ANNUAL REPORT
SID BANK
2021

Business name:	**SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana**
Abbreviated business name:	SID banka d.d., Ljubljana
Registered office:	Ulica Josipine Turnograjske 6, 1000 Ljubljana
Registration number:	5665493
Tax number:	82155135
VAT ID number:	SI82155135
IBAN:	SI56 3800 0380 0000 039
SWIFT:	SIDRSI22
GIIN:	66SI1E.99999.SL.705
LEI:	549300BZ3GKOJ13V6F87
Website:	www.sid.si
Email:	info@sid.si
Secure electronic mailbox:	sid@vep.si
Tel.:	+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

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A WORD FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Stakeholders,

The year 2021 will go down in history as one of toughest ever. It was a year full of expectations: expectations of the end of the COVID-19 crisis, expectations of renewed socialising and expectations of an economic recovery. Although all expectations were not fulfilled, we can say that 2021 was also a year of adjustments: adjustments to the coronavirus as a part of everyday life, adjustments to contact via computer screens and, above all, a year of economic adjustments.

SID Bank also made adjustments during the course of 2021. The Bank maintained a high level of financing in response to the increased need for financing of the economy: alongside EUR 314 million in newly concluded loans, directly and in conjunction with commercial banks and via intermediary banks, SID Bank maintained total assets in excess of EUR 2.8 billion, with loans to the non-banking sector accounting for close to EUR 1.2 billion of that amount. The total number of clients in the Bank's portfolio rose by 7%, with 15% of the total accounted for by new clients at the end of 2021. In this way, SID Bank continued to perform its intervention role and work in the area of anti-crisis financing in 2021, particularly in the scope of direct financing, indirect financing and insurance programmes launched in 2020. To that end, a direct financing programme was introduced as a loan fund for road transport companies. At the same time, SID Bank stimulated the economic recovery by enhancing its development activities. New direct financing programmes were launched for that purpose during the second half of 2021, specifically for the financing of investment projects that contribute to the transition to the circular economy, and working capital and investments with the possibility of a guarantee from the Pan-European Guarantee Fund (EGF). Securing an EGF guarantee, which together with national EIB guarantees facilitates an increase in lending activity, serves as a form of loan collateral and ensures a lower interest rate without additional collateral. The advantage of such lending was seen in new loans in the total amount of EUR 17.7 million, while SID Bank intends to promote this form of financing again in 2022.

A significant portion of SID Bank's work focused on the direct financing of sectors hit hardest by the COVID-19 pandemic. This is particularly true for the backbone of the Slovenian economy, small and medium-sized enterprises (SMEs), which were most exposed during the pandemic. SID Bank has earmarked more than half of financing for non-financial corporations to SMEs, and we remain committed to supporting their development and breakthrough on foreign markets.

As a result of the high rate of direct financing of the economy, the proportion of total loans accounted for by loans to customers rose to 71%, compared with 62% in 2020. This coincided with a decrease in SID Bank's exposure to commercial banks, which is a reflection of the high liquidity of the Slovenian banking system. This has a significant impact on SID Bank's business model and dictates changes to the Bank's internal structure.

SID Bank's financing of the economy involved more than simply loans. Several years ago, the Bank identified market gaps in the area of equity financing and, together with the EIF, established the Slovene Equity Growth Investment Programme (SEGIP). Slovenian companies have received additional funds in the amount of EUR 68.5 million via the SEGIP, which has provided us the impetus to expand the operations of the SEGIP with three additional products: (1) a technology transfer fund (CEETT platform), which is intended for the financing of innovative technological research projects and supports the commercialisation of the knowledge of universities and research institutes in the economy; (2) a venture capital fund that will provide financial support to young, innovative Slovenian SMEs in the early stages of development and rapid growth; and (3) private equity fund for succession that will address the issue of ownership succession at Slovenian family-owned companies. In this way, SID Bank supplements previously identified gaps in equity financing, and contributes to the strengthening of the Slovenian capital market over the long term.

