet items to changes in interest rates (economic aspect).

On the asset side, SID Bank is exposed to interest rate risk from debt securities, loans given, and the balance in accounts at the central bank and commercial banks. On the liability side, it is exposed to interest rate risk from loans received and debt securities issued. The Bank conducts transactions in derivatives for the purpose of managing interest rate risk.

Identifying, measuring, managing and monitoring interest rate risk are carried out in accordance with the policy for the management of interest rate risk and credit spread risk, which is based on the standardised methodology from Basel standards for managing interest rate risk in the banking book and the EBA Guidelines on the management of interest rate risk arising from non-trading book activities. This policy defines the methods and assumptions for identifying, assessing and measuring interest rate risk, interest rate scenarios for assessing interest-rate sensitivity, and limits within which the Bank manages interest rate risk in the banking book. The methodologies used, including assumptions, are defined in detail in the internal implementing act, methodological notes to the policy for the management of interest rate risk and credit spread risk. The policy also defines the responsibilities of individual organisational units in the area of interest rate risk management, and procedures in the event that internally set limits are exceeded. The Bank's management body reviews and adopts the interest rate risk management policy at least once a year. The internal methodology for assessing interest rate risk in the banking book is approved by the asset-liability and liquidity management committee.

Interest rate risk management is defined by the adopted interest rate risk appetite and the established policy for the management of interest rate risk and credit spread risk. The level of interest rate risk has been mitigated through the introduction of a limit system and the determination of internal capital requirements. In defining its risk appetite, the Bank takes into account its risk capacity and the legal limits. That legal and regulatory limit stipulates that a potential loss in the economic value of equity in any of the six prescribed shifts in the curve of market interest rates (supervisory stress scenarios) may not exceed 15% of Common Equity Tier 1 capital. The Bank has an internal limit system in place for mitigating interest rate risk. Limits are in place on the permitted loss or reduction in the economic value of equity and on the reduction in net interest income. Those limits are more stringent than the limits prescribed by the law and regulations.

Measurement of interest rate risk in the banking book

SID Bank takes into account interest-sensitive assets, liabilities and off-balance-sheet items when assessing exposure to interest rate risk. SID Bank assesses exposure to interest rate risk based on the identification of interest rate gaps and an analysis of the interest sensitivity of the economic value of equity (EVE measure) and net interest income (NII measure).

Interest rate gaps illustrate the difference between the cash flows of interest-sensitive assets, liabilities and off-balance-sheet items by time bucket, applying the principle of classifying interest-sensitive items with a fixed interest rate according to residual maturity, and items with a variable interest rate with regard to the first interest-rate repricing or maturity date, whichever occurs first. When assessing exposure to interest rate risk, the Bank also takes into account off-balance-sheet items that it includes and classifies by time bucket in accordance with its internal methodology.

Interest-sensitive items are itemised by currency when they are classified. Due to its low exposure in foreign currencies, the Bank does not perform a sensitivity analysis for individual currencies; instead, interest-sensitive items in foreign currencies are added to items in euros. As at 31 December 2022, the proportion of interest-sensitive assets accounted for by interest-sensitive assets in foreign currencies is less than 1% (around 0.001%). The Bank does not have interest-sensitive liabilities in foreign currencies.

The Bank has in place a methodology, which is based on the Basel standards and EBA guidelines, for assessing the sensitivity of the economic value of equity and the sensitivity of net interest income in prescribed interest rate scenarios. In the scope of EVE measure, the Bank calculates the sensitivity of net present value for interest-sensitive on- and off-balance-sheet items taking into account a change in the fair value of contractually embedded automatic interest rate options (interest rate floor) in individual granted and received loans.

The Bank also takes into account contractually embedded automatic options in individual loan agreements when assessing the impact of a change in net interest income. The sensitivity of net interest income is assessed monthly for a one-year period in six prescribed interest-rate scenarios on the basis of maintaining a constant balance sheet, taking into account the original characteristics of individual items.

For the purpose of conducting internal stress testing, the Bank calculates the sensitivity of net interest income at least once a year, taking into account assumptions from the financial plan, in internally defined interest rate scenarios for a period of three years. The set of internally defined interest rate scenarios includes six prescribed and internally defined scenarios that include various parallel shifts in interest rates, and two scenarios with different slopes of the market interest rate curve. The interest rate scenarios for the purpose of internal stress testing is approved by the asset-liability and liquidity management committee.

SID Bank does not accept demand deposits from customers; in accordance with its mandate, it does not provide certain services and products for customers (personal and savings accounts, credit cards, etc.), and as such does not use models to classify interest-sensitive items without a contractual maturity. The Bank does not include behavioural options for early repayment when assessing interest rate risk exposure, as it has a relatively low proportion of fixed rate loans where the risk of early repayment has the greatest impact. In addition, the Bank has not (quantitatively) detected a material volume of early repayments of fixed-rate loans, which has a significant impact on the ability to set up internal models. The Bank manages the risk of early repayments by using the appropriate contractual provisions regarding the charging of fees in the event of early loan repayment.

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

Management and implementation of hedging

The asset-liability and liquidity management committee performs regular controls via the monthly discussion of reports on exposure to interest rate risk, which are drafted by the risk management department and, based on the proposal of the asset and liability management department, adopts measures for the management of interest rate risk within acceptable limits and the valid interest rate risk appetite.

SID Bank manages exposure to interest rate risk by matching the interest-sensitive assets and interest-sensitive liabilities in accordance with their maturity and the level and method of setting interest rates, and through the use of derivatives to hedge against interest rate risk.

The Bank conducts transactions in derivatives for the purpose of managing interest rate risk. If derivatives meet the relevant conditions, these are dealt with by applying hedge accounting with the aim of achieving the lower volatility of profit or loss resulting from changes to the fair value of derivatives. The Bank has internal documents that describe the relationship between a hedged item and hedging instrument, the purpose of risk management, the valuation method and the hedging strategy. The Bank performs regular assessments of the effectiveness of hedging relationships.

As at 31 December 2022, SID Bank held four interest rate swaps as fair value hedges of assets with a total contractual value of EUR 65,000 thousand and two interest rate swaps as fair value hedges of liabilities with a total contractual value of EUR 175,000 thousand. All hedging relationships were effective according to hedge accounting rules at the end of 2022.

Sensitivity analysis

For the purpose of the regular management of interest rate risk and the calculation of internal capital requirements for interest rate risk in the banking book, SID Bank performs a monthly calculation of the impact of a change on the economic value of equity (EVE measure) and the impact on a change in net interest income (NII measure), taking into account sudden changes in the market interest rate curve for total exposure to interest rate risk in the prescribed interest rate scenarios. In this way, the Bank regularly determines whether a potential loss in the EVE is within internally defined limits and whether a potential loss in any of the prescribed interest rate scenarios exceeds 15% of Common Equity Tier 1 capital. In addition, the Bank regularly determines whether the reduction in NII in any of the six prescribed scenarios exceeds the internally defined limit.

The Bank uses six supervisory interest rate scenarios (taking into account the prescribed interest rate floor, which depends on maturity), as follows:

- an upward parallel shift in the yield curve of 200 basis points;
- a downward parallel shift in the yield curve of 200 basis points;
- the scenario of a steeper yield curve (a decrease in short-term interest rates and an increase in long-term interest rates);
- the scenario of a flatter yield curve (an increase in short-term interest rates and a decrease in long-term interest rates);
- scenario of an increase in short-term interest rates;
- scenario of a decrease in short-term interest rates.

The economic value of equity measures the change in the net present value of interest-sensitive items of the banking book over their remaining lifetime, which is the result of changes in interest rates. Any change in the EVE in a specific interest rate scenario is measured relative to the baseline interest rate scenario. Key assumptions used for the EVE measure:

- a calculation is made assuming a run-off balance sheet;
- shareholder equity and non-interest-sensitive items are not included in the calculation;
- the cash flows of items with a fixed interest rate are taken into account with respect to residual maturity, while cash flows until the first repricing of the interest rate benchmark are taken into account for items with a variable interest rate;
- the net value of non-performing exposures (taking into account individual impairments) and their projected timeframe is taken into account;
- the calculation takes into account a change in the fair value of contractually embedded automatic interest rate options (interest rate floor) in accordance with the internal methodology;
- cash flows from the principal and interest based on the interest rate benchmark (without the margin) are taken into account;
- the calculation of net present value is carried out at the level of an individual position taking into account precise revaluation dates; and
- the discount rates are set based on the euro interest rate swap curve based on the 6-month EURIBOR.

The Bank regularly measures the impact of changes in interest rates on net interest income over a one-year period on the basis of maintaining a static balance sheet with the inclusion of reinvestment or refinancing (constant balance sheet assumption). Any change in NII in a specific interest rate scenario is measured relative to the baseline interest rate scenario. Key assumptions used for the NII measure:

- the calculation is performed assuming a static balance sheet, taking into account reinvestment/refinancing based on the original characteristics of individual past-due items;
- the calculation of net interest income or expenses is carried out at the level of an individual position;
- the calculation takes into account contractually embedded automatic interest rate options;
- impaired cash flows from interest are taken into account for non-performing exposures, while reinvestment is only carried out for the unimpaired portion of exposures;
- interest based on the interest rate benchmark and margin is taken into account;
- cash flows are not discounted;
- forward interest rate benchmarks in an individual interest rate scenario are defined using the euro market interest rate swap curve based on the 6-month EURIBOR; and
- the margin remains unchanged with respect to the original agreement.

The results of the scenario with the most adverse impact on the sum of min(0; Δ EVE) and min(0; Δ NII) represent internal capital requirements for interest rate risk in the banking book.

Results of sensitivity analysis

	ΔEVE		ΔNII	
Prescribed (supervisory) interest rate scenarios	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Upward parallel shift of 200 basis points	(11,427)	(18,434)	1,455	2,402
Downward parallel shift of 200 basis points	11,896	6,611	(1,455)	224
Scenario of a steeper interest rate yield curve (decrease in short-term and increase in long-term interest rates)	962	4,698	91	716
Scenario of a flatter interest rate yield curve (increase in short-term and decrease in long-term interest rates)	(2,717)	(9,794)	144	178
Scenario of an increase in short-term interest rates	(5,922)	(13,522)	558	1,246
Scenario of a decrease in short-term interest rates	6,138	8,646	(558)	439
Most significant negative impact (potential loss of EVE)	(11,427)	(18,434)		
Common Equity Tier 1 capital	441,040	465,841		
Proportion of loss in equity	-2.6%	-4.0%		

The results of an analysis of the sensitivity of the economic value of equity according to data from the end of 2022 indicate that the Bank would incur the most severe potential loss in the economic value of equity in the scenario of a parallel shift in interest rates by +200 basis points, in the amount of EUR 11,427 thousand (31 December 2021: 18,434 thousand), which is equal to 2.6% of Common Equity Tier 1 capital. The reduction in loss is primarily a result of reduced portfolio of debt securities measured at fair value via other comprehensive income and of entering into interest rate swaps for hedging debt security measured at fair value via other comprehensive income.

If market interest rates rose by 200 basis points, SID Bank's net interest income would increase by EUR 1,455 thousand in one year according to data from the end of 2022. Were market interest rates to fall by 200 basis points, SID Bank's net interest income would have decreased in one year by EUR 1,455 thousand according to data from the end of 2022, which also comprises the highest decline in NII under any of the six adverse market interest rate scenarios. That change would have been reflected in the income statement.

The results of the analysis of the sensitivity of net interest income and the economic value of equity to an upward and downward interest rate shock may be disproportionate, as downward interest rate shocks using the prescribed interest rate floor, which depends on maturity, were limited and after using the interest rate floor possibly unlike the upward shocks.

In 2023, SID Bank will upgrade its interest rate risk measurement methodologies in line with the envisaged regulatory changes.

Exposure to interest-rate risk

The table shows financial assets and liabilities with respect to residual maturity for items with a fixed interest rate and with respect to the first repricing for items with a variable interest rate. Financial assets and liabilities are shown at their carrying amount, where debt securities are taken into account at fair value and loans are taken into account at their net carrying amount. The effect of hedging derivatives is shown in the amount of the face value of concluded interest rate swaps.

31 Dec 2022	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunerated items	Non-remunerated items	Total
Financial assets	**697,327**	**372,021**	**946,032**	**315,404**	**387,772**	**2,718,556**	**55,868**	**2,774,424**
Cash, cash balances at central banks and demand deposits at banks	413,628	0	0	0	0	413,628	0	413,628
Non-trading financial assets mandatorily at fair value through profit or loss	880	0	0	0	456	1,336	37,646	38,982
Financial assets measured at fair value through other comprehensive income	0	35,292	73,098	257,224	141,657	507,271	15,179	522,450
Financial assets measured at amortised cost	282,819	336,729	872,934	58,180	245,659	1,796,321	3,043	1,799,364
Debt securities	0	0	0	46,531	24,609	71,140	0	71,140
Loans and advances to banks	54,735	63,508	199,966	2,619	23,162	343,990	0	343,990
Loans and advances to customers	228,084	273,221	672,968	9,030	197,888	1,381,191	0	1,381,191
Other financial assets	0	0	0	0	0	0	3,043	3,043
Financial liabilities	**556,231**	**244,522**	**781,698**	**585,495**	**158,135**	**2,326,081**	**3,009**	**2,329,090**
Financial liabilities measured at amortised cost	556,231	244,522	781,698	585,495	158,135	2,326,081	3,009	2,329,090
Loans from banks and central banks	385,097	39,403	177,048	0	29,127	630,675	0	630,675
Loans from customers	171,134	205,119	529,680	0	129,008	1,034,941	0	1,034,941
Debt securities	0	0	74,970	585,495	0	660,465	0	660,465
Other financial liabilities	0	0	0	0	0	0	3,009	3,009
Effect of hedging derivatives	**(175,000)**	**65,000**	**0**	**160,000**	**(50,000)**	**0**	**0**	**0**
Interest rate sensitivity gap	**(33,904)**	**192,499**	**164,334**	**(110,091)**	**179,637**	**392,475**	**52,859**	**445,334**
31 Dec 2021								
Financial assets	480,351	414,119	954,646	429,157	504,517	2,782,790	43,409	2,826,199
Financial liabilities	553,383	233,491	730,264	675,479	138,233	2,330,850	1,947	2,332,797
Effect of hedging derivatives	(175,000)	15,000	0	170,000	(10,000)	0	0	0
Interest rate sensitivity gap	**(248,032)**	**195,628**	**224,382**	**(76,322)**	**356,284**	**451,940**	**41,462**	**493,402**

Credit spread risk

An important factor in interest rate risk management is the portfolio of debt securities in the banking book with fixed yield, the purpose of which is ensuring secondary liquidity and asset-liability management. SID Bank does not have a trading book, with the entire debt securities portfolio being classified in the banking book.

The Bank regularly measures exposure to credit spread risk in the banking book (CSRBB) for its portfolio of debt securities measured at fair value through other comprehensive income in accordance with its internal methodology established for calculating CSRBB. The Bank takes up credit spread risk within the scope of the adopted risk appetite and in accordance with the ICAAP allocates internal capital for credit spread risk to the debt securities portfolio.

The Bank manages its exposure to credit spread risk through its investment policy and limit system, as it invests almost exclusively in debt securities of euro area issuers with an investment-grade rating. The level of credit spread risk for the portfolio of debt securities measured at fair value through other comprehensive income is limited by SID Bank by defining the internal capital requirement.

3.4 CURRENCY RISK

Currency risk is the risk of a loss arising from unfavourable changes in foreign exchange rates.

SID Bank identifies, measures, manages and monitors currency risk in accordance with the adopted currency risk management policy. The management body discusses and adopts the currency risk management policy at least once a year. The implementation of the policy is monitored and supervised by the asset-liability and liquidity management committee. The management body discusses exposure to currency risk quarterly in the scope of the risk report.

When taking up and managing currency risk, SID Bank takes into account the adopted currency risk appetite. The process of managing currency risk includes both the setting of internal limits and the regular measurement, monitoring and reporting of exposure to currency risk on the basis of the calculation of the overall net position in foreign currencies.

The Bank manages exposure to currency risk chiefly by matching asset and liability positions in foreign currencies and trading in derivatives in significant foreign currencies.

In the management of currency risk, SID Bank determines the potential loss that would arise as a result of a change in exchange rates based on the open net foreign exchange position, which is the difference between the sums of all assets and liabilities in foreign currencies. The Bank has a limit system in place for limiting currency risk via limits on open net foreign exchange positions.

The daily open net foreign exchange position during the year and at the end of 2022 was low and within internally set limits, which is evident from the table on the next page.

The transactions executed by SID Bank in foreign currencies are not materially significant nor do they constitute material exposure to currency risk. Owing to the low level of exposure to currency risk, SID Bank does not carry out analyses of currency sensitivity.

The table on the next page illustrates SID Bank's exposure to currency risk, and includes on-balance-sheet and off-balance-sheet financial instruments by carrying amount and currency.

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

31 Dec 2022	EUR	USD	Other currencies	Total
Financial assets	**2,777,804**	**32**	**3**	**2,777,839**
Cash, cash balances at central banks and demand deposits at banks	413,593	32	3	413,628
Non-trading financial assets mandatorily at fair value through profit or loss	38,982	0	0	38,982
Financial assets measured at fair value through other comprehensive income	522,450	0	0	522,450
Financial assets measured at amortised cost	1,799,364	0	0	1,799,364
Debt securities	71,140	0	0	71,140
Loans and advances to banks	343,990	0	0	343,990
Loans and advances to customers	1,381,191	0	0	1,381,191
Other financial assets	3,043	0	0	3,043
Derivatives – hedge accounting	3,415	0	0	3,415
Financial liabilities	**2,344,938**	**1**	**0**	**2,344,939**
Financial liabilities measured at amortised cost	2,329,089	1	0	2,329,090
Loans from banks and central banks	630,675	0	0	630,675
Loans from customers	1,034,941	0	0	1,034,941
Debt securities	660,465	0	0	660,465
Other financial liabilities	3,008	1	0	3,009
Derivatives – hedge accounting	15,849	0	0	15,849
Net on-balance-sheet position	**432,866**	**31**	**3**	**432,900**
Off-balance-sheet liabilities (net amount)	**278,756**	**0**	**0**	**278,756**
31 Dec 2021				
Financial assets	2,826,010	187	2	2,826,199
Financial liabilities	2,334,712	9	0	2,334,721
Net on-balance-sheet position	**491,298**	**178**	**2**	**491,478**
Off-balance-sheet liabilities (net amount)	**220,330**	**0**	**0**	**220,330**

3.5 OPERATIONAL RISK

Operational risk arises as a result of inadequate or failed internal processes, people and systems, or from external factors that do not arise from credit, market or liquidity risk. Operational risk also includes IT risks, legal risks and risks associated with compliance and model risk. An element of legal risk is compliance risk, which is the risk of legal or regulatory sanctions, significant financial losses or a loss of reputation as a result of the Bank's operations failing to comply with the main regulations and standards of good practice.

Operational risk depends on internal organisation, the management of business processes, the functioning of internal controls, the effectiveness of internal and external auditing, etc. Operational risk factors include personnel, business processes, information technology and other infrastructure, organisational arrangements and external events.

The Bank takes up operational risk within its adopted risk appetite and allocates internal capital for operational risk in accordance with the ICAAP. The management of operational risk is based on the established system of internal controls, the system of decision-making and powers, proper replacements during absences, the right training for personnel carried out on a regular basis, and investment in information technology. The Bank continually endeavours to improve the culture of awareness among management and other employees of the importance of the effective management of operational risk, which is present in all activities and processes relating to operations. The Bank upgrades operational risk management on an annual basis, in particular from an internal point of view (internal procedures, processes, the provision of suitable information support, monitoring and other regulatory requirements).

The Bank manages model risk and has adopted model risk management rules. The framework is defined in a way that clearly identifies the essential features of model risk and its management through identification, measurement, monitoring/reporting and control. The model risk management framework has clearly defined components for managing this risk and a catalogue of models created. In the scope of managing model risk, the Bank also upgraded the methodology for validating estimates of credit risk parameters, and thus improved the accuracy and robustness of the assessment of credit risk and reduced operational risk in connection with the use of models.

The Bank is aware of the risk of fraud, money laundering/terrorist financing and cyber threats, and has thus also strengthened the management of these subcategories of operational risk.

The management of operational risk includes the recording of identified loss events from all subcategories of operational risk in the software database, as well as the analysis and resolution thereof with the aim of effectively identifying, assessing and managing operational risk. Control of entered loss events is carried out by the risk management department, which reports regularly to the management board and supervisory board on the number of events, on loss valuation, and on proposed measures for reducing the likelihood of the repetition of an individual loss event. Quarterly reports on operational risk are an integral part of the overall risk report, which is also submitted to the Bank of Slovenia. If an event involving significant losses occurs, SID Bank is obliged to notify the supervisory board and Bank of Slovenia immediately, and to submit all relevant documentation.

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

- internal fraud;
- external fraud;
- employment practices and workplace safety;
- clients, products and business practices;
- damage to physical assets;
- business disruptions and system failures; and
- execution, delivery and process management.

In terms of the category of loss events in accordance with the Basel standards, the most common loss events in 2022 were execution, delivery and process management (43% of all loss events), followed by business disruptions and system failures (32%), losses on movable property and real estate (18%), clients, products and negative business practices (4%), and external fraud (3%).

There were no significant loss events in 2022.

The Bank uses the basic indicator approach for calculating capital requirements for operational risk in line with the provisions of the CRR.

SID Bank assesses operational risk annually by developing a risk profile for the Bank and assessing the risk matrix based on the Methodology for assessing exposure to operational risk. The aforementioned methodology governs the assessment of operational risk, the breakdown of operational risk to subcategories, the administration of individual subcategories of operational risk, procedures and the timing of the annual assessment of operational risks. SID Bank has a catalogue of operational risks that includes risk scenarios broken down by individual operational risk subcategory, and a catalogue of internal controls that includes a list of the internal controls the Bank uses to mitigate risk.

By conducting internal audits, the internal audit department ensures the independent and impartial assessment of internal governance arrangements, including risk management systems and processes, and internal controls. In order to improve operations and add value, internal audits are carried out in all areas, business activities, processes and functions of SID Bank in line with the Bank's risk profile and the annual internal audit work plan.

Systemic risks associated with information technology, which are increasing as the level of computerisation increases, are managed through additional measures such as the business continuity plan, the redundance of critical infrastructure and other measures to increase information security (advanced systems to prevent and detect hacking, security systems and incident-management operating processes, security checks, staff training, etc.). The Bank reinforced and upgraded these measures in 2022. The implementation of the business continuity plan is assigned to groups of employees formed in advance (emergencies group, operational security group, first aid and rescue group and asset remediation group). The members of these groups also participate in the processes of amending the business continuity plan. The Bank updated the business continuity plan in 2022.

SID Bank has an information security department that monitors and controls information security procedures to prevent unauthorised access to information in storage, being processed or being transferred, and to prevent changes to information. One of the duties of the aforementioned department is to manage security incidents and potential security incidents. The information security department draws up quarterly reports for the management board on the state of information security at the Bank, and heads a security information team that handles specific security issues and policies. At least once a year, the information security department also draws up an analysis of all security incidents based on records of loss events, and proposes appropriate measures.

In the event of a cyber incident that constitutes an unwanted or unexpected information security event or a series of such events that could harm operations and threaten information security, employees who detect or suspect that a cyber incident has occurred must immediately notify the information security department, which assumes responsibility for handling the incident and for reporting to the Bank of Slovenia, in accordance with the latter's requirements relating to reporting on significant cyber incidents.

In managing operational risk, SID Bank takes into account provisions of the outsourcing policy and the instructions for implementing that policy, the purpose of which is to create a framework for the selection, establishment, implementation and monitoring of contractual relationships with external contractors, to prevent inconsistencies, inequalities, ambiguities and imbalanced risk management when outsourcing, and thus potential negative consequences on the operations of SID Bank, and to ensure an adequate level of professionalism of outsourced services at SID Bank, monitor the implementation of those services and manage the risks arising from outsourcing. The risk management department carries out a semi-annual assessment of external contractors, and drafts an annual review of the management of external contractors, compiles an annual report and proposes measures. After receiving the management board's approval, the supervisory board is briefed on the report, which is then forwarded to the Bank of Slovenia.