High growth also continues in insurance operations, where 2021 was a record year for SID Bank. The scope of insurance operations reached EUR 2.8 billion, an increase of 55.5% relative to the previous year. SID Bank took advantage of the majority of opportunities presented by the European Commission's temporary framework in response to crisis caused by the COVID-19 pandemic. Higher insurance volumes were realised, primarily in short-term operations, particularly in the reinsurance of short-term credits. This element of business would have also been impossible without continuously adapting the Bank's mode of operations and the extraordinary engagement of employees.

In the demanding year that was 2021, SID Bank continued to fulfil its legally prescribed obligation to maintain and increase capital. The Bank generated a pre-tax profit of EUR 29.5 million, which was reflected in a return on equity of 6.1% (2020: 2.2%). More than half of gross profit was the result of the release of impairments and provisions, while contributing significantly to the high positive results were higher interest income on loans granted and the positive effect of the valuation of equity instruments in the scope of the Slovene Equity Growth Investment Programme (SEGIP). Net profit for the financial year amounted to EUR 24.0 million, an increase of EUR 15.5 million relative to the previous year. Contingency reserves, which represent a line of defence in transactions in the name and on behalf of the government, were up by EUR 6.8 million in 2021 relative to the previous year on account of positive operating results.

Good performance and the ability to continuously adapt are also reflected in the supervisor's view of SID Bank. In the scope of the Supervisory Review and Evaluation Process (SREP) for credit institutions, we successfully completed the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), and met supervisory expectations. Based on a comprehensive assessment and taking into account the results of stress testing, the Bank of Slovenia lowered the total SREP capital requirement of SID Bank, as other systemically important institution, by 0.23% for 2022.

SID Bank also made continuous adjustments during 2021 in terms of the quality of its mandate. The Bank took two important steps forward in terms of sustainable operations: (i) it transitioned to a new, adapted concept for assessing companies, which is based on an assessment of ESG factors; and (ii) it adopted a sustainable financing policy in which it committed to achieving the climate neutrality of SID Bank by 2050, inclusive. To that end, it also concluded an agreement on the supply of electricity for the Bank's needs, under which all electricity supplied is from renewable sources. However, our work in the assessment and management of ESG factors is not yet done. Far from it. We will continue to actively ensure the integration of climate and ESG factors in business processes in a way that supports our clients on their path to the green transition and thus contributes to the decarbonisation of the Slovenian economy.

SID Bank's ability to adapt derives from a strong team of 223 employees who are distinguished by their engagement, commitment, diversity and excellence. Their exceptional response at the outbreak of the crisis caused by the COVID-19 pandemic is worthy of praise, as is their constant support of our clients during the difficult adaptation of the economy to the new circumstances and their readiness to tackle changes in the Bank's business model. Some changes relate to measures to improve the digital maturity of SID Bank, particularly in relation to clients, and to increasing the efficiency of processes. To that end, the bank is updating its web portal and digitalising comprehensive support for financing and insurance processes.

The year 2021 was undoubtedly a year of changes and adaptations. The term of office of SID Bank's previous management board expired at the end of the year, and I would like to take this opportunity to thank the previous board members for their extraordinary engagement, which has firmly anchored SID Bank amongst Slovenian development-promotional institutions. SID Bank's multimedia campaign in 2021 used the image of the Drežnica goat, which is an autochthonous Slovenian goat breed characterised by its persistence and ability to adapt. This was SID Bank in the past and will be SID Bank in the future.

Damijan Dolinar
President of the management board

SUPERVISORY BOARD REPORT FOR 2021

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

Supervisory board membership changed in 2021 due to the resignation of Sašo Polanec as member on 10 June 2021. The term of office of supervisory board member Marko Tišma expired on 28 July 2021, but he was reappointed by the Slovenian government to serve a new five-year term of office on 29 July 2021.

The supervisory board held eighteen (18) ordinary sessions and nine (9) correspondence sessions in 2021, 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 members of the supervisory board participated in the sessions in full attendance, while the rare absences were reported in a timely manner in line with the rules of procedure and did not obstruct the work of the supervisory board.

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

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

- the audit committee, which held eleven regular sessions, at which it discussed and drew up positions primarily with regard to the Bank's interim performance reports and financial statements, the compilation of the Bank's unaudited annual report for 2020, the final auditor's report on the audit of the financial statements for 2020, the Bank's original and revised financial plans for 2021, regular quarterly internal audit reports, the annual report of the internal audit department and the work plan of the internal audit department. It also monitored the progress of the final audit for 2020 and the preliminary audit for 2021, also being briefed on the results of the tax inspection and examining the accounting system at the Bank, including the state of internal controls with regard to financial reporting;
- the risk committee, which held ten regular sessions, and provided expert support to the supervisory board with regard to risk appetite and risk management, drew up positions primarily with regard to the risk management strategy and policy, the methodologies and assessments of the risk profile of the Bank, 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 in the scope of the discussion of regular quarterly risk reports and the annual report for 2020, the risk policy and selection of risk appetite indicators in the Bank's annual operational plan for 2022, the interest rate risk management policy, the non-performing exposures management strategy, the report on the annual review of the management of external contractors, changes to bylaws on credit ratings, stress testing, interest rate risk and remuneration, and in connection with the requirement for aligning SID Bank with the EBA guidelines for the management of interest rate risk in the banking book, it monitored the implementation of the associated action plan;

- the nomination and remuneration committee, which held eighteen regular and one correspondence session, and provided the supervisory board with expert support in the assessment of the adequacy of remuneration policies and practices and changes to remuneration policies, the proposed recruitment plan and labour costs in the scope of the Bank's financial plan for 2022, discussed and approved the 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 whole, 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 led the selection process for the management board for the 2022–2026 term of office, which was completed in July 2021 with the appointment of the Bank's new management board.

The major issues discussed and/or decided on by the supervisory board in 2021 were:

- selection of the management board for the 2022–2026 term of office;
- the annual report for 2020 with the auditor's report, and the proposal for the use of distributable profit for 2020;
- the Bank's strategy for the period of 2022 to 2024, and the achievement of strategic indicators;
- the annual operational plan, with elements of the business policy and risk policy, the financial plan for 2022, and the revised financial plan for 2021;
- the risk management strategy and policy, and the risk appetite;
- regular reports on the performance of the Bank and risk reports;
- the Bank's risk profile assessment for 2021;
- 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;
- detailed monitoring of the implementation of the IT strategy and measures for updating the Bank's information system;
- regular quarterly reports by the internal audit department and the results/findings of specific audits completed by the internal audit department;
- the compliance department's work programme, the report on the implementation of the programme, and the annual report on the implementation of the code of ethics and professional standards;
- decision-making on specific financing and borrowing transactions in line with its powers under the articles of association;
- the management strategy and plan to reduce non-performing exposures;
- regular reports on forbearance and corporate restructuring;
- rules on determining credit ratings;
- rules on stress testing;
- the report on the annual audit of outsourcing;
- amendments to the remuneration policy;
- amendments to the policy for drafting assessments of the suitability of members of the management body and key function holders;
- amendments to the rules on fraud risk management;
- reports on the performance of associated companies and 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 information from the management board, based on which it took decisions pursuant to its powers. In 2021, due to the expiry of the regular term of office of the president and member of the management board on 31 December 2021, the Supervisory Board conducted a selection process for candidates for management board members for the 2022–2026 term of office. A three-member management board, was appointed on 31 July 2021 on the basis of a competitive process with a view of taking office on 1 January 2022. Since one of the newly appointed members of the management board withdrew their candidacy prior to the commencement of their term, the supervisory board initiated a new procedure for the appointment of the third member of the management board, which began in January 2022.

In March 2022 the supervisory board carried out a self-assessment of its work in 2021 on the basis of the recommendations of the manual governing the assessment of the efficiency of the work of supervisory boards issued by the Slovenian Directors' Association. Before beginning the self-assessment procedure, the supervisory board members also obtained reports on the work of all three of the supervisory board committees. The results of the self-assessment confirm that the supervisory board carried out its work professionally, with due diligence and responsibly and in line with the interests of the Bank, and that the individual members of the supervisory board and the supervisory board as a whole possess adequate knowledge and experience to enable the high-quality and effective discharging of the duties that fall under the competence of the supervisory board. The supervisory board also discussed the results of the self-assessment with regard to the activities required for the further improvement of the work of the supervisory board.