SID Bank manages outsourcing risks in accordance with the Guidelines on outsourcing arrangements (EBA/GL/2019/02) and has adopted internal acts and a standardised process for outsourcing and subsequent monitoring and risk assessment. The Bank also has a register of external contractors and standard questionnaires in place that assist employees in the analysis of outsourced functions and the assessment of risks of external contractors. In 2022, SID Bank upgraded its questionnaires in the areas of cloud services, information security and personal data processing in accordance with the GDPR - Regulation (EU) 2016/679.

As Slovenia's central financial institution in the area of promotion and development, SID Bank is moving into new areas of operation in line with its mission. In line with the gradual introduction of new products and the complexity of products and processes, SID Bank dedicates the appropriate amount of attention to operational risk.

To manage risks arising from new product launches, the Bank has adopted an internal rulebook that sets out the rules for launching new products and the powers and responsibilities of organisational units in the process of launching new products, including an emphasis on the performance of a comprehensive and impartial risk assessment. All material risks identified during the development or launch of a new product in connection with the planned introduction/launch of a new product must be processed in a timely and thorough manner in the risk management process in accordance with the bylaws governing the management of individual risks, which means, *inter alia*, that measures are adopted by the Bank's competent bodies to manage identified risks.

SID Bank monitors the risk of identified external and internal fraud in the context of operational risk via a loss event database, while that risk is managed in detail by the compliance department. SID Bank has zero tolerance for suspected fraud. This does not mean that fraud cannot occur at SID Bank. SID Bank is committed to protecting its integrity and reputation in relation to fraud, including by minimising the risk of fraud and unethical behaviour. Furthermore, it does not tolerate any form of fraud and has a zero tolerance policy in place for identified suspicions of fraud. This means that SID Bank responds to all identified suspicions of fraud, regardless of the identity of the whistleblower or of the alleged perpetrator. SID Bank adheres in full to the relevant international standards and EU laws, and regularly follows the development of best practices relating to the prevention of money laundering, the combating of terrorism, tax fraud, tax evasion and tax arrangements aimed at avoiding tax payments. The management board and supervisory board of SID Bank have a zero-tolerance policy in place for all forms of fraud and for all identified suspicions of fraud, which they clearly communicate to SID Bank employees (i.e. *'tone from the top'*).

When assessing its exposure to fraud risk, the Bank assumes that fraud is the intent to commit an act for the purpose of acquiring an unlawful pecuniary benefit for oneself or a third party.

Measures to prevent fraud are divided into short-term measures, which primarily include internal controls/procedures, and long-term measures that the Bank achieves primarily by strengthening the organisational culture. In 2022, the compliance department received seven reports of suspected fraud indicators from the relevant organisational units, of which three cases are still pending; in one case compliance department identified criminal elements in the conduct of the client and criminal charges will be brought, and in three cases the suspicion of fraud has not been confirmed. In 2022, the compliance department also concluded its investigation of the suspected fraud in 2021, concluding that there was no suspicion of fraud.

3.6 CAPITAL MANAGEMENT

Capital management

SID Bank must have adequate capital at its disposal at all times as a reserve against the various risks to which it is exposed in its operations. This is the continuous process of determining and maintaining a sufficient amount of high-quality capital, taking into account the taken-up risks defined in the capital management policy. Fulfilment of the capital requirements and of the requirements relating to buffers and the leverage ratio is based on the provisions of the CRR and the ZBan-3.

Capital risk relates to the inadequate composition of capital with regard to the scope and type of operations or to the difficulties that the Bank faces in obtaining fresh capital, particularly in the event of the need for a rapid increase or in the event of adverse conditions in the business environment.

The role and responsibilities of the supervisory board in the management of capital risk and capital are to assess the adequacy of the capital risk and capital management policy, and assess the implementation of that policy. The management board is responsible for adopting an adequate capital management policy, ensuring an adequate amount and quality of capital, and meeting the regulator's capital requirements.

SID Bank meets capital requirements on an individual basis, as it does not meet the prudential consolidation requirements.

Capital for capital adequacy purposes

Capital is divided into three categories with regard to its attributes and requirements: Common Equity Tier 1 (CET1), Additional Tier 1 (T1) and Tier 2 (T2). SID Bank's capital is comprised solely of the highest quality Common Equity Tier 1 capital. The Bank does not hold any Additional Tier 1 capital or Tier 2 capital.

The Bank calculates capital requirements for credit risk using the standardised approach, in accordance with the provisions of Part Three, Title II, Chapter 2 of the CRR. To calculate the amounts of risk-weighted exposures for credit risk, the ratings for individual exposure classes are not used; rather risk weights for individual exposure classes are assigned with respect to the degree of risk of a customer's country. In order to determine the level of credit quality of a central government (Article 114 of the CRR), the Bank uses SID Bank's rating as a nominated export credit agency, as set out in Article 137 of the CRR.

The Bank uses the basic indicator approach for calculating capital requirements for operational risk (Articles 315 and 316 of the CRR).

The capital requirement for credit valuation adjustment (CVA) risk is calculated using the standardised method, as set out in Article 384 of the CRR.

SID Bank does not hold any positions in the trading book and therefore does not calculate capital requirements for market risk for that purpose. In the scope of market risk, SID Bank only calculates capital requirements for currency risk in accordance with Articles 351 to 354 of the CRR. Those requirements are calculated when the sum of the total net foreign currency position exceeds 2% of the total capital for capital adequacy purposes. As at the end of 2022, SID Bank was not required to formulate capital requirements for currency risk, as the limit was not exceeded.

The Bank does not take into account net profit for the financial year, which for 2022 amounted to EUR 8,251 thousand, in the calculation of capital for capital adequacy purposes until SID Bank's general meeting adopts a resolution on the distribution of profit.

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

	31 Dec 2022	31 Dec 2021
Total equity	**450,869**	**491,766**
Total adjustments to Common Equity Tier 1 capital	**(9,829)**	**(25,925)**
Of which:		
Net profit for the financial year and retained earnings	(8,251)	(24,030)
Intangible assets	(997)	(1,054)
Adjustments for assets and liabilities at fair value	(581)	(840)
Deduction for specific credit risk adjustments	0	0
Common Equity Tier 1 capital (CET1)	**441,040**	**465,841**
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital (T1)	441,040	465,841
Tier 2 capital (T2)	0	0
Capital for capital adequacy purposes	**441,040**	**465,841**
Risk-weighted exposure amounts for credit risk and counterparty credit risk	1,653,705	1,522,134
Central governments and central banks	37,990	9,910
Regional governments or local authorities	27,319	20,486
Public sector entities	4,832	4,976
Multilateral development banks	4,000	4,000
Institutions	87,148	176,926
Corporates	1,317,836	1,210,797
Defaulted exposures	74,707	14,348
Collective investment undertakings (CIUs)	80,252	63,154
Equity instruments	15,179	12,502
Other items	4,442	5,036
Exposure to market risk	0	0
Exposure to operational risk	73,856	90,330
Exposure to credit valuation adjustment risk	8,239	5,265
Total risk exposure amount (RWA)	**1,735,801**	**1,617,730**
Surplus of Common Equity Tier 1 capital (CET1)	362,929	393,044
Surplus of Tier 1 capital (T1)	336,892	368,778
Total surplus capital	302,176	336,423
Common Equity Tier 1 capital ratio (CET1)	25.41%	28.80%
Tier 1 capital ratio (T1)	25.41%	28.80%
Total capital ratio	**25.41%**	**28.80%**

Breakdown of capital requirements by type of risk and structure

	31 Dec 2022	Structure %	31 Dec 2021	Structure%
Capital requirements				
For credit risk	132,296	95.2	121,771	94.1
For operational risk	5,909	4.3	7,226	5.6
For credit valuation adjustment risk	659	0.5	421	0.3
Total	**138,864**	**100.0**	**129,418**	**100.0**

Capital requirements for credit risk

	31 Dec 2022	31 Dec 2021
Exposure class		
Central governments and central banks	3,039	793
Regional governments or local authorities	2,186	1,639
Public sector entities	387	398
Multilateral development banks	320	320
Institutions	6,972	14,154
Corporates	105,427	96,864
Defaulted exposures	5,977	1,148
Collective investment undertakings (CIUs)	6,420	5,052
Equity instruments	1,214	1,000
Other items	355	403
Total	**132,296**	**121,771**

Assessment of internal capital requirement

In 2022, SID Bank upgraded the ICAAP in the segment that covers the identification, definition of materiality, risk measurement and definition of the Bank's risk profile. The risk profile, which is the result of the processes of identification, definition of materiality and measurement of risks, represents a collection of the risks that are significant to SID Bank and that the Bank takes up or will take up in the framework of its operations, and is quantified by the capital requirement.

The risk profile serves as the basis for the comprehensive risk management process, the planning of internal audit procedures, compliance and direct supervision by the Bank of Slovenia.

The ICAAP results for 2022 indicate that SID Bank's risk profile is at approximately the same level as in the previous year.

SID Bank is or, in accordance with its business strategy, will be exposed to the following material risks: credit risk, market risk, operational risk, interest rate risk in the banking book, business/strategic risk.

There are six sub-types of credit risk defined as material: default risk, concentration risk, country risk, downgrade risk, participation risk and residual credit risk. The metrics used to measure each sub-type comprise the Internal Ratings-Based Approach (IRB), the Herfindahl-Hirschman index as a measure of sectoral concentration, and the Monte Carlo simulation of the IRB to measure individual concentration.

Within market risk, there are two sub-types of risk defined as material, both related to risk factors that affect the change in the market value of the portfolio of debt securities in the banking book: credit spread risk (CSRBB) and interest rate risk in the integrated stress test. The Bank used two internal methodologies to measure both sub-types of market risk.

Within operational risk, eleven sub-types of risk are defined as material: fraud risk (internal and external), information and communication technology (ICT) risk, cyber risk, money laundering and terrorist financing risk, legal risk, model risk, compliance risk, outsourcing risk, HR management risk, operational risk (residual risks) and reputation risk. The metric for measuring operational risks is the minimum (pillar 1) operational risk capital requirement, which the Bank allocates proportionally across sub-types based on internal expert assessments of the risks associated with sub-types of operational risk.

SID Bank measures interest rate risk in the banking book (IRRBB) by the change in the economic value of equity (EVE) and net interest income (NII), in line with the EBA guidelines for this risk.

Within business/strategic risk, there are two sub-types of risk defined as material: strategic risk, which is addressed through management-level process control, and profitability risk. In terms of profitability risk, a new risk measurement methodology was developed in 2022, which is the Bank's historical value at risk of interest/non-interest income and expenses.

The overall assessment of internal capital requirements also includes an assessment from an integrated stress test if the assessment in question is higher than the capital requirement. The Bank also integrated ESG risk factors in the integrated stress test. On a quarterly basis, SID Bank calculates the internal assessment of capital requirements and verifies whether the level of capital is adequate. The results are then reviewed by the asset-liability and liquidity management committee, and by SID Bank's management body in the scope of the risk report. Once a year, the management body approves the results of the Bank's risk profile and the internal capital adequacy assessment process.

During its regular supervisory review and evaluation process (SREP) in 2022, the Bank of Slovenia assessed the risks to which SID Bank is exposed and found that the capital adequacy risk at the Bank was low. As at 31 December 2022, SID Bank exceeded the Bank of Slovenia's requirements regarding the level of capital ratios, including capital guidance (Pillar 2 Guidance or P2G), which derives from the findings of supervisory stress tests and must be comprised solely of Common Equity Tier 1 capital. Based on the EBA Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing (EBA/GL/2018/03), which were revised in 2018, Common Equity Tier 1 capital intended for covering P2G can no longer be used to meet other capital requirements since 1 January 2020.

Capital buffers

In accordance with the provisions of the ZBan-3 and European banking legislation, the Bank of Slovenia must define requirements regarding the maintenance of capital buffers that the Bank must meet for the purpose of preventing or mitigating macroprudential and systemic risks. Capital buffers represent an additional requirement for the Bank in determining the required level of capital, as banks must use their highest-quality capital (CET1) to meet not only the Pillar 1 and Pillar 2 requirements under the Basel Accord, but also the requirements regarding capital buffers.

The combined buffer requirement means the total capital that banks must maintain to meet the requirements in connection with:

- the capital conservation buffer;
- the institution-specific countercyclical capital buffer;
- the buffer for globally systemically important institutions (not relevant for SID Bank);
- the buffer for other systematically important institutions; and
- the systemic risk buffer.

As at the end of 2022, SID Bank met the requirements relating to capital buffers, as explained below.

The Bank covers the capital conservation buffer with Common Equity Tier 1 (CET1) capital, which in 2022 amounted to 2.5% of the total risk exposure. The countercyclical capital buffer is implemented to protect the banking system against potential losses whenever these are related to an increase in risks in the system as a result of excessive growth in lending. The instrument increases the resilience of the banking system, and prevents excessive growth in lending. The buffer rate may range from 0% to 2.5% of the total risk exposure amount (and may exceptionally be higher), and depends on the level of risk in the system. The current buffer rate for exposure in Slovenia, in effect since 1 January 2016, is 0%. From December 2023, the countercyclical capital buffer rate will be 0.5% for all exposures of institutions registered in the Republic of Slovenia, as set out by the Bank of Slovenia at the end of December 2022. The institution-specific countercyclical capital buffer rate comprises the weighted average of countercyclical buffer rates that apply in countries in which the related credit exposures of SID Bank are located. SID Bank discloses more detailed data on the geographical distribution of credit exposures relevant to the calculation of the countercyclical capital buffer, capital requirements and the level of the institution-specific countercyclical capital buffer in the section Disclosures under Part Eight of the CRR. As at 31 December 2022, SID Bank's own countercyclical capital buffer rate was 0.02% of its total risk exposure. Pursuant to the Bank of Slovenia's decision, SID Bank must ensure a buffer for other systemically important institutions (O-SII) with its Common Equity Tier 1 (CET1) capital in the amount of 0.25% of total risk exposure from 1 January 2021 on.

Leverage ratio

SID Bank's asset-liability and liquidity management committee regularly monitors the movement of the leverage ratio in the scope of the selected risk appetite indicators. During the assessment of the risk profile, checks are also made to ensure that the Bank's leverage ratio is appropriate.

The leverage ratio stood at 14.7% as at 31 December 2022 (end of 2021: 15.5%), and is well above the regulatory value and risk appetite. With respect to the structure of the statement of financial position and the level of the leverage ratio, the Bank concludes that the risk of excessive leverage is low. Detailed disclosures of the leverage ratio are given in the section on Disclosure under Part Eight of the CRR.

3.7 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value of financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid when transferring a liability in a standard transaction between market participants at the measurement date under current market terms, regardless of whether the price can be directly observed or estimated using another valuation technique.

The fair value of financial assets and financial liabilities traded on an active market is based on published market prices. SID Bank determines fair value for all other financial instruments using other valuation techniques.

An active market is a market on which frequent transactions are made using assets or liabilities, and public information on prices is thus provided on a regular basis.

SID Bank measures fair value using a fair value hierarchy that reflects the significance of the input data.

- Level 1: Level 1 inputs are quoted prices on active markets for identical assets or liabilities to which SID Bank has access as at the measurement date. For the Bank, Level 1 includes investments in bonds, to which the MTS price applies within the MTS Slovenia trading system, and the Composite Bloomberg Bond Trader (CBBT) price.
- Level 2: Level 2 inputs are inputs other than the quoted prices included in Level 1 that are observable for an asset or liability, either directly (prices) or indirectly (derived from prices). SID Bank includes in Level 2 financial instruments valued through the use of quoted prices for similar assets and liabilities on active markets, quoted prices for equivalent or similar assets and liabilities on inactive markets, or inputs other than quoted prices and that can be observed as assets or liabilities, e.g. interest rates and yield curves. Level 2 also includes investment in bonds that are valued on the basis of the Bloomberg Generic Price (BGN), as this price is identical to the interbank or OTC market price. While the BGN is not a direct price that SID Bank could use to sell securities on the valuation date, its use does ensure impartiality in valuation. The price is an indicator of the actual transactions on the market and of the prices that could be achieved through the sale of bonds on the market. The prices of sellers do not deviate from the applied price to a materially significant extent. SID Bank does not have any loans at Level 2 measured at fair value.
- Level 3: SID Bank includes in this category financial instruments for which fair value is calculated according to models that mainly use unobservable inputs, and financial instruments that were valued at original cost. The fair value of loans mandatorily at fair value is calculated through the discounting of estimated cash flows at a uniform interest rate at recognition. Estimated future cash flows for loans to going concerns are calculated on the basis of contractual cash flows, the likelihood of repayment and macroeconomic forecasting factors. For loans to companies that are not going concerns, estimated future cash flows are calculated taking into account the liquidation of collateral, the haircut, the collateral redemption period and macroeconomic forecasting factors. Observable inputs are developed on the basis of market data such as public information on actual events and transactions. Unobservable inputs are inputs for which market data is not available and are developed using the best available information on the assumptions that market participants would use when pricing the asset or liability.

Financial assets measured at fair value

The financial instruments that SID Bank discloses at fair value in the statement of financial position are non-trading financial assets mandatorily at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and hedging derivatives.

Hedging derivatives that include interest rate swaps are valued taking into account market interest rates and yield curves.

The fair value of non-trading financial assets mandatorily at fair value through profit or loss and financial assets measured at fair value through other comprehensive income is determined using prices quoted on active markets for identical assets, prices quoted on active markets for similar assets and prices quoted for identical and similar assets on inactive markets.

Financial instruments measured at fair value – fair value hierarchy

The table presents financial instruments measured at fair value as at the reporting date with respect to the level at which they are classified in the fair value hierarchy.

31 Dec 2022	Level 1	Level 2	Level 3	Total
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	38,982	38,982
Equity instruments	0	0	37,646	37,646
Loans and advances	0	0	1,336	1,336
Financial assets measured at fair value through other comprehensive income	11,753	482,067	28,630	522,450
Debt instruments	11,753	482,067	13,451	507,271
Equity instruments	0	0	15,179	15,179
Derivatives – hedge accounting	0	3,415	0	3,415
Total financial assets measured at fair value	**11,753**	**485,482**	**67,612**	**564,847**
Derivatives – hedge accounting	0	15,849	0	15,849
Total financial liabilities measured at fair value	**0**	**15,849**	**0**	**15,849**

31 Dec 2021	Level 1	Level 2	Level 3	Total
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	29,302	29,302
Equity instruments	0	0	28,306	28,306
Loans and advances	0	0	996	996
Financial assets measured at fair value through other comprehensive income	15,214	765,715	27,770	808,699
Debt instruments	15,214	765,715	15,268	796,197
Equity instruments	0	0	12,502	12,502
Total financial assets measured at fair value	**15,214**	**765,715**	**57,072**	**838,001**
Derivatives – hedge accounting	0	1,924	0	1,924
Total financial liabilities measured at fair value	**0**	**1,924**	**0**	**1,924**

Table of transfers between levels

2022	Transfers from Level 2 to Level 1	Transfers from Level 1 to Level 3	Transfers from Level 3 to Level 1
Financial assets measured at fair value			
Financial assets measured at fair value through other comprehensive income	1,999	2,057	2,739
Debt instruments	1,999	2,057	2,739
Total financial assets measured at fair value	**1,999**	**2,057**	**2,739**

2021	Transfers from Level 3 to Level 1
Financial assets measured at fair value	
Financial assets measured at fair value through other comprehensive income	2,057
Debt instruments	2,057
Total financial assets measured at fair value	**2,057**

The transfer from Level 2 to Level 1 in 2022 is the consequence of a change to the valuation method for a bond. The bond was valued at the time of purchase based on the Bloomberg Generic Price (BGN) and then on the foreign market price.

The transfer from Level 1 to Level 3 and then the transfer from Level 3 to Level 1 is the consequence of a change to the valuation method for two bonds which are otherwise valued according to the Ljubljana Stock Exchange price, but when the bond price is older than nine months, the Bank values it as a non-marketable security and reclassifies it to Level 3, or vice versa, when the bond price is younger than nine months, the Bank values it as a marketable security and reclassifies it to Level 1.

Financial instruments not measured at fair value

The table presents the estimated fair values of financial instruments not measured at fair value. The disclosed fair values are calculated solely for reporting needs and do not affect the statement of financial position or the Bank's profit or loss.

Financial assets are disclosed at fair value as at the reporting date with respect to the level at which they are classified in the fair value hierarchy.

31 Dec 2022	Level 2	Level 3	Fair value	Carrying amount
Cash balances at the central bank and demand deposits at banks	413,628	0	413,628	413,628
Financial assets measured at amortised cost	407,255	1,395,744	1,802,999	1,799,364
Debt securities	66,087	0	66,087	71,140
Loans and advances to banks	338,125	0	338,125	343,990
Loans and advances to customers	0	1,395,744	1,395,744	1,381,191
Other financial assets	3,043	0	3,043	3,043
Total financial assets	**820,883**	**1,395,744**	**2,216,627**	**2,212,992**
Financial liabilities measured at amortised cost	633,935	1,653,318	2,287,253	2,329,090
Deposits from banks and central banks	1,872	0	1,872	1,872
Loans from banks and central banks	629,054	0	629,054	628,803
Loans from customers	0	1,035,009	1,035,009	1,034,941
Debt securities	0	618,309	618,309	660,465
Other financial liabilities	3,009	0	3,009	3,009
Total financial liabilities	**633,935**	**1,653,318**	**2,287,253**	**2,329,090**

31 Dec 2021	Level 2	Level 3	Fair value	Carrying amount
Cash balances at the central bank and demand deposits at banks	218,126	0	218,126	218,126
Financial assets measured at amortised cost	581,722	1,300,387	1,882,109	1,770,072
Loans and advances to banks	579,121	0	579,121	568,769
Loans and advances to customers	0	1,300,387	1,300,387	1,198,702
Other financial assets	2,601	0	2,601	2,601
Total financial assets	**799,848**	**1,300,387**	**2,100,235**	**1,988,198**
Financial liabilities measured at amortised cost	670,046	1,663,072	2,333,118	2,332,797
Loans from banks and central banks	668,099	0	668,099	667,859
Loans from customers	0	987,593	987,593	987,512
Debt securities	0	675,479	675,479	675,479
Other financial liabilities	1,947	0	1,947	1,947
Total financial liabilities	**670,046**	**1,663,072**	**2,333,118**	**2,332,797**

The Bank recognises and measures issued debt securities and financial assets under business model 1 that pass the SPPI test at amortised cost. For the purpose of calculating the effects of hedge accounting for instruments included in a hedging relationship, the fair value is calculated using the expected present value valuation techniques. The expected present value is calculated using inputs that are not quoted prices and that can be observed, i.e. interest rates and yield curves.

4 Management Body's Concise Statement on SID Bank's Approach to the Realisation of Risk Appetite

In accordance with Article 435(1)(f) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (hereinafter: the CRR), the second paragraph of Article 17 of the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, and Article 2 of Commission Implementing Regulation (EU) No 2021/637, the management body hereby issues the following concise statement on risk management:

1. The overall risk level and the levels and types of individual material risks are subject to comprehensive identification once a year in the process of drawing up the Bank's risk profile, which is approved by its management body. Once a year, during the internal capital adequacy assessment process (ICAAP), the management body approves the assessment of internal capital requirements and the capital available to cover losses in the event of the realisation of the risks taken up. The assessed **risk capacity** is taken into account when the business strategy, business objectives and risk appetite are being defined. The risk profile of SID Bank is presented in the Risk management section of the financial report, in subsection Capital management. The management body also approves the internal liquidity adequacy assessment process (ILAAP) once a year, in which the Bank carries out a comprehensive assessment of the established systems for the management of liquidity risk, including an assessment of liquidity risk in connection with the Bank's risk profile and business strategy.

   Risk capacity means the largest overall risk level that SID Bank is able to take up, taking into account its available capital, liquidity and other restrictions (risk management and control measures, stress test results, and other restrictions). The Bank defines risk capacity as the higher of the normative and the economic perspectives, with the ICAAP representing the economic perspective and the SREP the normative perspective.

2. The management body defines the **risk appetite** taking into account its risk capacity at least once a year, in parallel with the process of adopting the annual operational plan, and thus ensures that the risk appetite has been aligned to any changes in the business model and in the current business strategy.

   The risk appetite framework takes into account all material risks identified within the framework of the risk profile, and is reflected in the risk appetite thresholds approved by the management body, including threshold values set with regard to the Bank's planned activities, and also the limits set in the policies for the take-up and management of individual risks and other bylaws of SID Bank. For risk appetite thresholds with regulatory values prescribed SID Bank has set the same or stricter target values or, taking into account the early warning thresholds, the Bank always has stricter thresholds in place. In accordance with the disclosures under the CRR, the selected risk appetite thresholds for SID Bank are presented below. The key financial data and performance indicators of SID Bank are disclosed in the introductory section of the annual report, in the section entitled Key data and performance indicators. The following values were achieved at the end of 2022 for the selected first-level risk appetite thresholds:

   - total capital ratio (TCR): 25.4% (threshold: 19.4%);
   - leverage ratio (LR): 14.7% (threshold: 12.5%);
   - liquidity coverage ratio (LCR): 1,814% (threshold: 150%);
   - net stable funding ratio (NSFR): 144.9% (threshold: 110%);

   The risk appetite framework is monitored on a quarterly basis and reported to SID Bank's management body.

The scope of risk take-up is complemented by the set of internal policies for the management of individual types of risk, via which SID Bank transfers (escalates) limits regarding risk appetite into operational restrictions for the appropriate direction of the business. Risk management policies and internal rules set out the limits for the management of credit risk, market risk and liquidity risk, including the procedures for dealing with limit breaches and notification of the management board.

In order to manage the credit risk inherent in investments for managing the Bank's liquidity, bylaws set out limits on exposures to individual persons and, in case the persons comprise a group of connected clients, also a limit on the group and a limit on the individual persons. In managing these investments, SID Bank pursues a policy of investing its surplus liquidity in high-quality liquid financial instruments. Credit risk in treasury transactions is managed by limiting exposures by credit rating, registered office, type of issuer and type of instrument, and in order to limit environmental risks, purchases of securities of issuers whose core business is in the fossil fuels sector are prohibited. In credit operations, limits are not predetermined or determined in general; rather, creditworthiness is determined when an individual investment transaction is reviewed with reference to a company's calculated borrowing capacity, taking into account long-term sustainable EBITDA (defined on the basis of past operations and critically assessed projections of future operations), less the normalised volume of replacement investments, normalised taxes, long-term expected dividends and gains, and the current and envisaged financial debt. When the simplified procedure of processing low-value loans is applied, the assessment of a company's maximum borrowing capacity is calculated on the basis of data derived from past operations. That assessment is then used as the basis for calculating the free portion of a client's borrowing limit, taking into account the client's valid credit rating, current exposure to the client and the maturity of the requested financing. Bylaws are used for the entire portfolio to set out the method of identifying and measuring concentration risk, on an individual basis, by economic sector, by country and by rating. In addition, internal loan approval procedures and the placement of a limit on total exposure ensure that all leveraged transactions are adequately controlled and comply with the Bank's risk appetite framework. SID Bank's risk appetite takes into account environmental, social and governance-related risks (ESG risks), for which it has in place a dynamic limit on total exposure to the highest-risk ESG clients. In terms of ESG risks, it also conducts its assessment at the borrower level above a certain exposure amount. The powers to approve transactions are set out in the bylaws and the articles of association of SID Bank with regard to the investment value and current exposure.

Quantitative limits are also set for the management of market risks. Limits on the reduction of net interest income and the reduction (loss) in the economic value of equity are set for interest rate risk in the banking book. The limits are significantly more stringent than those prescribed by banking regulations. Position limits (stop loss) are set for the management of position risk. A limit on net exposure in a particular foreign currency and on net exposure in all foreign currencies relative to the Bank's capital is set for currency risk.

Quantitative limits are also set for the management of liquidity risk, and are more stringent than those prescribed in regulations. The Bank regularly plans and monitors cash flows, and regularly verifies its liquidity position and liquidity adequacy, taking into account internally defined liquidity scenarios, and has drafted a plan of liquidity risk management for contingencies. The management body annually reviews and approves the results of the ILAAP, which cover an assessment of liquidity needs and an assessment of available liquidity in the scope of ordinary operations, and in adverse situations. The Bank's liquidity position is verified on a regular basis by decision-making bodies through the monitoring of various indicators, including in relation to the achievement of planned ratios. The Bank regularly assesses the adequacy of its funding, with a particular focus on the annual planning of business needs. The financial plan for the next three financial years is approved annually by the management body.

3. The Bank manages **risks that are difficult to measure**, such as certain subcategories of operational risk, i.e. compliance risk, cyber risk, business continuity risk, the risk of money laundering and terrorist financing and other unethical business practices, through qualitative risk management measures and internal control mechanisms. SID Bank's appetite to take up risks that are difficult to measure is low. In taking up such risks, the Bank focuses on minimising their impact on its performance. The management of these risks is carried out, in particular, through set internal rules and controls over the implementation of the Bank's organisational, operational and work procedures, and additional monitoring by independent functions and internal control departments. Notwithstanding the above, apart from strategic risk, the risks that are difficult to measure are quantified in the process of developing a risk profile.
4. As a development bank in accordance with the **Slovene Export and Development Bank Act (ZSIRB)**, SID Bank is required to fully comply with the act governing banking, with the exception of parts that are explicitly excluded. This relates to specific features in the assessment of large exposures, capital requirements, the establishment of bank branches, with regard to the obligation to draw up a recovery plan and the application of provisions regarding guaranteed deposits, as SID Bank is not allowed to accept deposits from the public. Additional restrictions on operations are set out in the ZSIRB and the rules governing state aid that apply in the EU, which require SID Bank to provide financial services only in segments where market gaps appear or are identified, and prohibit it from competing with other commercial banks. Furthermore, the purpose of SID Bank's funding must comply with the purposes defined by the law. SID Bank is not allowed to finance firms that are classed as firms in difficulty. The Bank and its management body take into account these and other prescribed requirements in the adoption and implementation of its business objectives, strategies and policies.

Ljubljana, 27 March 2023

Management Board of SID Bank

Stanka Šarc Majdič
Member

Damijan Dolinar
President

Supervisory Board

Janez Tomšič
Chair

5 Operations under Republic of Slovenia Authorisation

OPERATIONS ON BEHALF OF AND FOR THE ACCOUNT OF THE REPUBLIC OF SLOVENIA

As an authorised institution, on behalf of and for the account of the Republic of Slovenia, SID Bank insures against those commercial and non-commercial risks that, in light of their nature and level of risk, the private reinsurance sector is not willing to take up or has limited capacity to take up.

Operations on behalf of and for the account of the Republic of Slovenia are not included in the financial statements of SID Bank. They are recorded in separate items, as determined by the Bank of Slovenia for the administration of these operations.

The memorandum account for insurance brokerage on behalf of and for the account of the Republic of Slovenia represents the exposure from valid insurance policies and commitments.

	31 Dec 2022	31 Dec 2021
Assets		
Customer funds in current accounts	140	24
Financial assets measured at fair value through other comprehensive income	158,569	161,124
Loans and advances	3,871	13,542
Loans and advances to banks	3,871	13,542
Deposits	3,871	13,542
Equity investments	2,820	2,820
Other assets	547	373
Total assets	**165,947**	**177,883**
Liabilities		
Contingency reserves	174,869	173,010
Accumulated other comprehensive income	(12,293)	1,676
Other financial liabilities	4	4
Other liabilities	3,367	3,193
Total liabilities	**165,947**	**177,883**
Memorandum account for brokerage	**538,590**	**892,930**

OPERATIONS ON ITS OWN BEHALF AND FOR THE ACCOUNT OF THE REPUBLIC OF SLOVENIA

In November 2017, the MEDT and SID Bank signed a financing agreement, under which the first SID Bank Fund of Funds was created (FI 2014–2020 Fund of Funds). That fund is intended for the use of European cohesion funds. The MEDT appointed SID Bank as the manager of the FI 2014–2020 Fund of Funds.

In order to mitigate the consequences of the economic crisis due to the COVID-19 pandemic, the new COVID-19 Fund of Funds was established in collaboration with the MEDT in 2020.

SID Bank manages that fund on its own behalf and for the account of the Republic of Slovenia.

The operations of the funds that SID Bank manages on its own behalf and for the account of the Republic of Slovenia are not included in the financial statements of SID Bank, but are instead recorded in separate items.

FI 2014–2020 Fund of Funds

The purpose of the FI 2014–2020 Fund of Funds is the promotion and financing of energy efficiency projects, the urban development of municipalities, sustainable economic growth and development, investments in innovation, and current operations, through debt and equity financing.

	31 Dec 2022	31 Dec 2021
Assets		
Cash balances at the central bank	2,732	2,097
Non-trading financial assets mandatorily at fair value through profit or loss	206,382	167,382
Other assets	25	40
Total assets	**209,139**	**169,519**
Liabilities		
Financial liabilities	209,110	169,474
Loans from customers	225,418	183,101
Revaluation of loans from customers	(16,874)	(14,077)
Other financial liabilities	566	450
Provisions	0	45
Other liabilities	29	0
Total liabilities	**209,139**	**169,519**
Memorandum account for brokerage	**0**	**125,116**
Off-balance-sheet receivables	0	63,250
Loans received: east	0	23,225
Loans received: west	0	33,775
Loans received: unclassified	0	6,250
Off-balance-sheet liabilities	0	61,866
Loans granted: east	0	19,572
Loans granted: west	0	32,282
Loans granted: unclassified	0	10,012

COVID-19 Fund of Funds

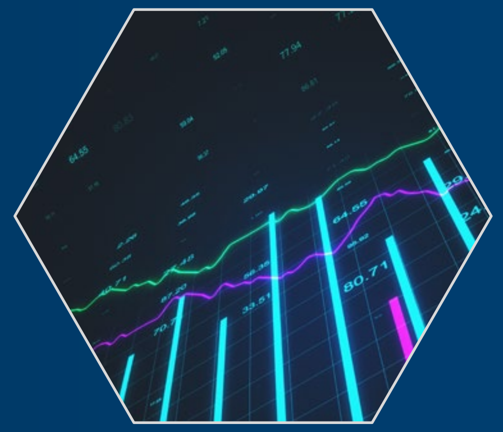
The COVID-19 Fund of Funds is intended for the financing of investments, research, development, innovations and working capital in order to improve liquidity and facilitate the recovery of the economy, which was hit hard by the COVID-19 pandemic.

	31 Dec 2022	31 Dec 2021
Assets		
Cash balances at the central bank	1,036	1,529
Non-trading financial assets mandatorily at fair value through profit or loss	48,512	45,909
Other assets	19	22
Total assets	**49,567**	**47,460**
Liabilities		
Financial liabilities	49,547	47,460
Loans from customers	63,389	64,495
Revaluation of loans from customers	(14,208)	(17,328)
Other financial liabilities	366	293
Other liabilities	20	0
Total liabilities	**49,567**	**47,460**

Appendix:
Pillar 3 disclosures

MODERNISING A TRADITION OF QUALITY AND TRUST.

The tradition of Slovenian beekeeping dates back to the 18th century and to pioneers on a global scale. The heartfelt devotion and care of beekeepers are still connected today to a rich history of knowledge and experience. At SID Bank too, on the wings of tradition we are modernising systems of doing business through the digitalisation of processes, which facilitates our further development and progress.



Appendix: Pillar 3 disclosures

Disclosures under the third pillar of the Basel standards have been prepared in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investments firms, including all amendments (CRR), and Commission Implementing Regulation (EU) No 2021/637 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council (hereinafter: Regulation 2021/637).

In accordance with Commission Implementing Regulation (EU) 2022/2453 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks, the Bank is required for the first time, as of 31 December 2022, to also disclose qualitative and quantitative information on environmental, social and governance (ESG) risks.

SID Bank has the status of other systemically important institution (O-SII), which means that it is treated as a large institution in accordance with Article 4(146)(b) of the CRR. SID Bank has issued bonds that have been admitted for trading on a regulated market. Accordingly, the Bank is bound to the frequency and scope of disclosures set out in Article 433(a) of the CRR.

The disclosures are drawn up for SID Bank on an individual basis, as the Bank is not required to meet its prudential requirements under the CRR on a consolidated basis.

The disclosures under Part Eight of the CRR, except for disclosures that are included in the previous sections of the annual report, are presented in this section below. A detailed overview of the scope of disclosures, as well as the importance of disclosures for SID Bank and the place of publication of a particular disclosure in the annual report are presented in the list in Chapter A.19.

The Bank discloses the required data and information in this section in the templates prescribed by Regulation (EU) No 2021/637. That regulation prescribes for each individual template which past comparative periods are disclosed. In accordance with Article 432 of the CRR, a specific template only displays the rows or columns that are relevant for SID Bank. The Bank did not omit any information regarded as proprietary or confidential. The quantitative disclosures in specific templates are in line with the information in the reports sent to the regulator.

All disclosures for previous periods are published on SID Bank's website (www.sid.si).

A.1 STATEMENT ON THE APPROPRIATENESS OF INTERNAL PROCEDURES AND CONTROLS

In accordance with Article 431(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), the management body, represented by

Damijan Dolinar, President of the Management Board and Stanka Šarc Majdič, Member of the Management Board;

by signing this statement confirms that SID Bank has the appropriate formal policies and internal procedures and controls in place, which ensures that the data from the disclosures are appropriate.

Ljubljana, 27 March 2023

Management Board of SID Bank

Stanka Šarc Majdič
Member

Damijan Dolinar
President

A.2 DISCLOSURE OF KEY METRICS AND OVERVIEW OF RISK-WEIGHTED EXPOSURE AMOUNTS

A.2.1 Template EU KM1 – Key metrics template

(Article 447(a) to (g) and Article 438(b) of the CRR)

		a	b	c	d	e
		31 Dec 2022	30 Sep 2022	30 June 2022	31 Mar 2022	31 Dec 2021
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	441,040	440,770	439,940	457,990	465,841
2	Tier 1 capital	441,040	440,770	439,940	457,990	465,841
3	Total capital	441,040	440,770	439,940	457,990	465,841
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,735,801	1,683,297	1,642,665	1,660,094	1,617,730
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	25.41%	26.18%	26.78%	27.59%	28.80%
6	Tier 1 ratio (%)	25.41%	26.18%	26.78%	27.59%	28.80%
7	Total capital ratio (%)	25.41%	26.18%	26.78%	27.59%	28.80%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU-7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.25%	2.25%	2.25%	2.25%	2.00%
EU-7b	of which: to be made up of CET1 capital (percentage points)	1.27%	1.27%	1.27%	1.27%	1.13%
EU-7c	of which: to be made up of Tier 1 capital (percentage points)	1.69%	1.69%	1.69%	1.69%	1.50%
EU-7d	Total SREP own funds requirements (%)	10.25%	10.25%	10.25%	10.25%	10.00%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU-8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.02%	0.02%	0.01%	0.02%	0.02%
EU-9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU-10a	Other Systemically Important Institution buffer (%)	0.25%	0.25%	0.25%	0.25%	0.25%
11	Combined buffer requirement (%)	2.77%	2.77%	2.76%	2.77%	2.77%

		a	b	c	d	e
		31 Dec 2022	30 Sep 2022	30 June 2022	31 Mar 2022	31 Dec 2021
EU-11a	Overall capital requirements (%)	13.02%	13.02%	13.01%	13.02%	12.77%
12	CET1 available after meeting the total SREP own funds requirements (%)	15.16%	15.93%	16.53%	17.34%	18.80%
	Leverage ratio					
13	Total exposure measure	3,010,264	2,973,693	2,946,465	2,963,582	3,012,186
14	Leverage ratio (%)	14.65%	14.82%	14.93%	15.45%	15.47%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU-14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU-14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	0.00%	0.00%
EU-14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU-14d	Leverage ratio buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU-14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Liquidity coverage ratio (%)					
15	Total high-quality liquid assets (HQLA) (weighted value-average)	400,309	440,702	374,954	308,873	353,567
EU-16a	Cash outflows – total weighted value	27,723	18,104	20,498	18,483	39,626
EU-16b	Cash inflows – total weighted value	5,661	25,886	16,286	31,589	24,481
16	Total net cash outflows (adjusted value)	22,062	3,017	4,211	3,080	15,146
17	Liquidity coverage ratio (%)	1,814%	14,606%	8,904%	10,027%	2,334%
	Net stable funding ratio					
18	Total available stable funding	2,356,416	2,563,441	2,530,476	2,732,002	2,767,431
19	Total required stable funding	1,625,973	1,655,539	1,672,430	1,928,454	1,948,436
20	NSFR (%)	144.92%	154.84%	151.31%	141.67%	142.03%

The Bank's total capital ratio was 25.41% as at 31 December 2022 (31 December 2021: 28.80%). The lower ratio is mostly due to a reduction in the stock of the Bank's available own funds due to a decrease in the value of debt securities measured at fair value through other comprehensive income, and to an increase in RWA owing to new lending and an increase in exposures in default. Despite the decline, the Bank's total capital ratio remains at a level that is still well above the overall capital requirement (OCR), which is 13.02%. In addition, the Bank must fulfil the capital requirement from Pillar 2 guidance (P2G) in the amount of 1.50%. The overall capital requirement stood at 14.52% as at 31 December 2022.

The leverage ratio stood at 14.65% as at 31 December 2022 (31 December 2021: 15.47%) and is still well above the regulatory requirement of 3% for the leverage ratio. The liquidity coverage ratio (LCR) stood at 1,814% (31 December 2021: 2,334%). This ratio is quite volatile over time due to the Bank's specific role as a development institution (see note A.8.1). The net stable funding ratio (NSFR) was 144.92% (31 December 2021: 142.03%).

A.2.2 Template EU OV1 – Overview of total risk exposure amounts
(Article 438(d) of the CRR)

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		31 Dec 2022	30 Sep 2022	31 Dec 2022
1	Credit risk (excluding CCR)	1,651,626	1,568,374	132,130
2	Of which standardised approach	1,651,626	1,568,374	132,130
6	Counterparty credit risk – CCR	10,318	24,592	825
EU-8b	Of which credit valuation adjustment – CVA	8,239	18,460	659
9	Of which other CCR	2,079	6,132	166
23	Operational risk	73,856	90,330	5,909
EU-23a	Of which basic indicator approach	73,856	90,330	5,909
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	32,836	32,561	2,627
29	**Total (1+6+23)**	**1,735,801**	**1,683,297**	**138,864**

A.3 DISCLOSURE OF RISK MANAGEMENT POLICIES AND OBJECTIVES

A.3.1 Number of directorships held by members of the management body
(Article 435(2)(a) of the CRR)

Membership in bodies of other persons as at 31 December 2022

	Name of other person	Function
Management board		
Damijan Dolinar	Three Seas Initiative investment fund	member of the supervisory board
	Bank Association of Slovenia	member of the supervisory board
	Bank Association of Slovenia - Strategic Issues Committee	committee member
	Bank Association of Slovenia - Ethical Issues Committee	committee member
Stanka Šarc Majdič	Bank Association of Slovenia	deputy member of supervisory board
Supervisory board		
Janez Tomšič	SDH, d.d.	member of the management board
	Kapitalska družba, d.d.	president of the supervisory board
Zlatko Vili Hohnjec	Terme Olimia d.d.	member of the supervisory board
	KERINVEST d.o.o. (in bankruptcy)	official receiver
	SKUPINA M & M d.o.o. (in bankruptcy)	official receiver
	SIS POSLOVNE STORITVE d.o.o. (in bankruptcy)	official receiver
	AIRPOD SLO d.o.o. (in bankruptcy)	official receiver
	F CITY, d.o.o. (in bankruptcy)	official receiver
	ELTI d.o.o. (in bankruptcy)	official receiver
	Papir Servis d.o.o., Ljubljana (in bankruptcy)	official receiver
	Polzela d.o.o. (in bankruptcy)	official receiver
	Turist d.o.o.	official receiver
	SGP Gorica d.d. (in bankruptcy)	official receiver
Igor Masten, PhD	Econlab, Igor Masten s.p.	executive director
Marko Tišma	ECOFIN, Marko Tišma, s.p.	executive director

A.4 DISCLOSURE OF THE SCOPE OF APPLICATION

A.4.1 Template EU LI1 - Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories

(Article 436(c) of the CRR)

		a	c	d	g
			Carrying values of items		
		Carrying values as reported in published financial statements	Subject to the credit risk framework	Subject to the CCR framework	Not subject to capital requirements or subject to deduction from capital
	Breakdown by asset classes according to the balance sheet in the published financial statements				
1	Cash, cash balances at central banks and demand deposits at banks	413,629	413,629	0	0
2	Non-trading financial assets mandatorily at fair value through profit or loss	38,982	38,982	0	0
3	Financial assets measured at fair value through other comprehensive income	522,450	522,450	0	0
4	Financial assets measured at amortised cost	1,799,364	1,799,364	0	0
5	Derivatives - Hedge accounting	3,415	0	3,415	0
6	Property, plant and equipment	3,905	3,905	0	0
7	Intangible assets	997	0	0	997
8	Other assets	16,967	16,967	0	0
9	**Total assets**	**2,799,708**	**2,795,296**	**3,415**	**997**
	Breakdown by liability classes according to the balance sheet in the published financial statements				
1	Financial liabilities measured at amortised cost	2,329,091	0	0	2,329,091
2	Derivatives - Hedge accounting	15,849	0	15,849	0
3	Provisions	2,409	610	0	1,798
4	Other liabilities	1,491	0	0	1,491
5	**Total liabilities**	**2,348,839**	**610**	**15,849**	**2,332,380**

The Bank is obligated to meet its prudential requirements on an individual basis, resulting in the carrying values in terms of the scope of prudential consolidation matching the carrying values indicated in the published financial statements (column a).

A.4.2 Template EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements *(Article 436(d) of the CRR)*

		a	b	d
			Items subject to	
		Total	Credit risk framework	CCR framework
1	Assets carrying value amount under the scope of prudential consolidation (as per template LI1)	2,798,711	2,795,296	3,415
2	Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)	16,459	610	15,849
3	Total net amount under the scope of prudential consolidation	2,782,252	2,794,686	(12,434)
4	Off-balance sheet amounts	278,756	278,756	0
7	*Differences due to consideration of provisions*	610	610	0
9	*Differences due to credit conversion factors*	(72,278)	(72,278)	0
11	*Other differences*	22,829	0	22,829
12	Exposure amounts considered for regulatory purposes	3,012,169	3,001,774	10,395

The template shows the difference between the carrying values of assets and off-balance-sheet liabilities in the financial statements and the risk-weighted exposure amounts that are used for regulatory purposes, and represent the basis for the calculation of RWAs. The difference between the carrying value of derivatives in the financial statements and the value of the exposure of derivatives for regulatory purposes is disclosed under Other differences.

A.5 DISCLOSURE OF OWN FUNDS

A.5.1 Template EU CC1 – Composition of regulatory own funds
(Article 437(a), (d), (e) and (f) of the CRR)

		(a)	(b)
		Balance at 31 December 2022	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	301,139	EU CC2: Shareholders' Equity, rows 1, 2
	of which: Instrument type 1	301,139	EU CC2: Shareholders' Equity, rows 1, 2
3	Accumulated other comprehensive income (and other reserves)	142,804	EU CC2: Shareholders' Equity, rows 3, 5
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**443,942**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(581)	
8	Intangible assets (net of related tax liability) (negative amount)	(997)	EU CC2: Assets, row 7
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	(1,324)	EU CC2: Shareholders' Equity, row 6
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(2,902)**	
29	**Common Equity Tier 1 (CET1) capital**	**441,040**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
45	**Tier 1 capital (T1 = CET1 + AT1)**	**441,040**	
Tier 2 (T2) capital: regulatory adjustments			
59	**Total capital (TC = T1 + T2)**	**441,040**	
60	**Total risk exposure amount**	**1,735,801**	

Capital ratios and requirements including buffers		
61	Common Equity Tier 1 (CET1) capital	25.41%
62	Tier 1 capital	25.41%
63	Total capital	25.41%
64	Institution CET1 overall capital requirements	8.53%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical capital buffer requirement	0.02%
67	of which: systemic risk buffer requirement	0.00%
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.25%
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	1.27%
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**15.16%**
Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	15,179
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	13,134

SID Bank's capital is comprised solely of the highest quality Common Equity Tier 1 capital. SID Bank does not hold any Additional Tier 1 capital or Tier 2 capital instruments.

Regulatory adjustments to capital include deductions arising from intangible assets in the amount of EUR 997 thousand, and EUR 581 thousand as an additional adjustment to the value of assets and liabilities disclosed at fair value due to prudential valuation requirements.

Until the adoption of a resolution by SID Bank's general meeting on the distribution of profit, net profit from 2022 in the amount of EUR 8,251 thousand is not taken into account in the calculation of own funds for capital adequacy purposes.