Approval of the 2021 annual report

The unaudited annual report of SID Bank for 2021 was discussed by the audit committee and the risk committee at sessions on 16 March and 17 March 2022, and by the supervisory board at a session on 17 March 2022. The 2021 remuneration report was discussed by the nomination and remuneration committee at a session on 16 March 2022. The audited annual report, together with the final report issued to the audit committee on the audit of financial statements for 2021, the auditor's report on the findings regarding the fulfilment of risk management rules at banks and savings banks for SID Bank and the remuneration report for 2021 were discussed by the audit committee, the risk committee and the nomination and remuneration committee on 6 April and 7 April 2022. 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 2021 annual report of SID Bank at its session on 7 April 2022, together with the proposal for the use of distributable profit for 2021 submitted by SID Bank's management board in accordance with Article 4 of the ZSIRB. The supervisory board also discussed the independent auditor's report to the shareholders of SID banka, d.d., Ljubljana 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 2021. In the auditor's opinion, the financial statements present fairly, in all material aspects, the financial position of the company as at 31 December 2021, and its operating results and cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union. The supervisory board had no comments with regard to the report by Deloitte Revizija d.o.o. After its review, the supervisory board unanimously approved the annual report of SID banka, d.d., Ljubljana for 2021.

Marjan Divjak
Chairman of the Supervisory Board

MAJOR FINANCIAL DATA AND PERFORMANCE INDICATORS

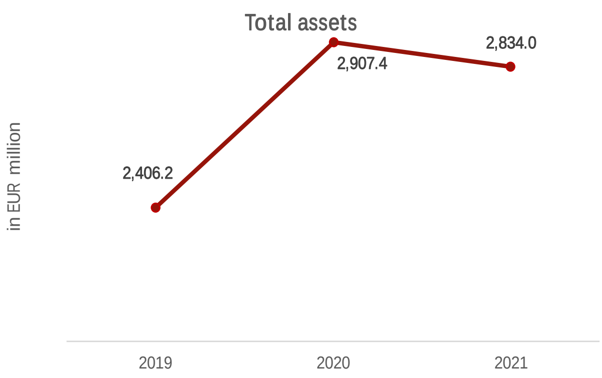
Major financial data[1]

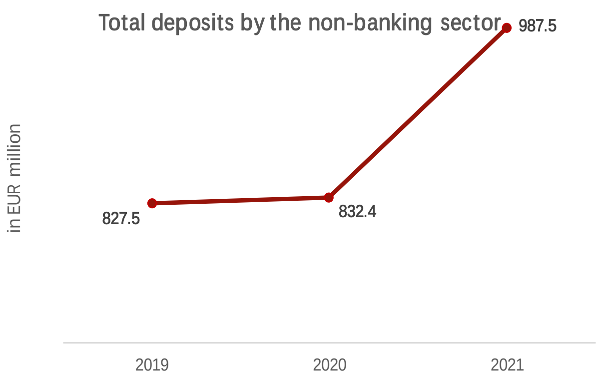
in EUR thousand	SID Bank 2021	2020	2019
Statement of financial position			
Total assets	2,834,032	2,907,358	2,406,164
Total deposits by the non-banking sector measured at amortised cost	987,512	832,377	827,545
Total loans to the non-banking sector	1,199,698	1,091,560	816,550
Total equity	491,766	476,107	463,860
Allowances and provisions for credit losses	56,192	91,950	66,472
Off-balance-sheet items	411,421	460,640	274,689
Income statement			
Net interest income	28,006	23,193	23,932
Net non-interest income	5,718	35,702	41,793
Labour, general and administrative costs	(19,577)	(17,342)	(15,831)
Depreciation/amortisation	(986)	(970)	(914)
Impairments and provisioning (credit losses)	16,454	(29,498)	(11,603)
Pre-tax profit from ordinary and discontinued operations	29,486	10,462	37,238
Corporate income tax on profit from continuing and discontinued operations	(5,456)	(1,972)	(5,198)
Net profit for financial year	24,030	8,490	32,040
Statement of other comprehensive income			
Other comprehensive income before tax	(10,334)	4,639	11,829
Corporate income tax on other comprehensive income	1,963	(882)	(2,061)
Number of branches as at 31 December	1	1	1
Number of employees as at 31 December	223	223	201
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	158.47	153.42	149.47
Long-term credit rating as at 31 December			
Standard & Poor's	AA–	AA–	AA–