The Bank calculates capital requirements for credit risk according to the standardised approach. To calculate the amounts of risk-weighted exposures for credit risk, the ratings for individual exposure classes are not used; rather risk weights for specific exposure classes are assigned with respect to the degree of risk of a customer's country. In order to determine the level of credit quality of a central government (Article 114 of the CRR), the Bank uses SID Bank's rating as a nominated ECA, as set out in Article 137 of the CRR.

The Bank uses the basic indicator approach to calculate capital requirements for operational risk (Articles 315 and 316 of the CRR).

The capital requirement for credit valuation adjustment (CVA) risk is calculated using the standardised method, as set out in Article 384 of the CRR.

SID Bank does not hold any positions in the trading book and therefore does not calculate capital requirements for market risk for that purpose. In the scope of market risk, SID Bank only calculates capital requirements for currency risk. SID Bank's exposure to currency risk is low and does not exceed the prescribed regulatory limit for the calculation of the capital requirement for currency risk in accordance with Article 351 of the CRR. The Bank is thus not required to formulate capital requirements for that purpose.

A.5.2 Template EU CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements
(Article 437(a), (d), (e) and (f) of the CRR)

		a	c
		Balance sheet as in published financial statements	Reference
		31 December 2022	
Assets – *Breakdown by asset classes according to the balance sheet in the published financial statements*			
1	Cash, cash balances at central banks and demand deposits at banks	413,629	
2	Non-trading financial assets mandatorily at fair value through profit or loss	38,982	
3	Financial assets measured at fair value through other comprehensive income	522,450	
4	Financial assets measured at amortised cost	1,799,364	
5	Derivatives - Hedge accounting	3,415	
6	Property, plant and equipment	3,905	
7	Intangible assets	997	EU CC1: row 8
8	Other assets	16,967	
9	**Total assets**	**2,799,708**	
Liabilities – *Breakdown by liability classes according to the balance sheet in the published financial statements*			
1	Financial liabilities measured at amortised cost	2,329,091	
2	Derivatives - Hedge accounting	15,849	
3	Provisions	2,409	
4	Other liabilities	1,491	
5	**Total liabilities**	**2,348,839**	
Shareholders' Equity			
1	Capital	300,000	EU CC1: row 1
2	Share premium	1,139	EU CC1: row 1
3	Accumulated other comprehensive income	(42,106)	EU CC1: row 3
4	Retained earnings	0	
5	Other reserves	184,910	EU CC1: row 3
6	(-) Treasury shares	(1,324)	EU CC1: row 16
7	Profit or loss attributable to owners of the bank	8,251	
8	**Total shareholders' equity**	**450,869**	

SID Bank is obligated to fulfil regulatory requirements on an individual basis. The data in the template therefore relate to the individual statement of financial position of SID Bank as at 31 December 2022, which also represents a financial statement for regulatory purposes.

A.5.3 Template EU CCA – Main features of regulatory own funds instruments and eligible liabilities instruments
(Article 437(b) and (c) of the CRR)

		a
1	Issuer	SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	SIDR, ISIN SI0021102932
2a	Public or private placement	closed circle of investors
3	Governing law(s) of the instrument	Slovene
3a	Contractual recognition of write down and conversion powers of resolution authorities	No
	Regulatory treatment	
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1 (CET1) Capital
5	Post-transitional CRR rules	Common Equity Tier 1 (CET1) Capital
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	On an individual basis
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital or eligible liabilities (currency in million, as of most recent reporting date)	EUR 300 million
9	Nominal amount of instrument	No nominal amount - no-par value shares
EU-9a	Issue price	No nominal issue amount - no-par value shares
EU-9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	20 June 1997
12	Perpetual or dated	No maturity
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	No
16	Subsequent call dates, if applicable	N/A
	Coupons /dividends	N/A

N/A – not applicable

The Republic of Slovenia is the sole shareholder of SID Bank and in accordance with the ZSIRB guarantees all the Bank's liabilities. In accordance with Article 4 of the ZSIRB, SID Bank's distributable profit may not be used for distribution of dividends to shareholders, but is instead allocated to other profit reserves.

A.6 DISCLOSURE OF COUNTERCYCLICAL CAPITAL BUFFERS

A.6.1 Template EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer *(Article 440(a) of the CRR)*

		a	f	g	j	k	l	m
		General credit exposures		Own funds requirements				
		Exposure value under the standardised approach	Total exposure value	Relevant credit risk exposures - credit risk	Total	Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
010	Breakdown by country:							
	Slovenia	1,264,180	1,264,180	102,051	102,051	1,275,644	85.48%	0.00%
	Belarus	28,681	28,681	3,442	3,442	43,022	2.88%	0.00%
	Luxembourg	28,554	28,554	3,075	3,075	38,439	2.58%	0.50%
	France	24,139	24,139	1,931	1,931	24,139	1.62%	0.00%
	Netherlands	22,533	22,533	1,911	1,911	23,883	1.60%	0.00%
	Germany	17,246	17,246	1,380	1,380	17,246	1.16%	0.00%
	Other countries*	15,179	15,179	1,214	1,214	15,179	1.02%	0.00%
	Ukraine	11,829	11,829	1,419	1,419	17,743	1.19%	0.00%
	Ghana	11,053	11,053	884	884	11,053	0.74%	0.00%
	Austria	8,900	8,900	712	712	8,900	0.60%	0.00%
	Italy	5,562	5,562	445	445	5,562	0.37%	0.00%
	Czech Republic	5,145	5,145	412	412	5,145	0.34%	1.50%
	Belgium	3,004	3,004	240	240	3,004	0.20%	0.00%
	Rwanda	2,332	2,332	187	187	2,332	0.16%	0.00%
	Serbia	1,031	1,031	82	82	1,031	0.07%	0.00%
	United Kingdom	45	45	4	4	45	0.00%	1.00%
	United States of America	37	37	3	3	37	0.00%	0.00%
	Switzerland	8	8	1	1	8	0.00%	0.00%
	Ireland	5	5	0	0	5	0.00%	0.00%
020	**Total**	**1,449,463**	**1,449,463**	**119,393**	**119,393**	**1,492,416**	**100.00%**	

* Exposure to supranational organisations

The countercyclical capital buffer is calculated for specific exposure classes as defined in Article 140(4) of the CRD. The calculation includes all exposure classes set out in Article 112 of the CRR, except the exposure classes defined in points (a) to (f) of the aforementioned article.

The Bank uses the standardised approach to calculate exposure values, and has no exposures included in the trading book or in securitisation positions.

A.6.2 Template EU CCyB2 - Amount of the institution-specific countercyclical capital buffer
(Article 440(b) of the CRR)

		a
1	Total risk exposure amount	1,735,801
2	Institution specific countercyclical capital buffer rate	0.0181%
3	Institution specific countercyclical capital buffer requirement	314

The Bank's institution-specific countercyclical capital buffer rate is calculated as the weighted average of valid countercyclical buffer rates that apply in countries in which the relevant exposures for the calculation of countercyclical buffers of the Bank in question are located. The rate for the Bank stood at 0.0181% as at 31 December 2022.

A.7 DISCLOSURE OF LEVERAGE RATIO

A.7.1 Template EU LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures
(Article 451(1)(a), (b) and (c) and Article 451(2) and (3) of the CRR)

		a
		Applicable amount
1	Total assets as per published financial statements	2,799,708
8	Adjustments for derivative financial instruments	6,980
10	Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures)	206,478
12	Other adjustments	(2,902)
13	**Total exposure measure**	**3,010,264**

A.7.2 Template EU LR2 - LRCom: Leverage ratio common disclosure
(Article 451(1)(a), (b) and (c) and Article 451(2) and (3) of the CRR)

		CRR leverage ratio exposure	
		a	b
		31 Dec 2022	30 June 2022
On-balance-sheet exposures (excluding derivatives and SFTs)			
1	On-balance-sheet items (excluding derivatives, SFTs, but including collateral)	2,796,293	2,748,008
6	(Asset amounts deducted in determining Tier 1 capital)	(2,902)	(3,013)
7	**Total on-balance-sheet exposures (excluding derivatives and SFTs)**	**2,793,391**	**2,744,995**
Derivative exposures			
EU-9b	Exposure determined under Original Exposure Method	10,395	22,340
13	**Total derivatives exposures**	**10,395**	**22,340**
Other off-balance-sheet exposures			
19	Off-balance-sheet exposures at gross notional amount	279,366	228,091
20	(Adjustments for conversion to credit equivalent amounts)	(72,888)	(48,962)
22	**Off-balance-sheet exposures**	**206,478**	**179,130**
Capital and total exposure measure			
23	**Tier 1 capital**	**441,040**	**439,940**
24	**Total exposure measure**	**3,010,264**	**2,946,465**
Leverage ratio			
25	Leverage ratio (%)	14.65%	14.93%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	14.65%	14.93%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	14.65%	14.93%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
EU-26b	of which: to be made up of CET1 capital	0.00%	0.00%
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%	3.00%

The leverage ratio declined relative to the balance as at 30 June 2022, primarily due to an increase in the total exposure measure. SID Bank concluded no securities financing transactions (SFTs), so the template indicates no rows relating to arithmetic means, as the total exposure measure remained unchanged.

When calculating the total exposure measure and the resulting leverage ratio SID Bank takes into account all exposures in accordance with the CRR.

A.7.3 Template EU LR3 LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

(Article 451(1)(a), (b) and (c) and Article 451(2) and (3) of the CRR)

		a
		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**2,796,293**
EU-3	Banking book exposures, of which:	2,796,293
EU-5	Exposures treated as sovereigns	908,786
EU-6	Exposures to regional governments, MDBs, international organisations and PSE, not treated as sovereigns	159,211
EU-7	Institutions	424,652
EU-10	Corporates	1,193,747
EU-11	Exposures in default	51,633
EU-12	Other exposures (e.g., equity, securitisations, and other non-credit obligation assets)	58,265

A.8 DISCLOSURE OF LIQUIDITY REQUIREMENTS

A.8.1 Template EU LIQ1 - Quantitative information of LCR
(Article 451a(2) of the CRR)

		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU-1a	Quarter ending on	31 Dec 2022	30 Sep 2022	30 June 2022	31 Mar 2022	31 Dec 2022	30 Sep 2022	30 June 2022	31 Mar 2022
EU-1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					362,393	343,776	340,294	350,991
CASH OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	0	0	0	0	0	0	0	0
3	Stable deposits	0	0	0	0	0	0	0	0
4	Less stable deposits	0	0	0	0	0	0	0	0
5	Unsecured wholesale funding	3,969	15,175	15,400	16,038	3,969	15,175	15,400	16,038
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
7	Non-operational deposits (all counterparties)	3,697	14,903	15,128	15,763	3,697	14,903	15,128	15,763
8	Unsecured debt	272	272	272	275	272	272	272	275
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	95,291	90,767	105,557	125,955	15,765	14,787	18,727	21,554
11	Outflows related to derivative exposures and other collateral requirements	44	27	25	64	44	27	25	64
12	Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
13	Credit and liquidity facilities	95,247	90,741	105,532	125,891	15,721	14,761	18,701	21,489
14	Other contractual funding obligations	2,061	2,391	2,301	1,883	751	1,094	1,026	566
15	Other contingent funding obligations	87,910	84,421	81,297	79,920	5,203	4,724	4,285	4,097
16	TOTAL CASH OUTFLOWS					25,688	35,780	39,438	42,253

		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU-1a	Quarter ending on	31 Dec 2022	30 Sep 2022	30 June 2022	31 Mar 2022	31 Dec 2022	30 Sep 2022	30 June 2022	31 Mar 2022
EU-1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
CASH INFLOWS									
17	Secured lending (e.g. reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	29,816	40,202	44,558	38,996	25,075	35,413	39,482	34,385
19	Other cash inflows	3,513	3,555	2,565	3,164	3,513	3,555	2,565	3,164
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	TOTAL CASH INFLOWS	33,329	43,756	47,123	42,160	28,588	38,968	42,046	37,550
EU-20a	Fully exempt inflows	0	0	0	0	0	0	0	0
EU-20b	Inflows subject to 90% cap	0	0	0	0	0	0	0	0
EU-20c	Inflows subject to 75% cap	33,329	43,756	47,123	42,160	28,588	38,968	42,046	37,550
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					362,393	343,776	340,294	350,991
22	TOTAL NET CASH OUTFLOWS					8,937	9,997	10,567	12,598
23	**LIQUIDITY COVERAGE RATIO**					**6,123%**	**6,390%**	**5,214%**	**4,472%**

Template EU LIQ1 indicates values for each of the four calendar quarters. The values are calculated as simple averages of observed data at the end of the month over a 12-month period before the end of each quarter, and include all items regardless of the currency in which these items have been denominated.

The Bank maintains a high liquidity coverage ratio (LCR), which is quite volatile over time due to the Bank's specific role as a development institution and its readiness to intervene as required, and the fact that SID Bank does not accept deposits from the public but rather acquires primarily long-term funding supported by a Slovenian government guarantee. The Bank obtains funding primarily on international financial markets and at related financial institutions. As a result, the Bank does not have a higher outflows in the period of 30 days, which are taken into account in the calculation of the ratio, except for the maturities of long-term funding.

The liquidity buffer comprises extremely high-quality liquid assets and high-quality liquid assets .

Exposures from derivatives are disclosed in the templates in point A.12.1.

The amount of assets that make up the liquidity buffer and the amount of liquidity outflows only comprise items denominated in euros. The proportion of liquidity inflows accounted for by other currencies is negligible.

A.8.2 TEMPLATE EU LIQ2: NET STABLE FUNDING RATIO

(Article 451a(3) of the CRR)

Template EU LIQ2 as at 31 December 2022:

		a	b	c	d	e
		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
Available stable funding (ASF) items						
1	Capital items and instruments	442,618	0	0	0	442,618
2	*Own funds*	442,618	0	0	0	442,618
7	Wholesale funding:		349,728	136,947	1,837,535	1,913,798
9	*Other wholesale funding*		349,728	136,947	1,837,535	1,913,798
11	Other liabilities	0	6,908	0	0	0
14	**Total available stable funding (ASF)**					**2,356,416**
Required stable funding (RSF) items						
15	Total high-quality liquid assets (HQLA)					25,967
17	Performing loans and securities:		149,230	149,712	1,555,255	1,500,990
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		47,367	26,860	228,189	246,355
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs*		64,527	113,608	1,151,991	1,096,720
22	*Performing loans, secured with residential mortgage*		1,864	1,807	23,855	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		35,471	7,437	151,220	157,915
26	Other assets	0	27,266	5,536	62,114	80,197
32	Off-balance-sheet items		29,161	65,557	184,648	18,818
33	**Total required stable funding (RSF)**					**1,625,973**
34	**Net Stable Funding Ratio (%)**					**144.92%**

Template EU LIQ2 as at 30 September 2022:

		a	b	c	d	e
		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
Available stable funding (ASF) items						
1	Capital items and instruments	443,208	0	0	0	443,208
2	*Own funds*	443,208	0	0	0	443,208
7	Wholesale funding:		21,580	346,769	1,938,301	2,120,233
9	*Other wholesale funding*		21,580	346,769	1,938,301	2,120,233
11	Other liabilities	0	5,229	0	0	0
14	**Total available stable funding (ASF)**					**2,563,441**
Required stable funding (RSF) items						
15	Total high-quality liquid assets (HQLA)					97,397
17	Performing loans and securities:		161,925	100,717	1,549,472	1,472,156
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		65,498	26,915	246,041	266,048
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs*		56,608	65,938	1,127,787	1,048,274
22	*Performing loans, secured with residential mortgage*		1,304	1,617	24,386	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		38,515	6,247	151,257	157,834
26	Other assets	0	25,780	4,482	54,403	70,691
32	Off-balance-sheet items		2,167	56,019	156,711	15,295
33	**Total required stable funding (RSF)**					**1,655,539**
34	**Net Stable Funding Ratio (%)**					**154.84%**

Template EU LIQ2 as at 30 June 2022:

		a	b	c	d	e
		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
Available stable funding (ASF) items						
1	Capital items and instruments	439,941	0	0	0	439,941
2	*Own funds*	439,941	0	0	0	439,941
7	Wholesale funding:		17,873	345,710	1,910,728	2,090,535
9	*Other wholesale funding*		17,873	345,710	1,910,728	2,090,535
11	Other liabilities	50	5,229	0	0	0
14	**Total available stable funding (ASF)**					**2,530,476**
Required stable funding (RSF) items						
15	Total high-quality liquid assets (HQLA)					135,086
17	Performing loans and securities:		154,620	141,825	1,538,951	1,488,374
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		60,266	51,079	293,361	324,927
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs*		67,733	54,045	1,081,467	1,007,595
22	*Performing loans, secured with residential mortgage*		1,048	1,458	24,401	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		25,573	35,243	139,723	155,852
26	Other assets	0	14,322	869	28,559	33,392
32	Off-balance-sheet items		2,167	0	225,925	15,578
33	**Total required stable funding (RSF)**					**1,672,430**
34	**Net Stable Funding Ratio (%)**					**151.31%**

Template EU LIQ2 as at 31 March 2022:

		a	b	c	d	e
		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
Available stable funding (ASF) items						
1	Capital items and instruments	457,990	0	0	0	457,990
2	*Own funds*	457,990	0	0	0	457,990
7	Wholesale funding:		21,395	16,707	2,256,243	2,274,012
9	*Other wholesale funding*		21,395	16,707	2,256,243	2,274,012
11	Other liabilities	0	8,843	0	0	0
14	**Total available stable funding (ASF)**					**2,732,002**
Required stable funding (RSF) items						
15	Total high-quality liquid assets (HQLA)					264,735
17	Performing loans and securities:		188,213	151,569	1,637,314	1,621,586
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		80,382	55,984	402,319	438,349
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs*		62,641	52,691	1,066,314	1,002,020
22	*Performing loans, secured with residential mortgage*		1,004	1,301	24,328	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		44,187	41,593	144,353	181,216
26	Other assets	0	2,888	829	23,682	27,399
32	Off-balance-sheet items		0	2,167	213,381	14,734
33	**Total required stable funding (RSF)**					**1,928,454**
34	**Net Stable Funding Ratio (%)**					**141.67%**

A.9 DISCLOSURE OF EXPOSURES TO CREDIT RISK AND DILUTION RISK, AND DISCLOSURE OF CREDIT QUALITY

A.9.1 Template EU CR1: Performing and non-performing exposures and related provisions

(Article 442(c) and (f) of the CRR)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	**Cash balances at central banks and other demand deposits**	**413,629**	**413,629**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
010	**Loans and advances**	**1,691,744**	**1,566,194**	**120,282**	**84,994**	**0**	**79,739**	**(13,955)**	**(7,275)**	**(11,356)**	**(33,223)**	**0**	**(30,386)**	**0**	**740,924**	**47,368**
030	General governments	209,059	209,059	0	0	0	0	(23)	(23)	0	0	0	0	0	0	0
040	Credit institutions	317,995	317,995	0	29,364	0	29,364	(300)	(300)	0	(1,488)	0	(1,488)	0	0	27,876
050	Other financial corporations	1,103	20	1,083	297	0	297	(104)	0	(104)	(2)	0	(2)	0	979	0
060	Non-financial corporations	1,159,043	1,035,043	118,733	55,332	0	50,078	(13,426)	(6,913)	(11,189)	(31,733)	0	(28,896)	0	736,780	19,492
070	Of which: SMEs	495,373	396,263	99,109	27,768	0	25,788	(14,860)	(4,350)	(10,510)	(17,557)	0	(16,435)	0	352,743	6,203
080	Households	4,544	4,078	467	0	0	0	(103)	(39)	(63)	0	0	0	0	3,165	0
090	**Debt securities**	**578,626**	**578,626**	**0**	**0**	**0**	**0**	**(215)**	**(215)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
110	General governments	370,057	370,057	0	0	0	0	(4)	(4)	0	0	0	0	0	0	0
120	Credit institutions	108,382	108,382	0	0	0	0	(20)	(20)	0	0	0	0	0	0	0
130	Other financial corporations	16,124	16,124	0	0	0	0	(8)	(8)	0	0	0	0	0	0	0
140	Non-financial corporations	84,063	84,063	0	0	0	0	(183)	(183)	0	0	0	0	0	0	0
150	**Off-balance-sheet exposures**	**277,677**	**277,677**	**0**	**1,689**	**0**	**1,689**	**(532)**	**(532)**	**0**	**79**	**0**	**79**		**87,758**	**14**
170	General governments	3,094	3,094	0	0	0	0	0	0	0	0	0	0		0	0
180	Credit institutions	58,831	58,831	0	1,689	0	1,689	(22)	(22)	0	79	0	79		37,421	14
190	Other financial corporations	21,921	21,921	0	0	0	0	0	0	0	0	0	0		0	0
200	Non-financial corporations	193,831	193,831	0	0	0	0	(509)	(509)	0	0	0	0		50,336	0
220	Total	2,961,675	2,836,125	120,282	86,683	0	81,429	(14,702)	(8,021)	(11,356)	(33,144)	0	(30,307)	0	828,681	47,382

SID Bank disclosed non-performing exposures in the total amount of EUR 86,683 thousand. Of that amount, EUR 84,992 thousand was accounted for by loans, EUR 2 thousand by other financial assets and EUR 1,689 thousand by off-balance sheet exposures.

Non-performing loans and other financial assets measured at amortised cost amounted to EUR 81,717 thousand (of which loans classified to Stage 3 amounted to EUR 79,739 thousand, and loans classified as POCI items EUR 1,978 thousand), while loans measured at fair value through other comprehensive income amounted to EUR 3,276 thousand.

The NPL ratio and other financial assets together were 4.78% as at 31 December 2022 (31 December 2021: 2.32%).

A.9.2 Template EU CR1-A: Maturity of exposures
(Article 442(g) of the CRR)

		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	87	78,958	293,701	1,356,814	0	1,729,560
2	Debt securities	0	108,390	303,755	166,266	0	578,411
3	**Total**	**87**	**187,348**	**597,456**	**1,523,080**	**0**	**2,307,970**

A.9.3 Template EU CR2: Changes in the stock of non-performing loans and advances
(Article 442(f) of the CRR)

		a
		Gross carrying amount
010	**Initial stock of non-performing loans and advances**	**42,356**
020	Inflows to non-performing portfolios	56,170
030	Outflows from non-performing portfolios	(13,532)
040	Outflows due to write-offs	(2,653)
050	Outflows due to other situations	(10,879)
060	**Final stock of non-performing loans and advances**	**84,994**

Disclosed in the template are changes in non-performing loans and other financial assets in 2022. The stock of non-performing loans and other financial assets was EUR 84,994 thousand as at 31 December 2022 (31 December 2021: EUR 42,356 thousand).

Outflows due to other situations comprise partial and complete repayment of non-performing loans (EUR 6,557 thousand), liquidation of collateral (EUR 3,431 thousand) and other outflows (EUR 891 thousand).

A.9.4 Template EU CQ1: Credit quality of forborne exposures
(Article 442(c) of the CRR)

		a	b	c	d	e	f	g	h
		Gross carrying amount / nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
010	Loans and advances	10,760	34,052	34,052	30,776	3,862	(12,413)	32,357	17,762
050	*Other financial corporations*	0	297	297	297	0	(2)	0	0
060	*Non-financial corporations*	10,760	33,754	33,754	30,478	3,862	(12,411)	32,357	17,762
100	**Total**	**10,760**	**34,052**	**34,052**	**30,776**	**3,862**	**(12,413)**	**32,357**	**17,762**

A.9.5 Template EU CQ3: Credit quality of performing and non-performing exposures by past due days
(Article 442(c) and (d) of the CRR)

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	413,629	413,629	0	0	0	0	0	0	0	0	0	0
010	Loans and advances	1,691,744	1,691,492	252	84,994	56,038	10,289	4,066	7,110	4,483	1,920	1,088	84,994
030	*General governments*	209,059	209,059	0	0	0	0	0	0	0	0	0	0
040	*Credit institutions*	317,995	317,995	0	29,364	17,975	9,244	2,145	0	0	0	0	29,364
050	*Other financial corporations*	1,103	1,103	0	297	297	0	0	0	0	0	0	297
060	*Non-financial corporations*	1,159,043	1,158,791	252	55,332	37,765	1,045	1,921	7,110	4,483	1,920	1,088	55,332
070	*Of which SMEs*	495,373	495,120	252	27,768	22,611	1,045	1,207	1,053	1,851	0	0	27,768
080	*Households*	4,544	4,544	0	0	0	0	0	0	0	0	0	0
090	Debt securities	578,626	578,626	0	0	0	0	0	0	0	0	0	0
110	*General governments*	370,057	370,057	0	0	0	0	0	0	0	0	0	0
120	*Credit institutions*	108,382	108,382	0	0	0	0	0	0	0	0	0	0
130	*Other financial corporations*	16,124	16,124	0	0	0	0	0	0	0	0	0	0
140	*Non-financial corporations*	84,063	84,063	0	0	0	0	0	0	0	0	0	0
150	Off-balance-sheet exposures	277,677			1,689								1,689
170	*General governments*	3,094			0								0
180	*Credit institutions*	58,831			1,689								1,689
190	*Other financial corporations*	21,921			0								0
200	*Non-financial corporations*	193,831			0								0
220	**Total**	**2,961,675**	**2,683,746**	**252**	**86,683**	**56,038**	**10,289**	**4,066**	**7,110**	**4,483**	**1,920**	**1,088**	**86,683**

A.9.6 Template EU CQ4: Quality of non-performing exposures by geography
(Article 442(c) and (e) of the CRR)

		a	b	c	d	e	f	g
		Gross carrying amount / nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
010	**On-balance-sheet exposures**	**2,355,363**	**84,994**	**84,994**	**2,352,087**	**(45,452)**		**(1,941)**
020	Slovenia	1,828,360	43,353	43,353	1,825,083	(43,322)		(1,941)
030	France	84,791	0	0	84,791	(10)		0
040	Germany	62,483	0	0	62,483	(26)		0
050	Italy	55,779	0	0	55,779	(13)		0
060	Spain	54,699	0	0	54,699	(1)		0
070	Other countries	269,251	41,641	41,641	269,251	(2,079)		0
080	**Off-balance-sheet exposures**	**279,366**	**1,689**	**1,689**			**(610)**	
090	Slovenia	244,460	0	0			(531)	
100	Luxembourg	11,781	0	0			0	
110	Belarus	1,689	1,689	1,689			(79)	
120	Germany	1,388	0	0			(1)	
130	Netherlands	48	0	0			0	
140	Other countries	20,000	0	0			(0)	
150	**Total**	**2,634,730**	**86,683**	**86,683**	**2,352,087**	**(45,452)**	**(610)**	**(1,941)**

Disclosed in the template are exposures and impairments by individual country with respect to a counterparty's head office. On-balance-sheet exposures in the template include the stock of loans and other financial assets, and debt securities. Exposures to five countries with the highest on- and off-balance-sheet exposure are presented separately. Exposures to supranational organisations are disclosed amongst other countries.

A.9.7 Template EU CQ5: Credit quality of loans and advances to non-financial corporations by industry
(Article 442(c) and (e) of the CRR)

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
010	Agriculture, forestry and fishing	0	0	0	0	0	0
020	Mining and quarrying	5,468	0	0	5,468	(9)	0
030	Manufacturing	418,624	18,191	18,191	418,624	(22,733)	0
040	Electricity, gas, steam and air conditioning supply	200,788	0	0	200,788	(1,251)	0
050	Water supply	13,317	0	0	13,317	(112)	0
060	Construction	24,889	1,036	1,036	24,472	(1,230)	(417)
070	Wholesale and retail trade	173,128	7,794	7,794	173,128	(6,135)	0
080	Transportation and storage	150,268	1,238	1,238	150,268	2,396	0
090	Accommodation and food service activities	127,724	9,937	9,937	124,865	(8,802)	(1,524)
100	Information and communication	36,678	11,901	11,901	36,678	(635)	0
110	Financial and insurance activities	0	0	0	0	0	0
120	Real estate activities	4,206	0	0	4,206	(15)	0
130	Professional, scientific and technical activities	37,579	5,230	5,230	37,579	(4,151)	0
140	Administrative and support service activities	13,074	4	4	13,074	(478)	0
150	Public administration and defence, compulsory social security	0	0	0	0	0	0
160	Education	1	1	1	1	(1)	0
170	Human health services and social work activities	7,404	0	0	7,404	(29)	0
180	Arts, entertainment and recreation	530	0	0	530	(12)	0
190	Other services	698	0	0	698	(20)	0
200	**Total**	**1,214,375**	**55,332**	**55,332**	**1,211,099**	**(43,217)**	**(1,941)**

A.10 DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

A.10.1 Template EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques *(Article 453(f) of the CRR)*

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	988,446	788,292	585,849	202,443	0
2	Debt securities	578,626	0	0	0	
3	Total	1,567,072	788,292	585,849	202,443	0
4	*Of which non-performing exposures*	37,626	47,368	7,625	39,743	0
EU-5	*Of which defaulted*	37,626	47,368			

Disclosed in the template is the carrying amount of unsecured and secured loans and debt securities, taking into account all accepted collateral.

SID Bank uses collateral to reduce capital requirements for credit risk for exposures secured by assets or guarantees received from EU funds and institutions. The value of collateral that SID Bank used to reduce capital requirements for credit risk, according to the balance as at 31 December 2022, amounted to EUR 94,867 thousand. Of that amount, EUR 37,421 thousand was accounted for by European Cohesion Policy funds pledged as collateral for portfolio guarantees, while the remaining amount of EUR 57,446 thousand was accounted for by guarantees from the Pan-European Guarantee Fund.

SID Bank does not use derivatives for managing capital requirements.

The low stock of collateral that SID Bank uses to reduce capital requirements for credit risk indicates a low level of concentration in terms of credit risk mitigation (CRM).

A.11 DISCLOSURE OF THE USE OF THE STANDARDISED APPROACH

A.11.1 Template EU CR4 - Standardised approach – Credit risk exposure and CRM effects
(Article 453(g), (h) and (i), and Article 444(e) of the CRR)

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	835,066	0	835,066	37,421	37,990	4.35%
2	Regional government or local authorities	135,049	3,094	135,049	1,547	27,319	20.00%
3	Public sector entities	24,162	0	24,162	0	4,832	20.00%
4	Multilateral development banks	1,567	20,000	59,013	20,000	4,000	5.06%
5	International organisations	14,707	0	14,707	0	0	0.00%
6	Institutions	424,652	38,808	424,652	694	85,069	20.00%
7	Corporates	1,251,055	193,322	1,193,747	124,090	1,317,836	100.00%
10	Exposures in default	51,771	1,611	51,633	805	74,707	142.47%
14	Collective investment undertakings	37,647	21,921	37,647	21,921	80,252	134.72%
15	Equity	15,179	0	15,179	0	15,179	100.00%
16	Other items	4,442	0	4,442	0	4,442	100.00%
17	**TOTAL**	**2,795,296**	**278,756**	**2,795,296**	**206,478**	**1,651,626**	**55.02%**

Only exposure classes in which SID Bank has classified exposures and the associated RWAs from credit risk are disclosed in template rows. Disclosed is the value of RWA for on- and off-balance-sheet exposures, without taking into account exposure to derivatives for which counterparty credit risk is calculated.

A.11.2 Template EU CR5 – Standardised approach
(Article 444(e) of the CRR)

	Exposure classes	Risk weight						Total	Of which unrated
		0%	20%	100%	150%	250%	Other		
		a	e	j	k	l	o	p	q
1	Central governments or central banks	833,581	25,772	0	0	13,134	0	**872,487**	872,487
2	Regional governments or local authorities	0	136,596	0	0	0	0	**136,596**	136,596
3	Public sector entities	0	24,162	0	0	0	0	**24,162**	24,162
4	Multilateral development banks	59,013	20,000	0	0	0	0	**79,013**	79,013
5	International organisations	14,707	0	0	0	0	0	**14,707**	14,707
6	Institutions	0	425,346	0	0	0	0	**425,346**	425,346
7	Corporates	0	0	1,317,836	0	0	0	**1,317,836**	1,317,836
10	Exposures in default	0	0	7,901	44,538	0	0	**52,438**	52,438
14	Collective investment undertakings	0	0	0	37,647	0	21,921	**59,568**	59,568
15	Equity	0	0	15,179	0	0	0	**15,179**	15,179
16	Other items	0	0	4,442	0	0	0	**4,442**	4,442
17	**TOTAL**	**907,301**	**631,876**	**1,345,358**	**82,184**	**13,134**	**21,921**	**3,001,774**	3,001,774

Exposure classes in which SID Bank has classified exposures are disclosed in template rows. The template shows the value of on- and off-balance sheet exposures after applying corresponding conversion factors (CCF) and the credit risk mitigation (CRM) techniques. The template does not disclose exposures from derivatives for which counterparty credit risk is calculated.

A.12 DISCLOSURE OF EXPOSURE TO COUNTERPARTY CREDIT RISK

A.12.1 Template EU CCR1 – Analysis of CCR exposure by approach
(Article 439(f), (g) and (k) of the CRR)

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1	EU - Original Exposure Method (for derivatives)	3,415	4,010		1.4	10,395	10,395	10,395	2,079
6	**Total**					**10,395**	**10,395**	**10,395**	**2,079**

In order to manage interest rate risk the Bank concludes swap transactions. In order to calculate counterparty credit risk exposure from these transactions the Bank uses the original exposure method in accordance with Article 282 of the CRR.

A.12.2 Template EU CCR2 – Transactions subject to own funds requirements for CVA risk
(Article 439(h) of the CRR)

		a	b
		Exposure value	RWEA
4	Transactions subject to the standardised method	10,395	8,239
5	**Total transactions subject to own funds requirements for CVA risk**	**10,395**	**8,239**

The Bank calculates the capital requirement for credit valuation adjustment (CVA) according to a standardised method in accordance with Article 384 of the CRR.

A.12.3 Template EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

(Article 439(l) referring to Article 444(e) of the CRR)

	Exposure classes	Risk weight	
		e	l
		20%	Total exposure value
6	Institutions	10,395	10,395
11	**Total exposure value**	**10,395**	**10,395**

Only exposure classes in which SID Bank has classified exposures from derivatives and for which it calculates the corresponding counterparty credit risk are disclosed in template rows. The risk weight under which the RWA for counterparty credit risk (CCR) is calculated is disclosed.

A.12.4 Template EU CCR5 – Composition of collateral for CCR exposures

(Article 439(e) of the CRR)

	Collateral type	a	b	c	d
		Collateral used in derivative transactions			
		Fair value of collateral received		Fair value of posted collateral	
		Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	0	0	0	14,839
9	**Total**	**0**	**0**	**0**	**14,839**

The Bank has not concluded securities financing transactions (SFT). The Bank's derivative transactions only include collateral in the form of funds in the domestic currency to provide initial collateral.

A.13 DISCLOSURE OF EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

A.13.1 Template EU IRRBB1 – Interest rate risks of non-trading book activities

(Article 448(a) and (b) of the CRR)

	Supervisory shock scenarios	a	b	c	d
		Changes of the economic value of equity		Changes of the net interest income	
		31 December 2022	30 June 2022	31 December 2022	30 June 2022
1	Parallel up	(11,427)	(15,236)	1,455	3,020
2	Parallel down	11,896	15,744	(1,455)	(1,297)
3	Steepener	962	(472)		
4	Flattener	(2,717)	(2,997)		
5	Short rates up	(5,922)	(7,119)		
6	Short rates down	6,138	6,493		

The results of an analysis of the sensitivity of the economic value of equity according to data as at 31 December 2022 indicate that the Bank would incur the most severe potential loss in the economic value of equity in the scenario of a parallel shift in interest rates by +200 basis points, in the amount of EUR 11,427 thousand, which is equal to 2.6% of Common Equity Tier 1 capital. The reduction in loss relative to 30 June 2022 is primarily a result of a contraction in the scope of the portfolio of debt securities measured at fair value through other comprehensive income and of entering into interest rate swaps for protecting bonds in the portfolio of debt securities measured at fair value through other comprehensive income.

If market interest rates rose by 200 basis points, SID Bank's net interest income in profit or loss would increase by EUR 1,455 thousand in one year according to data at the end of 2022, and reduce by EUR 1,455 thousand if the rates declined by 200 basis points. This also represents the highest decline in net interest income (NII) under any of the six adverse scenarios for market interest rates.

A.14 DISCLOSURE OF USE OF STANDARDISED APPROACH AND INTERNAL MODEL FOR MARKET RISKE

SID Bank does not hold any positions in the trading book and therefore does not calculate capital requirements for position risk in debt instruments and position risk in equities.

In the scope of market risk, SID Bank only calculates capital requirements for currency risk in accordance with the CRR. The Bank's exposure to currency risk is low and does not exceed the prescribed regulatory limit for the calculation of the capital requirement for currency risk in accordance with Article 351 of the CRR. It is thus not required to formulate capital requirements for currency risk.

RWAs for market risk also amount to zero. The Bank thus does not disclose template EU MR1 – Market risk under the standardised approach.

A.15 DISCLOSURE OF OPERATIONAL RISK

A.15.1 Template EU OR1 – Operational risk own funds requirements and risk-weighted exposure amounts

(Article 446 and Article 454 of the CRR)

	Banking activities	a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk exposure amount
		2020	2021	2022		
1	Banking activities subject to the basic indicator approach (BIA)	57,410	34,262	26,498	5,909	73,856

The Bank uses the basic indicator approach (Article 315 of the CRR) to calculate the risk-weighted exposure amounts and the own funds requirement for operational risk in accordance with which the own funds requirement is equal to 15% of the average over three years of the relevant indicator. The relevant indicator is calculated in accordance with Article 316 of the CRR and is based on accounting categories of the Bank's income statement.

A.16 DISCLOSURE OF REMUNERATION POLICY

(Article 450 of the CRR)

SID Bank systemically governs and implements a system of remuneration that includes remuneration policies and practices that are compatible with the risk management system established at the Bank and the requirements prescribed by the applicable regulations. The remuneration policy and practices are consistently aimed at fulfilling the objectives of the Bank's business strategy, and aligned with its risk profile and capacity to take up risks. The key internal bylaws in that respect are: the remuneration policy of the members of the management body, which in accordance with Article 294a of the ZGD-1 is published on the Bank's website, and the remuneration policy that applies to all other Bank employees.

The implementation of both these remuneration policies is managed and monitored in the scope of the management body by the management board, the nomination and remuneration committee and the supervisory board. The composition of these bodies, their term of office and number of meetings are indicated in the business report section of the annual report.

The Bank did not hire any external advisors in the area of implementing the remuneration policies in 2022.

SID Bank's remuneration policy is only used for the Bank and exclusively in Slovenia, and is not implemented in subsidiary companies.

In accordance with the second paragraph of Article 189 of the ZBan-3 and Regulation (EU) No 2021/923, in 2022 the remuneration policy categorised the positions of employees whose powers or work tasks and activities could have a material impact on the Bank's risk profile. After the identification process was completed and for the purpose of the remuneration policy, the categories of staff whose professional activities have a material impact on the Bank's risk profile included the employees who meet any of the quantitative or qualitative criteria under Regulation (EU) No 2021/923 or the following positions or memberships in committees:

- member of the management body: president of the management board and member of the management board;
- member of senior management: executive directors;
- management of independent control functions:

  a) risk management: director of the risk management department;
  b) compliance: director of the compliance department;
  c) internal auditing: director of the internal audit department; and
  d) information security: director of the information security department;

- the employee manages a significant business unit:

  a) director of treasury department;
  b) director of corporate banking department;

c) director of department for financial institutions and Fund of Funds;
d) director of project and export financing department;
e) director of product development and EU programmes department;
f) director of credit and investment insurance department;

- employee has management responsibilities in one of the independent control functions or a significant business unit and reports directly to the employee who heads that unit: assistant directors and heads from the organisational units referred to in the previous two paragraphs;
- employee heads the function responsible for:

a) legal affairs: director of legal and claims department;
b) soundness/stability of accounting policies and procedures and finances, including taxation and preparation of the budget: director of accounting department, director of controlling department;
c) economic analysis: director of research and strategy department;
d) human resources, development and implementation of remuneration policy: general secretary;
e) information technology: director of IT department, director of technology department;

- employee who, in terms of exposure to credit risk in a nominal amount per transaction, which accounts for 0.5% of Common Equity Tier 1 capital (CET1) of the institution and is at least EUR 5 million:

a) is responsible for credit proposals or the structuring of credit products that can cause such exposure to credit risk; or
b) has authorisation to adopt or approve decisions on such exposures to credit risk or veto them; or
c) is a member of the committee responsible for the adoption of decisions under point (a) or (b).

This category includes:

- the following employees of the treasury department: specialist, senior officer and officer;
- director of the credit analysis department;
- director of the middle office;
- members of the credit committee;
- members of the asset-liability and liquidity management committee;
- members of the government operations committee;
- members of the distressed investment management committee.

If a position met at least one criterion under any of the points of quantitative or qualitative criteria in Commission Delegated Regulation (EU) 2021/923, it was not repeated if any further criterion of the quantitative or qualitative criteria was met, but was only listed once.

The remuneration policy and practices are consistently aimed at fulfilling the objectives of the Bank's business strategy, and aligned with its risk profile and its capacity to take up risks. The purpose of the remuneration policy is also to promote the proper management of risks in the future.

The Bank took into account the fundamental principles set out in Article 190 of the ZBan-3 in a manner and to an extent appropriate to its size and internal organisational structure, and the nature, scale and complexity of the activities that it pursues, also taking into account that:

- the governance system at the Bank is comprehensive, as it is set up for all important business processes (activities) or the decision-making at the Bank is organised centrally at the Bank's management board and/or committees, with decisions adopted on individual transactions on the basis of pre-determined general authorisations, as derived from the applicable rules on authorisations, and all decisions being adopted at the Bank's head office, as the Bank has no dislocated units;
- in accordance with the ZSIRB, the Bank's objective is not maximising profit, but primarily conserving capital and achieving the effects of its mission, whereby all the Bank's transactions are subject to the assessment of economic quality on the basis of international criteria;
- unlike other commercial banks, the Bank provides only specific services and transactions (financing of corporates and banks), i.e. it does not provide the majority of services provided by other banks (e.g. the Bank does not take deposits from the public, does not provide retail services, does not manage current accounts for customers, does not provide payment services for customers, and does not provide investment services for customers); and
- due to the specific business model typical of development banks, a large portion of the Bank's portfolio is accounted for by less-risky investments and exposure to domestic banks.

Given that the ZSIRB stipulates that the Bank may have only one shareholder and that the Republic of Slovenia guarantees the commitments of the Bank, the Bank cannot pay the variable component of remuneration in the form of shares. This means that in cases where the total variable remuneration of an employee whose professional activities have a material impact on the Bank's risk profile exceeds EUR 50 thousand gross in a single year, the Bank may take into account only to a limited extent the principles laid down in Article 190 of the ZBan-3, particularly point 3 of the second paragraph, which require at least 50% of the variable remuneration of every individual to be provided in the form of ordinary and preference shares of a bank, or share-linked instruments or equivalent non-cash instruments when a bank's shares are not listed on a regulated market.

The role of relevant stakeholders and powers in the decision-making process regarding the implementation of the remuneration policies in 2022 are described below.

The HR function (General Secretariat, hereinafter: the GS) participates in the drafting and assessment of the appropriateness of the Bank's remuneration policy, including the structure and levels of remuneration and the system of incentives, in a way that not only attracts and retains employees that the Bank requires, but also ensures that the remuneration policy complies with the Bank's risk profile. To that end, the GS oversees the compliance of employment contract provisions, including the criteria of personal job performance and commercial success set out by the collective agreement in accordance with the provisions of this policy. GS informs the management board of the adequacy of the remuneration policy.

The accounting department ensures that variable remuneration does not exceed the level set out by the remuneration policy and is not paid out in a manner or in the form of instruments that are in contravention of it. The accounting department documents the use of the lower threshold to define variable remuneration for the purposes of Article 190 of the ZBan-3 for each employee whose professional activities have a material impact on the Bank's risk profile, by at least listing their first name and surname, position or function and the total amount of variable remuneration in the year when the lower threshold of variable remuneration was used.

The risk management function (risk management department; hereinafter: the RMD) participates in the definition of appropriate criteria for job performance and commercial success that take into account assumed risks (including any subsequent adjustments), and an assessment of how the structure of the variable components of remuneration affects the Bank's risk profile and the risk take-up culture. The RMD informs the management board of the appropriateness of criteria and of the assessment of the impact of the structure of the variable components of remuneration on the Bank's risk profile and risk take-up culture.

The compliance function (compliance department) analyses how the remuneration policy affects the Bank's compliance with laws, regulations, internal policies and the risk take-up culture, and reports all identified compliance risks and issues of non-compliance to the management board and supervisory board.

The internal audit function (internal audit department; hereinafter: IAD) conducts an independent audit of the bases, implementation and effects of the remuneration policy on the Bank's risk profile, and on the basis of audit procedures conducted beforehand. The IAD conducts a regular annual assessment of the compliance of remuneration practices with the remuneration policy.

The implementation of the remuneration policy is monitored by the nomination and remuneration committee as an advisory body to the Bank's supervisory board.

The Bank ensures that the variable component of remuneration, including its deferred part, is only paid if payment is justified given the Bank's financial position and payment is based on the results of the Bank, individual business unit and employee in question.

In the event of unsatisfactory performance or a negative operating result, the Bank considerably reduces the variable remuneration (including the possibility of reducing such remuneration to zero or to the lower threshold set out in the collective agreement for the sector), whereby both current remuneration and reductions in payments of previously earned amounts are taken into account, including through malus or clawback arrangements in accordance with the law governing employment relationships and the collective agreement for the sector.

Assessment and allocation of variable remuneration are carried out on the basis of models and methodologies established at the Bank for the assessment of the job performance and commercial success of employees, organisational units and the Bank.

These models and methodologies are defined in detail in the company-level collective agreement (normative and tariff part), the remuneration policy for management body members, concluded employment contracts, other bylaws and resolutions of the Bank's management board and supervisory board.

The job performance and commercial success of all employees are assessed on the basis of qualitative and quantitative targets that are agreed each year during annual development interviews. These targets correlate accordingly with the undertaken responsibilities and risks that employees take up and manage during their work.

Financial and non-financial criteria are taken into account when evaluating the performance of an organisational unit. A measurable contribution of each organisational unit to the Bank's business results (if this can be measured on the basis of reasonable efforts) is measured over a long-term period, taking into account the business cycle of the Bank and the risks to which it is or could be exposed as a result of these transactions. The performance of an organisational unit is assessed according to its realisation of outlined objectives from the annual operational plan and strategy for a particular year, and on the basis of the objectives set by organisational unit directors. Non-financial criteria, in particular, take into account the satisfaction of customers and other organisational units, and the compliance of an organisational unit with the Bank's internal policies and applicable regulations.

The variable component of the remuneration of the members of the management board depends on the fulfilment of the annual operational plan (AOP) and the criteria and conditions used to determine the amount of remuneration for the members of the management board depending on the achieved level of performance. These criteria and conditions are set out in the remuneration policy for members of the management body and include strategic objectives, economic and financial indicators (ROE, CIR, NPL, etc.), including risk management indicators, and the supervisory board's assessment of the management board's work performance, which, in addition to quantitative and qualitative objectives, also takes into account the fulfilment of measures for the development of social responsibility, the management board's cooperation with the supervisory board, the maintaining of the Bank's reputation and credit rating, the various circumstances in which the Bank operated in the past year, and other criteria.

According to the provisions of the ZPPOGD, the variable component of the remuneration of a member of the management board may not exceed 30% of the basic wage paid out to a member of the management board in a financial year. The variable component of wages is determined by the supervisory board and is paid once a year for the preceding financial year, as a rule upon the adoption of the audited annual report. In order to make a preliminary risk adjustment prior to distribution, the supervisory board may reduce the amount of variable remuneration to an individual member, taking into account the circumstances as set out in the remuneration policy for members of the management body (e.g. demonstrated negative business trends, identified negligence, conduct detrimental to the Bank's reputation, etc.).

The Bank's management board also takes into account alignment with all types of risk to which it is or could be exposed in its operations in the long term or at least until the end of the accounting period and deferral period in the final allocation of the variable component of remuneration to the Bank's organisational units.

The assessment of performance is carried out by employee category depending on the relationship defined by the employment contract:

a) categories of employees whose professional activities have a material impact on the Bank's risk profile and who have an employment contract in place with the Bank with provisions in the scope of the collective agreement; variable remuneration in the form of job performance and commercial success is carried out under the rules and in the manner prescribed by the company-level collective agreement or other Bank bylaw;

b) categories of employees whose professional activities have a material impact on the Bank's risk profile and who have an individual employment contract (except for the management board) with the Bank; variable remuneration in the form of payment for commercial success is carried out on an annual basis with the payment of a performance bonus in accordance with the rules and in the manner prescribed by the company-level collective agreement for the category of employees under point a). The rules and method determined under point c) for management board members or the fulfilment of individual objectives is used for a portion of the commercial success (performance) that exceeds the threshold set out in the company-level collective agreement up to the level indicated in the individual employment contract. This category of employees is not entitled to variable remuneration in the form of job performance;

c) Bank's management board members: variable remuneration takes place on an annual basis with payment under the rules and in the manner determined by the concluded individual employment contract and the remuneration policy for management body members.

The remuneration of employees in independent control functions is determined in such a way that their independence and objectivity in the performance of duties are not compromised. Employees who perform independent control functions are independent from the organisational units on which they conduct controls, and have the appropriate powers and receive remuneration with respect to the achievement of objectives linked to their functions, regardless of the performance of the business areas on which they conduct controls. Employees who perform independent control functions may receive performance bonuses depending on the results they achieve, irrespective of this policy in accordance with the company-level collective agreement.

Employees within the system of internal controls and other independent control functions participate in the formulation, oversight and review of the appropriateness of remuneration policies for other business areas that these employees control. Upon each amendment to these policies, they are required to submit their opinion within a reasonable time, while the persons responsible for the drafting of amendments to these policies are required to obtain these opinions.

The Bank does not implement guaranteed variable remuneration practices, and payments of termination benefits are made in accordance with the provisions of the applicable labour legislation, which is in line with the requirements of the ZBan-3 and the EBA guidelines.

In order to ensure that the Bank's remuneration policy is compatible with appropriate and effective risk management and the further promotion of this risk management, employee remuneration should be formulated in such a way that it does not encourage the employees who in the scope of their powers or work duties and activities could have a material impact on the Bank's risk profile to irresponsibly take disproportionately large risks in the course of their work duties, or risks that exceed the Bank's risk absorption capacity. This is ensured, in particular, when:

- the majority of the total remuneration of an employee comprises the fixed component of remuneration and the variable component of the employee's remuneration does not exceed 33.3% of the fixed component of remuneration; and
- the variable component of remuneration, in principle, does not depend on business results, but relies on a combination of an assessment of the performance of an individual and their business-organisational unit, and the overall operating results of the Bank. For that purpose, the Bank has a system in place for the assessment of job performance and a system for the remuneration of commercial success, which is based on the collective agreement of the Slovenian banking sector and the company-level collective agreement.

The Bank ensures that the ratio between the fixed and variable components of the entire remuneration of different categories of employees is appropriately balanced, since the total amount of remuneration is not highly dependent on the variable component of remuneration which, at the same time, represents an effective way to encourage employees to achieve or exceed planned work results. The fixed component of remuneration represents a sufficiently high proportion of the total amount of remuneration for an employee to allow the Bank to implement a fully flexible policy on the variable component of remuneration, including the possibility to pay no variable component.

The Bank does not compensate for the reduced amount of the variable component of remuneration for a specific year owing to the adjustment of remuneration to risks by increasing the variable component of remuneration in subsequent years.

Payment of variable remuneration is deferred in the following amount and by the following deadlines for employees whose professional activities have a material impact on the Bank's risk profile and whose total variable remuneration in a single year exceeds the gross amount of EUR 50 thousand:

Member of the management body	Proportion of variable remuneration that is paid within five months after the end of the accounting period	Deferral period (number of years after the end of the accounting period)	Payment deadline after the end of the deferral period (in months)
President of the Management Board* Member of the Management Board*	50% 50%	3** 5***	3 3

Bank employee by position	Proportion of variable remuneration that is paid within five months after the end of the accounting period	Deferral period (number of years after the end of the accounting period)****	Payment deadline after the end of the deferral period (in months)
Senior management (executive directors) and other employees on individual employment contracts	60%	5	3
Other categories of staff whose professional activities have a material impact on the Bank's risk profile	60%	4	3

* *Notwithstanding the application of the proportionality principle and lower threshold, the provisions of the ZBan-3 and ZPPOGD apply to the payment of variable remuneration to the management board.*

** *If the total variable components of remuneration do not exceed EUR 50 thousand gross over a single year, the provisions of the ZPPOGD and a three-year deferral period apply.*

*** *If the total variable components of remuneration over a single year exceed EUR 50 thousand gross, a five-year deferral period only applies for the difference above EUR 50 thousand gross.*

**** *If the total variable components of remuneration over a single year exceed EUR 50 thousand gross, the deferral period lasts only for the difference above EUR 50 thousand gross.*

If the Bank determines when verifying the fulfilment of terms and conditions for the payment of the deferred variable component of wages that there are grounds as specified by the act governing companies for the return of the variable component of remuneration, or that a particular employee fails to fulfil other conditions for the payment of a portion or the entire deferred variable component of wages for a particular year, the Bank can adopt a unilateral decision on the return of the previously paid out variable component of wages for that year.

For the purpose of the remuneration policy, the following forms of payments and benefits comprise variable components of remuneration:

- payment for performance over the percentage specified in the collective agreement for Slovenia's banking sector;
- payment for performance bonuses;
- other bonuses (e.g. for project work); and
- other remuneration and fringe benefits:
  - termination benefits over the amount determined by labour legislation, except in cases where remuneration or fringe benefits are standardised for a specific category of employees by a bylaw or management board resolution, and thus under equal terms comprise an element of the standard employment package for a specific category of employees; and
  - retention bonuses.

A.16.1 Template EU REM1 – Remuneration awarded for the financial year
(Article 450(1)(h) (i)-(ii) of the CRR)

			a	b	c	d
			MB supervisory function	MB management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	6.00	2.00	5.25	35.93
2		Total fixed remuneration	206,632	473,621	672,203	2,721,023
3		Of which: cash-based	204,346	463,111	644,395	2,580,575
7		Of which: other forms	2,286	10,510	27,808	140,448
9	Variable remuneration	Number of identified staff	6.00	2.00	5.25	35.93
10		Total variable remuneration	0	49,876	101,649	320,600
11		Of which: cash-based	0	49,876	101,649	320,600
17	Total remuneration (2 + 10)		206,632	523,496	773,853	3,041,623

The figures in the template are presented in euros.

A.16.2 Template EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)
(Article 450(1)(h) (v)-(vii) of the CRR)

The Bank had no special payments in 2022 to employees whose professional activities have a material impact on the institution's risk profile.

A.16.3 Template EU REM3 - Deferred remuneration
(Article 450(1)(h) (iii)-(iv) of the CRR)

		a	b	c	d	e	f	EU-g	EU-h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
7	MB management function	178,337	160,543	17,794	0	0	0	160,543	0
8	Cash-based	178,337	160,543	17,794	0	0	0	160,543	0
25	Total amount	178,337	160,543	17,794	0	0	0	160,543	0

The figures in the template are presented in euros.

A.16.4 Template EU REM4 – Remuneration of EUR 1 million or more per year
(Article 450(1)(i) of the CRR)

No employee received remuneration from the Bank of EUR 1 million or more in 2022. To that end, it was not required to disclose template EU REM4.

A.16.5 Template EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

(Article 450(1)(g) of the CRR)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB supervisory function	MB management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										49.18
2	Of which: members of the MB	6	2	8							
3	Of which: other senior management				0.00	0.00	0.00	5.25	0.00	0.00	
4	Of which: other identified staff				0.00	7.00	4.96	8.00	7.00	8.97	
5	Total remuneration of identified staff	206,632	684,040	890,672	0	610,274	277,797	1,554,684	601,476	771,245	
6	Of which: variable remuneration	0	210,419	210,419	0	64,976	20,108	196,731	52,571	87,864	
7	Of which: fixed remuneration	206,632	473,621	680,253	0	545,298	257,688	1,357,953	548,905	683,381	

The figures in the template are presented in euros.

A.17 DISCLOSURE OF ENCUMBERED AND UNENCUMBERED ASSETS

A.17.1 Template EU AE1 – Encumbered and unencumbered assets

(Article 443 of the CRR)

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the disclosing institution**	**392,004**	**213,228**			**2,382,114**	**620,507**		
030	Equity instruments	0	0	0	0	45,223	0	45,223	0
040	Debt securities	286,798	213,228	286,798	213,228	348,103	257,941	348,103	257,941
070	*of which: issued by general governments*	178,884	178,884	178,884	178,884	225,123	225,123	225,123	225,123
080	*of which: issued by financial corporations*	58,122	939	58,122	939	83,949	14,615	83,949	14,615
090	*of which: issued by non-financial corporations*	49,793	33,405	49,793	33,405	39,031	18,204	39,031	18,204
120	Other assets	105,205	0			1,988,788	362,566		

The figures in the templates of the disclosures of encumbered and unencumbered assets are presented using mean values (median). Medians are calculated as consecutive quarterly mean values over a 12-month period (2022) determined using interpolation.

Encumbered assets relate almost entirely to the raising of targeted longer-term refinancing operations (TLTROs), while a small portion covers concluded agreements for the provision of initial collateral for derivative transactions. Most encumbered assets are accounted for by debt securities and, to a smaller extent, by loans to corporates, which are disclosed under other assets in the template.

Assets and all encumbered transactions are concluded in euros.

A.17.2 Template EU AE2 – Collateral received and own debt securities issued
(Article 443 of the CRR)

SID Bank has no encumbered collateral accepted for the securing of loans granted, and as such does not disclose template EU AE2.

A.17.3 Template EU AE3 – Sources of encumbrance
(Article 443 of the CRR)

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	Carrying amount of selected financial liabilities	363.356	380.670

SID Bank discloses contracts concluded for the provision of initial collateral for derivative transactions under encumbered assets not related to any liabilities.

A.18 DISCLOSURE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS (ESG RISKS)

(Article 449(a) of the CRR)

A.18.1 Qualitative information on environmental risk

Business strategy and processes		
(a)	The institution's business strategy to integrate environmental factors and risks, taking into account the impact of environmental factors and risks on the institution's business environment, business model, strategy and financial planning.	SID Bank's development strategy for the period 2023–2025 addresses environmental and climate risks from a dual materiality perspective; through the impact of its financing on the sustainable development of the economy, and through the treatment and management of environmental and climate risks on its business operations. Environmental and climate aspects are identified at the level of the Bank's business operations, by adjusting the business model, and managing environmental and climate risks. The environmental and climate aspects of SID Bank's operations are also integrated into all its sub-strategies: the risk management strategy and policies, IT strategy, HR strategy. SID Bank's business model is generally defined by the ZSIRB, which limits SID Bank's operational framework to the segment of market gaps. The gap of financing the corporate sector's transition to more sustainable forms of business models by focusing on carbon-neutral operations was particularly highlighted. The guiding principle in terms of implementing SID Bank's mandate is to ensure that the Bank's developmental role runs parallel to its counter-cyclical role. The strategy defines environmentally sustainable financing as one of the core elements of the Bank's development role. The structure of SID Bank's business model ensures long-term sustainable operations. As part of comprehensive risk management, the strategy provides for the further building of the system for assessing and managing climate and environmental risks, both transitional and physical. At the strategy level, the embedding of climate and environmental risks into the ICAAP, and the establishing of a link between key indicators of climate and environmental risks and risk appetite has been envisaged.
(b)	Objectives, targets and limits to assess and address environmental risk in short-, medium-, and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes.	In the framework of the development strategy for the period 2023–2025, SID Bank is putting in place short-, medium- and long-term mandated objectives in the area of sustainable business operations. In the short term, it plans to upgrade methodologies and tools to accelerate activity to help companies reduce their exposure to transition risks, in the medium term to upgrade financing schemes with a "green" component of rules that promotes environmentally sustainable financing, and in the long term to include a "green" component that promotes environmentally sustainable financing in all financing schemes (new and old). The business model provides for the identification and non-financing of excluded activities. General climate risk objectives are set as part of the strategic and operational planning process. Targets are defined as indicators of success. Two indicators have been put in place to monitor environmental and climate risks: (1) as a strategic objective: the average ESG risk assessment for new loans, and (2) as a sustainability objective: reducing SID Bank's carbon footprint by 2030. Annual upgrades and an expansion of the selection of strategic and sustainable objectives relating to the environment and climate risks have been envisaged for the coming strategic operational planning cycles. In its sustainable financing policy, SID Bank has set the goal of achieving climate neutrality by 2050 inclusive. The limitations in assessing and addressing environmental and climate risks are mainly related to the poor data availability, and the lack of historical links between the transitional activities of companies, physical climate events and the financial performance of companies.

<table>
<tr><td>(c)</td><td>Current investment activities and (future) investment targets towards environmental objectives and EU Taxonomy-aligned activities.</td><td rowspan="2">In 2022, SID Bank continued to implement environmentally sustainable financing programmes, e.g. the programme for financing investment projects contributing to the transition to a circular economy and the loan programme for financing projects for comprehensive energy renovation of public buildings from the Fund of Funds. SID Bank is preparing a framework for 2023 of new environmentally sustainable financing programmes by utilising the InvestEU guarantee given by the EIF.

The issue of a green bond has also been envisaged for the provision of funding to implement these environmentally sustainable financing programmes.

SID Bank has adopted a sustainable financing policy which sets out a framework for a gradual transition to sustainable financing aligned with the objectives of the Paris Agreement, a framework for introducing other elements of ESG risk treatment at the transaction level, the definition of excluded activities (not aligned with environmental and climate targets) and activities that are considered environmentally sustainable.</td></tr>
<tr><td>(d)</td><td>Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce environmental risks.</td></tr>
</table>

	Governance	
(e)	Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of environmental risk management covering relevant transmission channels.	At SID Bank, the subjects of sustainability and climate and environmental risks are integrated into the Bank's management board and at the level of executive functions. The management board approves the development strategy, strategic policies, and the strategy of managing risks associated with policies. The management board is informed on a quarterly basis of the achievement of sustainability and environmental and climate risk targets through the quarterly strategic objective reports and the quarterly risk report. The reports are also brought to the attention of the supervisory board. SID Bank also has a sustainable development committee, which includes members from the Bank's management board and executive directors. The main responsibility of the sustainable development committee is to guide and integrate the concept of sustainable development into SID Bank's operations. The sustainable development committee is responsible for deciding on proposals regarding the following: • Incorporation of sustainable development into the Bank's strategy and general objectives; • Sustainable financing and insurance policies; • The establishing of qualitative and quantitative indicators to measure the contribution of financing and insurance to SID Bank's climate-based and environmental sustainability objectives; • Methodologies for assessing ESG factors and the associated risks at the customer or portfolio segment level; • Sustainability reporting in line with regulatory requirements, ESG standards and stakeholder expectations; • Excluded activities and activities during SID Bank's processes of financing, insurance and borrowing; • The classification of the portfolio according to critical climate-based activity in order to manage ESG risks. The sustainable development committee is also responsible for the discussion of reports in the area of sustainable financing and insurance, which relate to legal amendments and the newly drafted laws, sustainable financing and operations.
(f)	Management body's integration of short-, medium- and long-term effects of environmental factors and risks, organisational structure both within business lines and internal control functions.	
(g)	Integration of measures to manage environmental factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body covering relevant transmission channels.	
(h)	Lines of reporting and frequency of reporting relating to environmental risk.	Environmental and climate-based risk is reported in the scope of the risk report, which is submitted quarterly to the management board and the supervisory board for information purposes. For reporting ESG transition risks, SID Bank uses a methodology based on "CPRS" (Climate policy relevant sectors) activities, i.e. activities that are exposed to higher transition risk in the context of environmental risks. Exposures to CPRS activities at SID Bank are compared in regular reports to exposures to non-financial corporations at the level of EU banks and at the level of Slovenian banks.
(i)	Alignment of the remuneration policy with the institution's environmental risk-related objectives.	The implementation of the Bank's policy and practices for awarding variable remuneration is directly or indirectly linked to the achievement of the set strategic ESG and sustainability indicators, both for members of the management board (taking into account the provisions of the remuneration policy for members of the management body and the methodology for determining their variable component of remuneration) and for all other employees (taking into account the provisions of the remuneration policy and the company-level collective agreement, and the methodology for determining the variable component of remuneration and the performance-based component of remuneration set out in that scope).

	Risk management	
(j)	Integration of short-, medium- and long-term effects of environmental factors and risks in the risk management framework.	SID Bank identifies and monitors its activities and exposures that are sensitive and susceptible to environmental risks within the ESG risk mitigation framework at the RAF level as the exposure limit to the CPRS sector "fossil fuels", which provides for a dynamic annual reduction of exposure to this sector (investments that will be identified as environmentally sustainable investments will be excluded from the limit even if they are classified to the CPRS sector "fossil fuels"). For the purpose of adding burden in the scope of the ICAAP, SID Bank addressed exposures to obligors whose business activity is the sale and/or processing of fossil fuels as high-risk exposures. The Bank therefore provisionally addressed these exposures in the same way as high-risk exposures under the standardised approach.
(k)	Definitions, methodologies and international standards on which the environmental risk management framework is based.	When identifying ESG factors and their associated risks, SID Bank takes into account its strategy, mandate, sustainability commitments, environmental and climate objectives and the relevance of the factor in terms of the materialisation of risks in the future. Within the scope of ESG factors, SID Bank considers environmental factors (E) as: GHG emissions, energy efficiency, water use, wastewater management, waste management, biodiversity and healthy ecosystems, air quality, adaptation to climate change. In developing the set of ESG risk factors, SID Bank followed the SASB standards and the EBA's taxonomy of ESG factors. SID Bank has developed its own ESG risk assessment tool to identify ESG risks on a transaction-by-transaction basis.
(l)	Processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels.	SID Bank initiated several activities in 2022 to identify a broader range of ESG risks that it faces, in particular climate-related and environmental risks that derive from lending, and has taken the first steps for managing those risks, which include: • The identification of exposure to environmental climate risks at the financing level is established as part of the investment approval process, with an assessment of customers in terms of ESG factors. For firms with exposure above EUR 250 thousand, an ESG questionnaire is conducted and an ESG risk assessment prepared. The ESG questionnaire gathers information from companies on their carbon footprint, the cost of emission allowances, planned investments in energy efficiency improvements, exposure to physical climate risks and the likelihood of impact on operating revenues. • In the process of approving an investment operation, for transactions for which immovable properties are provided as collateral, information on the energy performance certificate of a building to be pledged as collateral or its energy class is obtained from the valuation report. • In order to determine the exposure to physical climate risks at the portfolio level, a model is used to assess the exposure of companies to physical climate risks according to geographical maps of the probability of a natural event.
(m)	Activities, commitments and exposures contributing to mitigate environmental risks.	SID Bank identifies and monitors its activities and exposures that are sensitive and susceptible to environmental risks within the ESG risk mitigation framework at the RAF level as the exposure limit to the CPRS sector "fossil fuels", which provides for a dynamic annual reduction of exposure to this sector (investments that will be identified as environmentally sustainable investments will be excluded from the limit even if they are classified to the CPRS sector "fossil fuels"). The improvement of the average ESG risk assessment for new loans relative to the portfolio's average ESG assessment is set as a strategic objective.

(n)	Implementation of tools for identification, measurement and management of environmental risks.	The basic tool for obtaining information about environmental factors is the ESG questionnaire that SID Bank carries out at companies with exposure of more than EUR 250 thousand. To assess the ESG risks of individual companies, an ESG risk assessment tool has been developed that translates the answers from the ESG questionnaire into an ESG risk rating. For companies where no data on exposure to physical climate risks is available, SID Bank uses a geographic and sector-based model to assess companies' exposure to chronic climate risks from the probability of a natural event.
(o)	Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile.	SID Bank initiated several activities in 2022 to identify a broader range of ESG risks that it faces, in particular climate-related and environmental risks that derive from lending, and has taken the first steps for managing those risks, which include: Inclusion in internal stress test and ICAAP: For the purpose of adding burden in the scope of the ICAAP, SID Bank addressed exposures to obligors whose business activity is the sale and/or processing of fossil fuels as high-risk exposures. The Bank therefore provisionally addressed these exposures in the same way as high-risk exposures under the standardised approach. In 2023, SID Bank will also include customers with high CO_2 emissions in the ICAAP and conduct a stress test of the sensitivity of ratings to the growth of emission allowances for customers included in the ETS (Emissions Trading System).
(p)	Data availability, quality and accuracy, and efforts to improve these aspects.	SID Bank obtains most of its data on environmental and climate factors directly from clients through the ESG questionnaire. The ESG questionnaire is updated annually, with new questions added in line with regulatory changes to reporting by non-financial corporations. The framework for the organisational structure and the positioning of corporate assessment and analysis functions in view of ESG factors is also being developed and updated.
(q)	Description of limits to environmental risks (as drivers of prudential risks) that are set, and triggering escalation and exclusion in the case of breaching these limits.	SID Bank is implementing restrictive measures at multiple levels. In the scope of the investment approval process, SID Bank assesses a company in terms of its ESG risk. The ESG risk report defines an individual risk assessment of the investment operation comparatively, relative to the portfolio's ESG risk rating.
(r)	Description of the link (transmission channels) between environmental risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework.	In 2023, the current ESG questionnaire will be upgraded (for medium-sized and large enterprises). The ESG questionnaire will also include questions to enable reporting for mandatory disclosures on climate risks under Pillar 3 of the Basel standards. The inclusion of new ESG questions will also change the methodology for calculating ESG risks and, consequently, the model-based ESG risk assessment. Based on the assessed ESG risk, SID Bank will classify customers into low, medium and high ESG risk categories. The new ESG ratings (based on the updated ESG questionnaire) are expected to be included in the risk appetite and ICAAP calculation framework in 2023. A working group will be set up to propose how to incorporate internal ESG ratings into SID Bank's credit ratings. The incorporation of ESG ratings into credit ratings is expected to take place via soft factors.

A.18.2 Qualitative information on social risk

	Business strategy and processes	
(a)	Adjustment of the institution's business strategy to integrate social factors and risks, taking into account the impact of social factors and risks on the institution's business environment, business model, strategy and financial planning.	SID Bank's business model is generally defined by the ZSIRB, which directs SID Bank's operational framework to the segment of market gaps. Gaps that relate to social aspects of operation and require special attention are gaps in the following areas of financing: • the commercial sector with a special emphasis on small and medium-sized enterprises, entrepreneurship and venture capital, primarily with the aim of financing entrepreneurial projects in all stages of development, introducing new financial security schemes, creating possibilities for the establishment of new companies, and inclusion in tasks and programmes organised by providers from the entrepreneurial, innovative and financial environments; • research, development and innovation, primarily with the aim of promoting competition and development in the framework of national research and development programmes, promoting innovation and stimulating research and development activities and knowledge-sharing, and providing different types of support for the organisers of projects that involve product development, production processes and services; • education, primarily with the aim of promoting and raising the level of education, knowledge and knowledge management, and encouraging the necessary re-qualifications and acquisition of specific knowledge; • employment, in part with the aim of providing incentives to enterprises for the employment of individuals with the specialist qualifications and skills required for growth or employee retraining; • regional development, primarily with the aim of ensuring balanced development at the national, regional and local levels, reducing gaps in economic development and other activities, where SID Bank can link up with other entities involved in and dedicated to the achievement of public objectives in the area of regional development and the development of the countryside, through the use of various combined financial engineering instruments; • housing, primarily with the aim of ensuring adequate housing capacities, and promoting the construction, renovation and maintenance of apartments and houses for certain categories of the population, together with the provision of an environment and conditions that facilitate adequate living conditions; • commercial and public infrastructures, and municipal and regional development, primarily with the aim of improving logistics, public utilities and other infrastructures. In addition, SID Bank shall provide guarantee, financial and public-private partnership schemes for the construction of those infrastructures, i.e. the rebuilding, development and renovation of cities, etc.; and • development projects implemented in developing countries. The guiding principle in terms of implementing SID Bank's mandate is to ensure that the Bank's developmental role runs parallel to its counter-cyclical role.
(b)	Objectives, targets and limits to assess and address social risk in short-term, medium-term and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes.	In support of its sustainability activities, SID Bank sets short-term social risk objectives in the context of its own operations, including objectives related to employees involved in (including mandatory) education and training, objectives related to expenditure for training and development of employees, and objectives related to gender diversity in management positions.

(c)	Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce socially harmful activities.	The identification of exposure to social risks at the financing level is established as part of the investment approval process, with an assessment of customers in terms of ESG factors. For firms with exposure above EUR 250 thousand, an ESG questionnaire is conducted and an ESG risk assessment prepared. The ESG questionnaire obtains data from companies on employee turnover, employee training, highly skilled workers, labour unrest, minimum wage, lawsuits for violations of labour rights and discrimination, sick leave and the proportion of women holding management positions.
	Governance	
(d)	Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of social risk management covering counterparties' approaches to:	At SID Bank, sustainability risk management, including social risks, is embedded in the management board and the sustainable development committee, as well as in the executive management pillar, which is responsible for the area of sustainable development. The management board adopts general strategic guidelines and policies, monitors risks and oversees the implementation of the strategy and policies. The management board is responsible for adopting and implementing the strategy and policies on social sustainability, while the sustainable development committee is responsible for deciding on proposals regarding: • Incorporation of sustainable development into the Bank's strategy and general objectives; • Sustainable financing and insurance policies; • The establishing of qualitative and quantitative indicators to measure the contribution of financing and insurance to SID Bank's climate-based and environmental sustainability objectives; • Methodologies for assessing ESG factors and the associated risks at the customer or portfolio segment level; • Sustainability reporting in line with regulatory requirements, ESG standards and stakeholder expectations; • Excluded activities and activities during SID Bank's processes of financing, insurance and borrowing; • The classification of the portfolio according to critical climate-based activity in order to manage ESG risks. The sustainable development committee is also responsible for the discussion of reports in the area of sustainable financing and insurance, which relate to legal amendments and the newly drafted laws, sustainable financing and operations. Risk management is organised by function with the responsibility to oversee risks, including social risks.
(i)	activities for the community and society;	
(ii)	employee relationships and labour standards;	
(iii)	customer protection and product responsibility;	
(iv)	human rights.	
(e)	Integration of measures to manage social factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body.	
(f)	Lines of reporting and frequency of reporting relating to social risk.	The report on the achievement of strategic objectives that includes the achievement of social sustainability objectives is submitted to the management body and supervisory body on a quarterly basis.

(g)	Alignment of the remuneration policy in line with the institution's social risk-related objectives.	The implementation of the Bank's policy and practices for awarding variable remuneration is directly or indirectly linked to the achievement of the set strategic ESG and social sustainability indicators, both for members of the management board (taking into account the provisions of the remuneration policy for members of the management body and the methodology for determining their variable component of remuneration) and for all other employees (taking into account the provisions of the remuneration policy and the company-level collective agreement, and the methodology for determining the variable component of remuneration and the performance-based component of remuneration set out in that scope).
	Risk management	
(h)	Definitions, methodologies and international standards on which the social risk management framework is based.	When identifying ESG factors and their associated risks, SID Bank takes into account its strategy, mandate, sustainability commitments, and the relevance of the factor in terms of the materialisation of risks in the future. SID Bank interprets social (S) factors within the scope of the ESG factors as: – community relationships and accessibility, employee relationships (internships, the health and safety of employees, engagement and performance of employees), customer relationships (client privacy, data protection, customer welfare), product quality and safety; In developing the set of ESG risk factors, SID Bank followed the SASB standards and the EBA's taxonomy of ESG factors. SID Bank has developed its own ESG risk assessment tool to identify ESG risks on a transaction-by-transaction basis.
(i)	Processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to social risk, covering relevant transmission channels.	SID Bank initiated several activities in 2022 to identify a broader range of ESG risks that it faces, including social risks that derive from lending, and has taken the first steps for managing those risks, which include: The identification of exposure to social risks at the financing level is established as part of the investment approval process, with an assessment of customers in terms of ESG factors. For firms with exposure above EUR 250 thousand, an ESG questionnaire is conducted and an ESG risk assessment prepared. The ESG questionnaire obtains data from companies in terms of social factors regarding employee turnover, employee training, highly skilled workers, labour unrest, minimum wage, lawsuits for violations of labour rights and discrimination, sick leave and the proportion of women holding management positions.
(j)	Activities, commitments and assets contributing to mitigate social risk.	SID Bank is a signatory to the commitment to respect human rights in business (in the course of operations). The commitment is based on generally accepted international human rights guidelines, which are regulated at the national level by the National Action Plan of the Republic of Slovenia for Respect for Human Rights in Business. By signing this instrument, SID Bank as a company has committed itself to comply with measures related to respect for human rights throughout the entire business process and to avoid and prevent potential negative impacts.

(k)	Implementation of tools for identification and management of social risk.	The Bank uses the ESG questionnaire including the ESG risk assessment as a tool to identify social risks at the counterparty level.
(l)	Description of setting limits to social risk and cases to trigger escalation and exclusion in the case of breaching these limits.	
(m)	Description of the link (transmission channels) between social risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework.	

A.18.3 Qualitative information on governance risk

	Governance	
(a)	Institution's integration of the governance performance of the counterparty in the governance arrangements, including committees of the highest governance body, committees responsible for decision-making on economic, environmental, and social topics.	In relation to counterparties, SID Bank assesses the management of counterparties as part of its due diligence and as part of its ESG risk assessment, and the assessment of counterparty management is carried out as part of the preparation of credit ratings. The ESG risk assessment includes an assessment of the effectiveness of governance factors, including commitments to sustainability, circularity of business models for managerial staff expertise, disclosures. In the context of credit ratings, governance aspects and the quality of the management body are integrated into the rating system through the 'soft factors' questionnaire.
(b)	Institution's accounting of the counterparty's highest governance body's role in non-financial reporting.	In 2022, SID Bank commenced a number of activities to identify a broader range of the ESG risks it faces, including governance aspects and the quality of counterparty information. The identified role of the senior management of the counterparty is verified by assessing the experience and professional competence of the management structure and the quality and transparency of the information provided by the counterparty, and via the publication of a sustainability report. The verification is included in the ESG questionnaire under the assessment of a company's governance, environmental and social factors.

(c)	Institution's integration of the governance performance of their counterparties in governance arrangements including:	SID Bank assesses the overall performance of counterparties as part of the ESG questionnaire and credit rating requirements. The analysis of the ESG report is part of the credit proposal, which is also considered by the credit committee, which is informed of the results of the governance assessment and the overall ESG risk assessment. SID Bank understands ESG factors under the governance factors (G) aspect to include governance and management (business ethics, systemic risks, competitive behaviour, risk management, business model and innovation); adaptation of the business model to the circular economy, supply chain management.
(i)	ethical considerations;	
(ii)	strategy and risk management;	
(iii)	inclusiveness;	
(iv)	transparency;	
(v)	management of conflict of interest;	
(vi)	internal communication on critical concerns.	
	Risk management	
(d)	Institution's integration of the governance performance of their counterparties in risk management arrangements considering:	
(i)	ethical considerations;	
(ii)	strategy and risk management;	
(iii)	inclusiveness;	
(iv)	transparency;	
(v)	management of conflict of interest;	
(vi)	internal communication on critical concerns.	

A.18.4 Template 1 - Banking book - Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity

		a	b	d	e	f	g	h	l	m	n	o	p
	Sector/subsector	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			Of which exposures towards companies excluded from EU Paris-aligned Benchmarks*	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
1	**Exposures towards sectors that highly contribute to climate change**	**1,191,241**	**149,361**	**114,924**	**38,196**	**(39,914)**	**(5,789)**	**(27,922)**	**238,041**	**619,390**	**293,424**	**40,385**	**8.12**
3	B - Mining and quarrying	6,491	0	0	0	(19)	0	0	3,357	3,133	0	0	5.36
6	*B.07 - Mining of metal ores*	2,335	0	0	0	(3)	0	0	2,335	0	0	0	2.66
7	*B.08 - Other mining and quarrying*	4,156	0	0	0	(16)	0	0	1,023	3,133	0	0	6.88
9	C - Manufacturing	449,761	0	47,322	18,191	(22,769)	(4,594)	(15,619)	104,240	223,399	122,122	0	7.59
10	*C.10 - Manufacture of food products*	15,364	0	4,329	185	(503)	(217)	(185)	6,022	7,841	1,500	0	6.03
11	*C.11 - Manufacture of beverages*	2,992	0	0	0	(2)	0	0	2,992	0	0	0	3.25
13	*C.13 - Manufacture of textiles*	5,436	0	0	0	(35)	0	0	693	4,743	0	0	7.05
14	C.14 - Manufacture of wearing apparel	207	0	0	0	(2)	0	0	207	0	0	0	4.40
15	*C.15 - Manufacture of leather and related products*	10	0	10	0	(0)	(0)	0	10	0	0	0	0.17
16	*C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	20,118	0	1,972	1,124	(1,436)	(303)	(970)	2,988	11,480	5,649	0	8.28
17	*C.17 - Manufacture of pulp, paper and paperboard*	14,245	0	4,505	5,255	(5,870)	(585)	(5,255)	6,156	7,488	602	0	5.81
18	*C.18 - Printing and service activities related to printing*	10,191	0	228	361	(370)	(15)	(317)	3,355	6,836	0	0	6.25
20	*C.20 - Production of chemicals*	7,949	0	0	0	(40)	0	0	1,630	6,318	0	0	7.55
21	*C.21 - Manufacture of pharmaceutical preparations*	8,617	0	0	0	(4)	0	0	8,617	0	0	0	1.54
22	*C.22 - Manufacture of rubber products*	55,993	0	5,875	0	(1,272)	(928)	0	6,152	26,956	22,884	0	8.61
23	*C.23 - Manufacture of other non-metallic mineral products*	84	0	84	0	(1)	(1)	0	84	0	0	0	0.04
24	*C.24 - Manufacture of basic metals*	33,936	0	6,814	1,315	(1,645)	(303)	(1,127)	8,614	18,361	6,960	0	7.05
25	*C.25 – Manufacture of fabricated metal products, except machinery and equipment*	94,236	0	4,869	769	(1,532)	(300)	(695)	12,355	52,326	29,555	0	8.14

		a	b	d	e	f	g	h	l	m	n	o	p
	Sector/subsector	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			Of which exposures towards companies excluded from EU Paris-aligned Benchmarks*	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
26	*C.26 - Manufacture of computer, electronic and optical products*	16,382	0	1,180	0	(151)	(79)	0	1,525	14,857	0	0	7.17
27	*C.27 - Manufacture of electrical equipment*	46,702	0	4,990	901	(1,294)	(839)	(153)	23,962	22,741	0	0	5.27
28	*C.28 - Manufacture of machinery and equipment*	17,162	0	1,629	1,641	(1,566)	(185)	(1,296)	5,294	9,562	2,306	0	6.90
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	50,302	0	6,316	917	(1,523)	(268)	(807)	1,200	9,173	39,928	0	10.79
30	*C.30 - Manufacture of other transport equipment*	8,758	0	0	607	(613)	0	(607)	607	0	8,151	0	9.68
31	*C.31 - Manufacture of furniture*	9,623	0	0	2,121	(2,183)	0	(2,098)	2,045	2,992	4,586	0	9.20
32	*C.32 - Other manufacturing*	29,797	0	4,202	2,599	(2,663)	(526)	(2,096)	8,842	20,955	0	0	6.60
33	*C.33 - Repair and installation of machinery and equipment*	1,661	0	320	397	(64)	(46)	(14)	892	769	0	0	4.47
34	D - Electricity, gas, steam and air conditioning supply	224,676	107,142	120	0	(1,267)	(19)	0	64,828	108,213	16,687	34,948	8.15
35	*D35.1 - Electric power generation, transmission and distribution*	204,505	107,142	0	0	(1,163)	0	0	64,828	88,646	16,083	34,948	8.13
36	*D35.11 - Production of electricity*	12,175	0	0	0	(16)	0	0	809	11,366	0	0	6.03
38	*D35.3 - Steam and air conditioning supply*	20,171	0	120	0	(104)	(19)	0	0	19,566	604	0	8.33
39	E - Water supply; sewerage, waste management and remediation activities	13,317	0	11,158	0	(112)	(105)	0	256	13,061	0	0	6.05
40	F - Construction	24,889	0	8,100	1,036	(1,647)	(615)	(924)	6,110	18,628	151	0	6.70
41	*F.41 - Construction of buildings*	6,598	0	401	614	(716)	(65)	(614)	2,613	3,985	0	0	6.56
42	*F.42 - Civil engineering*	7,748	0	5,601	281	(611)	(424)	(169)	2,209	5,539	0	0	6.34
43	*F.43 - Specialised construction activities*	10,542	0	2,098	141	(321)	(126)	(141)	1,288	9,103	151	0	7.04
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	189,667	42,202	7,860	7,794	(6,155)	(697)	(4,466)	46,178	117,790	25,698	0	6.60
45	H - Transportation and storage	150,510	17	12,439	1,238	2,395	3,882	(902)	7,825	75,668	67,017	0	9.76
46	*H.49 - Land transport and transport via pipelines*	65,231	17	2,128	851	(1,371)	(316)	(626)	4,916	52,507	7,808	0	7.82

		a	b	d	e	f	g	h	l	m	n	o	p
	Sector/subsector	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			Of which exposures towards companies excluded from EU Paris-aligned Benchmarks*	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
48	*H.51 - Air transport*	501	0	0	0	(1)	0	0	0	501	0	0	7.95
49	*H.52 - Warehousing and support activities for transportation*	84,750	0	10,311	359	3,796	4,198	(247)	2,880	22,660	59,210	0	11.26
50	*H.53 - Postal and courier activities*	29	0	0	29	(29)	0	(29)	29	0	0	0	0.00
51	I - Accommodation and food service activities	127,724	0	27,925	9,937	(10,325)	(3,642)	(6,011)	5,247	59,074	61,249	2,154	10.44
52	L - Real estate activities	4,206	0	0	0	(15)	0	0	0	424	499	3,283	20.71
53	**Exposures towards sectors other than those that highly contribute to climate change**	**107,198**	**0**	**9,076**	**17,136**	**(5,427)**	**(724)**	**(3,811)**	**51,013**	**44,311**	**11,874**	**0**	**5.76**
55	Exposures to other sectors (NACE codes J, M - U)	107,198	0	9,076	17,136	(5,427)	(724)	(3,811)	51,013	44,311	11,874	0	5.76
56	**TOTAL**	**1,298,439**	**149,361**	**124,001**	**55,332**	**(45,341)**	**(6,513)**	**(31,733)**	**289,055**	**663,701**	**305,298**	**40,385**	**7.93**

** In accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Regulation (EU) 2020/1818*

SID Bank used the information obtained from ESG questionnaires to identify counterparties that have been excluded from EU's benchmarks. The ESG questionnaire included questions addressing the counterparty's revenues from the discovery, mining, extraction and distribution of coal, petroleum fuels, gaseous fuels and the counterparty's revenues from the production of electricity with a greenhouse gas intensity above 100 g CO_2 e/kWh. The questionnaire (done in December 2022) included large enterprises, entities obligated to disclose information under the NFRD and listed companies. The exposure of companies for which exclusions/compliances with the Paris Agreement benchmarks have been identified represents 48.9% of the gross exposure reported in Template 1. For the uncovered portion of the portfolio, due to lack of data (in particular, this concerns companies not obligated to report under the NFRD and unlisted companies), no assessment of the non-compliance of the exposure with the objectives of the Paris Agreement has been carried out.

An expansion of the ESG questionnaire is planned for 2023, which also includes questions on exclusion from the Paris Agreement benchmarks, even to SMEs or all companies with exposure of more than EUR 250 thousand.

SID Bank also obtains information from the ESG questionnaire on the scope of emissions 1, 2 and 3 from a company for the current and over the past two years. The questionnaire will be carried out in 2023 for all companies with exposure of more than EUR 250 thousand.

A.18.5 Template 2 – Banking book – Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	Counterparty sector	Total gross carrying amount															
			Level of energy efficiency (EP score in kWh/m² of collateral)						Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
			0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated
1	Total EU area	522,300	21,101	23,181	17,734	5,139	388	9,111	3,348	1,019	5,521	37,483	2,590	217	2,705	469,416	0
2	Of which Loans collateralised by commercial immovable property	505,197	19,381	21,347	17,090	4,825	196	8,990	2,733	627	4,393	35,576	2,110	122	2,680	456,956	0
3	Of which Loans collateralised by residential immovable property	17,103	1,720	1,835	644	314	192	120	615	391	1,128	1,907	481	95	25	12,460	0
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	0	0	0	0	0	0	0								0	0

SID Bank has no loans collateralised by mortgages on real estate in non-EU area.

SID Bank assesses the level of energy efficiency of buildings pledged as collateral on the basis of information on a building's energy efficiency in the issued energy performance certificates. For immovable properties provided as collateral with no energy performance certificate, SID Bank does not carry out assessments of collateral in terms of energy efficiency.

For all new transactions in the future where the property provided as collateral does not have an energy performance certificate, an energy performance assessment will be carried out by a valuer. The energy performance assessment of a building becomes an integral part of the valuation report as of 2022. From January 2022 onwards, property valuers can assess the energy performance of a building in a valuation report (by entering the year of construction, information on previous renovations and energy use), based on a standardised methodology.

A.18.6 Template 4 - Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms

In order to identify the top 20 global carbon-intensive firms, SID Bank used a list that is published on the website https://climateaccountability.org/carbon-majors-dataset-2020/.

SID Bank has no exposure to any firm included on this list, and thus is not required to disclose Template 4.

A.18.7 Template 5 - Banking book - Climate change physical risk: Exposures subject to physical risk

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
			Gross carrying amount												
			of which exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
1	A - Agriculture, forestry and fishing	0	0	0	0	0	0,00	0	0	0	0	0	0	0	0
2	B - Mining and quarrying	6,491	0	0	0	0	0,00	0	0	0	0	0	0	0	0
3	C - Manufacturing	449,761	1,384	27,313	0	0	7,00	0	28,698	0	3,005	0	(508)	(411)	0
4	D - Electricity, gas, steam and air conditioning supply	224,676	43,099	97,259	0	0	4,64	0	140,358	0	0	0	(1,007)	0	0
5	E - Water supply; sewerage, waste management and remediation activities	13,317	0	0	0	0	0,00	0	0	0	0	0	0	0	0
6	F - Construction	24,889	3,407	8,929	149	0	6,69	12,485	0	0	4,329	141	(534)	(324)	(141)
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	189,667	0	9,942	4,509	0	8,01	601	14,451	601	0	0	(54)	0	0
8	H - Transportation and storage	150,510	2,489	40,570	5,011	0	7,74	19,193	43,059	14,182	0	0	(94)	0	0
9	L - Real estate activities	4,206	0	424	0	3,283	20,88	3,707	0	0	0	0	(14)	0	0
10	Loans collateralised by residential immovable property	24,621	664	2,106	0	0	6,85	2,742	29	0	1,003	29	(85)	(53)	7
11	Loans collateralised by commercial immovable property	504,775	6,351	82,504	45,261	2,154	9,81	67,284	84,094	15,108	12,762	8,560	(6,989)	(1,358)	(5,107)
12	Repossessed collaterals	0	0	0	0	0	0,00	0	0	0	0	0	0	0	0
13	Other relevant sectors (breakdown below where relevant)	176,538	7,283	47,727	38,312	2,154	10,02	61,029	52,125	17,679	7,126	8,560	(6,235)	(749)	(5,107)
14	*I - Accommodation and food service activities*	127,724	3,776	47,727	38,312	2,154	10,25	61,029	48,618	17,679	7,126	8,560	(6,210)	(749)	(5,107)
15	*M - Professional, scientific and technical activities*	48,814	3,506	0	0	0	4,17	0	3,506	0	0	0	(25)	0	0

SID Bank uses two exposure assessment approaches to identify exposures to physical climate risks.

The information obtained on counterparties' exposure to physical events that may have a material impact on the counterparty's income shall be used to assess the exposure to acute and chronic risks. SID Bank obtains information on its exposure to the acute effects of natural events from the ESG questionnaire. The ESG questionnaire (done in December 2022) included large enterprises, in particular entities obligated to disclose information under the NFRD and listed companies. The ESG questionnaire's identification of companies' exposure to acute physical climate risks covered 48.9% of the gross exposure reported in Template 5.

A model was developed at SID Bank for the uncovered portion of the portfolio due to lack of data (in particular, this concerns companies not subject to the NFRD and unlisted companies) in order to assess the exposure to chronic physical climate risks. The model is based on the probability of occurrence of each major natural event by NUTS 2 region for Slovenia, and on the materiality of each event for each reporting sector from Template 5. The source of data on the probability of a particular climate event is the Global Facility for Disaster Reduction and Recovery (GFDRR), the Think-hazard climate database for Slovenia.

Looking ahead, there is a plan to audit and verify the model for assessing exposure to chronic physical climate risks, and to adapt input data on the probability of the occurrence of each climate-related natural event to the data sources of the Slovenian Environment Agency's climate projections.

A.18.8 Template 10 - Other climate change mitigating actions that are not covered in Regulation (EU) 2020/852

	a	b	c	d	e
	Type of financial instrument	Type of counterparty	Gross carrying amount	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Climate change physical risk)
1	Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	2,434	YES	NO
2		Non-financial corporations	25,642	YES	NO
4		Other counterparties	37,932	YES	NO
6	Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Non-financial corporations	19,485	YES	NO
7		Of which Loans collateralised by commercial immovable property	12,455	YES	NO
11		Other counterparties	42,097	YES	NO

Qualitative information on the nature of the mitigating actions

SID Bank financed the implementation of measures via the green bond source of financing: renewable sources of energy, energy efficiency, prevention of pollution, sustainable management of living and natural resources, ensuring aquatic and terrestrial biodiversity, clean transport, sustainable management of water sources, adaptation to climate changes, environmentally efficient products, technologies and processes. All the financed measures and investments contribute to the objective of mitigating climate changes. However, the implemented measures and investments that were financed via the green bond source of financing and other green loans do not comply with the requirements under Article 11 of Regulation (EU) 2020/852, as SID Bank's green bond was issued under the requirements for compliance with the "Green Bond Principle", so at a time when Regulation (EU) 2020/852 and the EU taxonomy for determining environmentally sustainable financing of activities under pre-defined assessment criteria had yet to take effect.

A.19 OBLIGATION TO REPORT DISCLOSURES IN ACCORDANCE WITH THE CRR

Article	Name of article	Section of annual report	Chapter	Page
435				
	1(a) strategies and processes to manage those categories of risks	BUS FIN	Risk management 3	58-67 147-148
	1(b) the structure and organisation of the relevant risk management function, including information on the basis for its authority, its powers and accountability in accordance with the institution's incorporation and governing documents	BUS	Risk management	58-62
	1(c) the scope and nature of risk reporting and measurement systems	BUS FIN FIN FIN FIN FIN FIN FIN	Risk management 3 3.1 3.2 3.3 3.4 3.5 3.6	58-67 147-148 148-169 169-172 173-177 177-178 178-180 180-183
	1(d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants Disclosure of risk management objectives and policies	FIN FIN	2.3.9 3.3	116-117 173-177
	1(e) a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy	BUS	Statement of the management body on the appropriateness of the risk management framework	94
	1(f) a concise risk statement approved by the management body succinctly describing the relevant institution's overall risk profile associated with the business strategy	FIN	4	186-188
	2(a) the number of directorships held by members of the management body	APP	A.3.1	197

Article	Name of article	Section of annual report	Chapter	Page
	2(b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	BUS	Corporate governance statement	78-93
	2(c) the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	BUS	Corporate governance statement	78-93
	2(d) whether or not the institution has set up a separate risk committee and the number of times the risk committee has met	BUS	Corporate governance statement	78-93
	2(e) the description of the information flow on risk to the management body	BUS APP	Risk management 3	58-67 148
436	**Disclosure of the scope of application**			
	(a) the name of the institution to which this Regulation applies	FIN	2.3.3	110
	(b) a reconciliation between the consolidated financial statements prepared in accordance with the applicable accounting framework and the consolidated financial statements prepared in accordance with the requirements on regulatory consolidation pursuant to Sections 2 and 3 of Title II of Part One; that reconciliation shall outline the differences between the accounting and regulatory scopes of consolidation and the legal entities included within the regulatory scope of consolidation where it differs from the accounting scope of consolidation; the outline of the legal entities included within the regulatory scope of consolidation shall describe the method of regulatory consolidation where it is different from the accounting consolidation method, whether those entities are fully or proportionally consolidated and whether the holdings in those legal entities are deducted from own funds	APP	A.4.1	198
	(c) a breakdown of assets and liabilities of the consolidated financial statements prepared in accordance with the requirements on regulatory consolidation pursuant to Sections 2 and 3 of Title II of Part One, broken down by type of risks as referred to under this Part	APP	A.4.1	198
	(d) a reconciliation identifying the main sources of differences between the carrying value amounts in the financial statements under the regulatory scope of consolidation as defined in Sections 2 and 3 of Title II of Part One, and the exposure amount used for regulatory purposes; that reconciliation shall be supplemented by qualitative information on those main sources of differences	APP	A.4.2	199

Article	Name of article	Section of annual report	Chapter	Page
	(e) for exposures from the trading book and the non-trading book that are adjusted in accordance with Article 34 and Article 105, a breakdown of the amounts of the constituent elements of an institution's prudent valuation adjustment, by type of risks, and the total of constituent elements separately for the trading book and non-trading book positions	N/A		
	(f) any current or expected material practical or legal impediment to the prompt transfer of own funds or to the repayment of liabilities between the parent undertaking and its subsidiaries	N/A		
	(g) the aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation, and the name or names of those subsidiaries	N/A		
	(h) where applicable, the circumstances under which use is made of the derogation referred to in Article 7 or the individual consolidation method laid down in Article 9 of the CRR	N/A		
437	**Disclosure of own funds**			
	(a) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and the filters and deductions applied to own funds of the institution pursuant to Articles 32 to 36, 56, 66 and 79 with the balance sheet in the audited financial statements of the institution	FIN APP APP	3.6 A.5.1 A.5.2	181 200-201 202
	(b) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution	APP	A.5.3	203
	(c) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	APP	A.5.3	203
	(d) a separate disclosure of the nature and amounts of the following:	APP	A.5.1	200-201
	(i) each prudential filter applied pursuant to Articles 32 to 35			
	(ii) items deducted pursuant to Articles 36, 56 and 66			
	(iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79			

Article	Name of article	Section of annual report	Chapter	Page
	(e) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply	APP	A.5.3	203
	(f) a comprehensive explanation of the basis on which capital ratios are calculated where those capital ratios are calculated by using elements of own funds determined on a basis other than the basis laid down in this Regulation	N/A		
437(a)	**Disclosure of own funds and eligible liabilities**	N/A		
438	**Disclosure of own funds requirements and risk-weighted exposure amounts**			
	(a) a summary of their approach to assessing the adequacy of its internal capital to support current and future activities	BUS FIN	Risk management 3.6	62-63 182
	(b) the amount of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU and its composition in terms of Common Equity Tier 1, additional Tier 1 and Tier 2 instruments	APP	A.2.1	195-196
	(c) upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process	N/A		
	(d) the total risk-weighted exposure amount and the corresponding total own funds requirement determined in accordance with Article 92, to be broken down by the different risk categories set out in Part Three and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds	APP	A.2.2	197
	(e) the on- and off-balance-sheet exposures, the risk-weighted exposure amounts and associated expected losses for each category of specialised lending referred to in Table 1 of Article 153(5) and the on- and off-balance sheet exposures and risk-weighted exposure amounts for the categories of equity exposures set out in Article 155(2)	N/A		
	(f) the exposure value and the risk-weighted exposure amount of own funds instruments held in any insurance undertaking, reinsurance undertaking or insurance holding company that the institutions do not deduct from their own funds in accordance with Article 49 when calculating their capital requirements on an individual, sub-consolidated and consolidated basis	N/A		

Article	Name of article	Section of annual report	Chapter	Page
	(g) the supplementary own funds requirement and the capital adequacy ratio of the financial conglomerate calculated in accordance with Article 6 of Directive 2002/87/EC and Annex I to that Directive where method 1 or 2 set out in that Annex is applied	N/A		
	(h) the variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure period that result from the use of internal models, including an outline of the key drivers explaining those variations	N/A		
439	**Disclosure of exposures to counterparty credit risk**			
	(a) a description of the methodology used to assign internal capital and credit limits for counterparty credit exposures, including the methods to assign those limits to exposures to central counterparties	FIN FIN	3.1 3.6	151,169 182
	(b) a description of policies related to guarantees and other credit risk mitigants, such as the policies for securing collateral and establishing credit reserves	FIN	3.1	169
	(c) a description of policies with respect to General Wrong-Way risk and Specific Wrong-Way risk as defined in Article 291	N/A		
	(d) the amount of collateral the institution would have to provide if its credit rating was downgraded	FIN	3.1	169
	(e) the amount of segregated and unsegregated collateral received and posted per type of collateral, further broken down between collateral used for derivatives and securities financing transactions	APP	A.12.4	223
	(f) for derivative transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Sections 3 to 6 of Chapter 6 of Title II of Part Three, whichever method is applicable, and the associated risk exposure amounts broken down by applicable method	APP	A.12.1	222
	(g) for securities financing transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Chapters 4 and 6 of Title II of Part Three, whichever method is used, and the associated risk exposure amounts broken down by applicable method	APP	A.12.1	222
	(h) the exposure values after credit risk mitigation effects and the associated risk exposures for credit valuation adjustment capital charge, separately for each method as set out in Title VI of Part Three	APP	A.12.2	222

Article	Name of article	Section of annual report	Chapter	Page
	(i) the exposure value to central counterparties and the associated risk exposures within the scope of Section 9 of Chapter 6 of Title II of Part Three, separately for qualifying and non-qualifying central counterparties, and broken down by types of exposures	N/A		
	(j) the notional amounts and fair value of credit derivative transactions; credit derivative transactions shall be broken down by product type; within each product type, credit derivative transactions shall be broken down further by credit protection bought and credit protection sold	N/A		
	(k) the estimate of alpha where the institution has received the permission of the competent authorities to use its own estimate of alpha in accordance with Article 284(9)	N/A		
	(l) separately, the disclosures included in point (e) of Article 444 and point (g) of Article 452	APP	A.12.3	223
	(m) for institutions using the methods set out in Sections 4 to 5 of Chapter 6 of Title II Part Three, the size of their on- and off-balance-sheet derivative business as calculated in accordance with Article 273a(1) or (2), as applicable	N/A		
440	**Disclosure of countercyclical capital buffers**			
	(a) the geographical distribution of the exposure amounts and risk-weighted exposure amounts of its credit exposures used as a basis for the calculation of their countercyclical capital buffer	APP	A.6.1	204
	(b) the amount of its institution-specific countercyclical capital buffer	APP	A.6.2	205
441	**Disclosure of indicators of global systemic importance**	N/A		
442	**Disclosure of exposure to credit risk and dilution risk**			
	(a) the scope and definitions that they use for accounting purposes of 'past due' and 'impaired' and the differences, if any, between the definitions of 'past due' and 'default' for accounting and regulatory purposes	FIN FIN	2.3.8 3.1	114 156
	(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments	FIN FIN	2.3.8 3.1	113-115 150

Article	Name of article	Section of annual report	Chapter	Page
	(c) information on the amount and quality of performing, non-performing and forborne exposures for loans, debt securities and off-balance-sheet exposures, including their related accumulated impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received	APP APP APP APP APP	A.9.1 A.9.4 A.9.5 A.9.6 A.9.7	213-214 215 216 217 218
	(d) an ageing analysis of accounting past due exposures	APP	A.9.5	216
	(e) the gross carrying amounts of both defaulted and non-defaulted exposures, the accumulated specific and general credit risk adjustments, the accumulated write-offs taken against those exposures and the net carrying amounts and their distribution by geographical area and industry type and for loans, debt securities and off- balance-sheet exposures	APP APP	A.9.6 A.9.7	217 218
	(f) any changes in the gross amount of defaulted on- and off-balance-sheet exposures, including, as a minimum, information on the opening and closing balances of those exposures, the gross amount of any of those exposures reverted to non-defaulted status or subject to a write-off	APP APP	A.9.1 A.9.3	213-214 214
	(g) the breakdown of loans and debt securities by residual maturity	APP	A.9.2	214
443	**Disclosure of encumbered and unencumbered assets**	APP APP APP	A.17.1 A.17.2 A.17.3	232 233 233
444	**Disclosure of the use of the Standardised Approach**			
	(a) the names of the nominated ECAIs and ECAs and the reasons for any changes in those nominations over the disclosure period	FIN	3.6	180
	(b) the exposure classes for which each ECAI or ECA is used	FIN	3.6	180
	(c) a description of the process used to transfer the issuer and issue credit ratings onto items not included in the trading book	FIN	3.6	180
	(d) the association of the external rating of each nominated ECAI or ECA with the risk weights that correspond to the credit quality steps as set out in Chapter 2 of Title II of Part Three, taking into account that it is not necessary to disclose that information where the institutions comply with the standard association published by EBA	N/A		

Article	Name of article	Section of annual report	Chapter	Page
	(e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step as set out in Chapter 2 of Title II of Part Three, by exposure class, as well as the exposure values deducted from own funds	APP APP	A.11.1 A.11.2	220 221
445	**Disclosure of exposure to market risk**	FIN APP	3.4 A.13	177-178 223
446	**Disclosure of operational risk management**			
	(a) the approaches for the assessment of own funds requirements for operation risk that the institution qualifies for	FIN APP	3.5 A.15.1	178-180 224
	(b) where the institution makes use of it, a description of the methodology set out in Article 312(2), which shall include a discussion of the relevant internal and external factors being considered in the institution's advanced measurement approach	N/A		
	(c) in the case of partial use, the scope and coverage of the different methodologies used	N/A		
447	**Disclosure of key metrics**			
	(a) the composition of their own funds and their own funds requirements as calculated in accordance with Article 92	APP	A.2.1	195-196
	(b) the total risk exposure amount as calculated in accordance with Article 92(3)	APP	A.2.1	195-196
	(c) where applicable, the amount and composition of additional own funds which the institutions are required to hold in accordance with point (a) of Article 104(1) of Directive 2013/36/EU	APP	A.2.1	195-196
	(d) their combined buffer requirement which the institutions are required to hold in accordance with Chapter 4 of Title VII of Directive 2013/36/EU	APP	A.2.1	195-196
	(e) their leverage ratio and the total exposure measure as calculated in accordance with Article 429	APP	A.2.1	195-196

Article	Name of article	Section of annual report	Chapter	Page
	(f) the following information in relation to their liquidity coverage ratio as calculated in accordance with the delegated act referred to in Article 460(1):	APP	A.2.1	195-196
	(i) the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period	APP	A.2.1	195-196
	(ii) the average or averages, as applicable, of total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period	APP	A.2.1	195-196
	(iii) the averages of their liquidity outflows, inflows and net liquidity outflows as calculated pursuant to the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period	APP	A.2.1	195-196
	(g) the following information in relation to their net stable funding requirement as calculated in accordance with Title IV of Part 6:	APP	A.2.1	195-196
	(i) the net stable funding ratio at the end of each quarter of the relevant disclosure period	APP	A.2.1	195-196
	(ii) the available stable funding at the end of each quarter of the relevant disclosure period	APP	A.2.1	195-196
	(iii) the required stable funding at the end of each quarter of the relevant disclosure period	APP	A.2.1	195-196
	(h) their own funds and eligible liabilities ratios and their components, numerator and denominator, as calculated in accordance with Articles 92a and 92b and broken down at the level of each resolution group, where applicable	N/A		
448	**Disclosure of exposures to interest rate risk on positions not held in the trading book**			
	(a) the changes in the economic value of equity calculated under the six supervisory shock scenarios referred to in Article 98(5) of Directive 2013/36/EU for the current and previous disclosure periods	FIN APP	3.3 A.13.1	173-177 223
	(b) the changes in the net interest income calculated under the two supervisory shock scenarios referred to in Article 98(5) of Directive 2013/36/EU for the current and previous disclosure periods	FIN APP	3.3 A.13.1	173-177 223

Article	Name of article	Section of annual report	Chapter	Page
	(c) a description of key modelling and parametric assumptions, other than those referred to in points (b) and (c) of Article 98(5a) of Directive 2013/36/EU used to calculate changes in the economic value of equity and in the net interest income required under points (a) and (b) of this paragraph	FIN	3.3	173-177
	(d) an explanation of the significance of the risk measures disclosed under points (a) and (b) of this paragraph and of any significant variations of those risk measures since the previous disclosure reference date	FIN	3.3	173-177
	(e) the description of how institutions define, measure, mitigate and control the interest rate risk of their non-trading book activities for the purposes of the competent authorities' review in accordance with Article 84 of Directive 2013/36/EU, including:	FIN	3.3	173-177
	(i) a description of the specific risk measures that the institutions use to evaluate changes in their economic value of equity and in their net interest income			
	(ii) a description of the key modelling and parametric assumptions used in the institutions' internal measurement systems that would differ from the common modelling and parametric assumptions referred to in Article 98(5a) of Directive 2013/36/EU for the purpose of calculating changes to the economic value of equity and to the net interest income, including the rationale for those differences			
	(iii) a description of the interest rate shock scenarios that institutions use to estimate the interest rate risk			
	(iv) the recognition of the effect of hedges against those interest rate risks, including internal hedges that meet the requirements laid down in Article 106(3)			
	(v) an outline of how often the evaluation of the interest rate risk occurs			
	(f) the description of the overall risk management and mitigation strategies for those risks	FIN	3.3	173-177
	(g) average and longest repricing maturity assigned to non-maturity deposits	FIN	3.3	173-177
449	**Disclosure of exposures to securitisation positions**	N/A		

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449(a)	**Disclosure of environmental, social and governance risks (ESG risks)**	APP	A.18	234-249
450	**Disclosure of remuneration policy**			
	For those categories of staff whose professional activities have a material impact on the risk profile of the institutions:			
	(a) information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, where applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders	APP	A.16	224-228
	(b) information about the link between pay of the staff and their performance	APP	A.16	224-228
	(c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria	APP	A.16	224-228
	(d) the ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) of Directive 2013/36/EU	APP	A.16	224-228
	(e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	APP	A.16	224-228
	(f) the main parameters and rationale for any variable component scheme and any other non-cash benefits	APP	A.16	224-228
	(g) aggregate quantitative information on remuneration, broken down by business area	APP	A.16.5	231
	(h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose professional activities have a material impact on the risk profile of the institution, indicating the following:			
	(i) the amounts of remuneration awarded for the financial year, split into fixed remuneration including a description of the fixed components, and variable remuneration, and the number of beneficiaries	APP	A.16.1	229

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	(ii) the amounts and forms of awarded variable remuneration, split into cash, shares, share-linked instruments and other types separately for the part paid upfront and the deferred part	APP	A.16.1	229
	(iii) the amounts of deferred remuneration awarded for previous performance periods, split into the amount due to vest in the financial year and the amount due to vest in subsequent years	APP	A.16.3	230
	(iv) the amount of deferred remuneration due to vest in the financial year that is paid out during the financial year, and that is reduced through performance adjustments	APP	A.16.3	230
	(v) the guaranteed variable remuneration awards during the financial year, and the number of beneficiaries of those awards	APP	A.16.2	229
	(vi) the severance payments awarded in previous periods, that have been paid out during the financial year	APP	A.16.2	229
	(vii) the amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and highest payment that has been awarded to a single person	APP	A.16.2	229
	(i) the number of individuals that have been remunerated EUR 1 million or more per financial year, with the remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and with the remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million	APP	A.16.4	230
	(j) upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management	N/A		
	(k) information on whether the institution benefits from a derogation laid down in Article 94(3) of Directive 2013/36/EU	N/A		
451	**Disclosure of the leverage ratio**			
	(a) the leverage ratio and how the institutions apply Article 499(2)	APP APP APP	A.7.1 A.7.2 A.7.3	205 205-206 206

Article	Name of article	Section of annual report	Chapter	Page
	(b) a breakdown of the total exposure measure referred to in Article 429(4), as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements	APP APP APP	A.7.1 A.7.2 A.7.3	205 205-206 206
	(c) where applicable, the amount of exposures calculated in accordance with Articles 429(8) and 429a(1) and the adjusted leverage ratio calculated in accordance with Article 429a(7)	APP APP APP	A.7.1 A.7.2 A.7.3	205 205-206 206
	(d) a description of the processes used to manage the risk of excessive leverage	FIN	3.6	183
	(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	FIN	3.6	183
451(a)	**Disclosure of liquidity requirements**			
	2(a) the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period	APP	A.8.1	207-208
	2(b) the average or averages, as applicable, of total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period, and a description of the composition of that liquidity buffer	APP	A.8.1	207-208
	2(c) the averages of their liquidity outflows, inflows and net liquidity outflows as calculated in accordance with the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period and the description of their composition	APP	A.8.1	207-208
	3(a) quarter-end figures of their net stable funding ratio calculated in accordance with Chapter 2 of Title IV of Part Six for each quarter of the relevant disclosure period	APP	A.8.2	209-212
	3(b) an overview of the amount of available stable funding calculated in accordance with Chapter 3 of Title IV of Part Six	APP	A.8.2	209-212
	3(c) an overview of the amount of required stable funding calculated in accordance with Chapter 4 of Title IV of Part Six	APP	A.8.2	209-212

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452	**Disclosure of the use of the IRB Approach to credit risk**	N/A		
453	**Disclosure of the use of credit risk mitigation techniques**			
	(a) the core features of the policies and processes for on- and off-balance sheet netting and an indication of the extent to which institutions make use of balance sheet netting	N/A		
	(b) the core features of the policies and processes for eligible collateral evaluation and management	FIN	3.1	149-150
	(c) a description of the main types of collateral taken by the institution to mitigate credit risk	FIN APP	3.1 A.10.1	149-150 219
	(d) for guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness used for the purpose of reducing capital requirements, excluding those used as part of synthetic securitisation structures	N/A		
	(e) information about market or credit risk concentrations within the credit mitigation taken	APP	A.10.1	219
	(f) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, the total exposure value not covered by any eligible credit protection and the total exposure value covered by eligible credit protection after applying volatility adjustments; the disclosure set out in this point shall be made separately for loans and debt securities and including a breakdown of defaulted exposures	APP	A.10.1	219
	(g) the corresponding conversion factor and the credit risk mitigation associated with the exposure and the incidence of credit risk mitigation techniques with and without substitution effect	APP	A.11.1	220
	(h) for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the on- and off-balance-sheet exposure value by exposure class before and after the application of conversion factors and any associated credit risk mitigation	APP	A.11.1	220

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	(i) for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the risk-weighted exposure amount and the ratio between that risk-weighted exposure amount and the exposure value after applying the corresponding conversion factor and the credit risk mitigation associated with the exposure; the disclosure set out in this point shall be made separately for each exposure class	APP	A.11.1	220
	(j) for institutions calculating risk-weighted exposure amounts under the IRB Approach, the risk-weighted exposure amount before and after recognition of the credit risk mitigation impact of credit derivatives; where institutions have received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, they shall make the disclosure set out in this point separately for the exposure classes subject to that permission	N/A		
454	**Disclosure of the use of the Advanced Measurement Approaches to operational risk**	N/A		
455	**Use of internal market risk models**	N/A		

BUS: Business report
FIN: Financial report
APP: Pillar 3 disclosures
N/A: Not applicable

List of Abbreviations and Terms

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
AML/CFT	Anti-money laundering and countering the financing of terrorism
AOP	Annual Operational Plan
APP	Asset Purchase Programme
ASF	Available stable funding
BAS	Bank Association of Slovenia
BS	Bank of Slovenia
CC	Central Counterparty
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CEB	The Council of Europe Development Bank
CEETT (platform)	Central and Eastern European Technology Transfer Platform
CET1	Common Equity Tier 1 Capital
CIR	Cost-to-Income Ratio
CMSR	Centre for International Cooperation and Development
Commission Implementing Regulation (EU) 2021/637	Commission Implementing Regulation (EU) No 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295
CPRS	Climate Policy Relevant Sectors
CRM	Techniques applied to mitigate credit risk
CRO	Chief Risk Officer

CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (with amendments)
CVA	Credit Valuation Adjustment
DPO	Data Protection Officer
EAD	Exposure at Default
EBA	European Banking Authority
EC	European Commission
ECA	Export Credit Agency
ECB	European Central Bank
ECL	Expected Credit Losses
ECP	EU Cohesion Policy
EDR	Endpoint Detection and Response - System for the detection of and response to security events on endpoint IT devices, including mobile devices
EGF (guarantee)	Pan-European Guarantee Fund guarantee
EIB	European Investment Bank
EIF	European Investment Fund
ESG	Environmental, Social and Governance Factors
ESMA	European Securities and Markets Authority
EU	European Union
EVE	Economic Value of Equity
FED	Federal Reserve Board
GBER	General Block Exemption Regulation
GDP	Gross Domestic Product
GHG	Greenhouse gases

G-SIIs	Global Systemically Important Institutions
HQLA	High-Quality Liquid Assets
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communication Technologies
IFRS	International Financial Reporting Standards as adopted by the EU
ILAAP	Internal Liquidity Adequacy Assessment Process
IMAD	Institute of Macroeconomic Analysis and Development of the Republic of Slovenia
IMF	International Monetary Fund
InvestEU	EU investment programme to promote growth of Europe's economy. Combines a number of EU financial instrument that are currently available to support investments, innovations and job creation in Europe.
IT	Information Technology
KPI	Key Performance Indicators
LCR	Liquidity Coverage Ratio
LES 1	Programme for the financing of investments in the forestry and wood processing chain
LGD	Loss Given Default
MB	Management Body
MEDT	Ministry of Economic Development and Technology
METS	The Ministry of the Economy, Tourism and Sports
MF	Ministry of Finance
MFA	Ministry of Foreign Affairs
MoI	Ministry of Infrastructure
N/A	Not applicable
NACE	Statistical Classification of Economic Activities in the European Community (Nomenclature des Activités Économiques dans la Communauté Européenne)
NALOŽBE 3	Programme for the financing of investments that contribute to the transition to a circular economy
NFRD	Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Non-Financial Reporting Directive)

NII	Net Interest Income
NPEs	Non Performing Exposures
NPLs	Non Performing Loans
NSFR	Net Stable Funding Ratio
OCR	Overall Capital Requirement
OECD	Organisation for Economic Co-operation and Development
O-SIIs	Other Systemically Important Institutions
OSN	A programme for financing companies of all sizes for working capital and investments with the option of utilising the EGF guarantee
P2G	Pillar 2 Guidance
PD	Probability of Default
PEPP	Pandemic Emergency Purchase Programme
PFE	Potential Future Exposure
POCI	Purchased or Originated Credit-Impaired Assets
RC	Replacement Costs
RDI	Research, Development and Innovation
ROA	Return on Assets
ROE	Return on Equity
RRI 3	Programme for the financing of technological-development projects
RS	Republic of Slovenia
RSF	Required Stable Funding
RWAs	Risk Weighted Assets
RWEA	Risk Weighted Exposure Amount
SAFE	Survey on the access to finance of enterprises, which SID Bank carries out in cooperation with the Bank of Slovenia
SEGIP	Slovenian Equity Growth Investment Programme
SFTs	Securities Financing Transactions
SiOK	Slovenian Organisational Climate Project
SMEs	Small and Medium Sized Enterprises
SOC	Security Operations Centre
SPPI	Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
SREP	Supervisory Review and Evaluation Process

SSH	Slovenian Sovereign Holding
TLTRO	Targeted Longer-Term Refinancing Operations
TPI	Transmission Protection Instrument
TREA	Total Risk Exposure Amount
ZBan-3	Banking Act
ZDLGPE	Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 Epidemic
ZGD-1	Companies Act
ZIUOPOK	Emergency Deferral of Borrowers' Liabilities Act
ZIUZEOP	Act on Intervention Measures to Mitigate the Effects of the COVID-19 Epidemic on Citizens and the Economy
ZPGOPEK	Act Determining the Aid to the Economy to Mitigate the Impact of the Energy Crisis
ZPPOGD	Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities
ZSDH-1	Slovenian Sovereign Holding Act
ZSDU	Worker Participation in Management Act
ZSIRB	Slovene Export and Development Bank Act
ZSJSM	Act on the Housing Guarantee Scheme for Young People
ZVOP-2	Personal Data Protection Act
ZZFMGP	Insurance and Financing of International Commercial Transactions Act

Profile of SID Bank

Company name	**SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana**
Abbreviated company name	SID banka d.d., Ljubljana
Registered office	Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia
Registration number	5665493
Tax number	82155135
VAT ID number	SI82155135
IBAN	SI56 3800 0380 0000 039
SWIFT	SIDRSI22
GIIN	66SI1E.99999.SL.705
LEI	549300BZ3GKOJ13V6F87
Website	www.sid.si
E-mail	info@sid.si
Secure electronic mailbox	sid@vep.si
Telephone	+386 (1) 200 75 00
Facebook	www.facebook.com/sid.banka/
LinkedIn	www.linkedin.com/company/sid---slovenska-izvozna-in-razvojna-banka-d.d.-ljubljana/
YouTube	www.youtube.com/channel/UCK_2pY_T0EiC4PGF36sZJqA