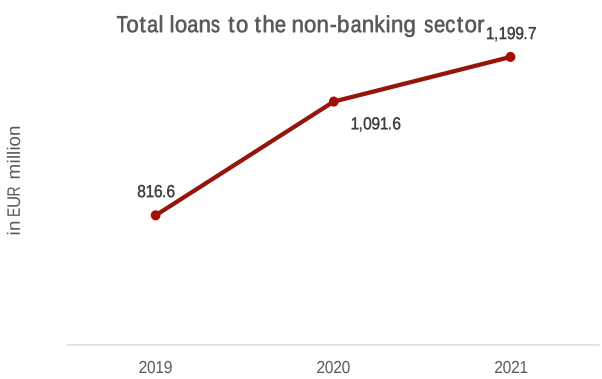
[1] Prescribed data and indicators are calculated in accordance with the Guidelines for calculating the performance indicators of banks and savings banks, which were prescribed by the Bank of Slovenia on the basis of the Regulation on the books of account and annual reports of banks and savings banks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

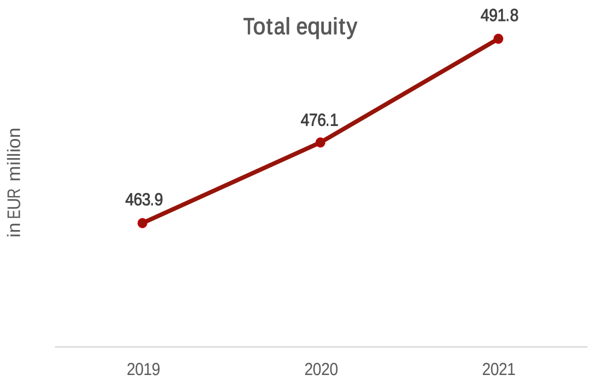
Selected indicators

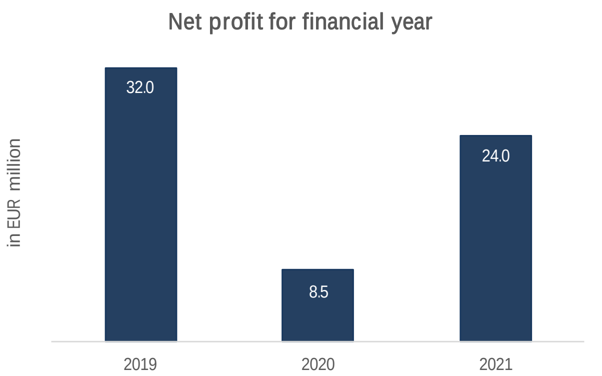
(in %)	SID Bank 2021	2020	2019
Shareholder equity			
Common equity Tier 1 capital ratio	**28.8**	29.1	34.0
Tier 1 capital ratio	**28.8**	29.1	34.0
Overall capital ratio	**28.8**	29.1	34.0
Leverage ratio	**15.5**	14.7	16.5
Quality of assets in statement of financial position and commitments given			
Non-performing (on-balance-sheet and off-balance-sheet) exposures / classified on-balance-sheet and off-balance-sheet exposures	**1.4**	2.2	2.5
Non-performing loans and other financial assets / classified loans and other financial assets (excluding balances on accounts at the central bank and demand deposits at banks)	**2.3**	3.6	4.0
Non-performing loans and other financial assets / classified loans and other financial assets (including balances on accounts at the central bank and demand deposits at banks)	**2.1**	3.4	3.8
Allowances for credit losses / non-performing loans and other financial assets (excluding balances on accounts at the central bank and demand deposits at banks)	**69.4**	53.8	60.3
Allowances for credit losses / non-performing loans and other financial assets (including balances on accounts at the central bank and demand deposits at banks)	**69.4**	53.8	60.3
Collateral received / non-performing loans and other financial assets (excluding balances on accounts at the central bank and demand deposits at banks)	**16.4**	15.5	33.3
Profitability			
Interest margin	**1.0**	0.9	1.0
Financial intermediation margin	**1.2**	2.2	2.8
Return on assets (ROA) after tax	**0.8**	0.3	1.4
Return on equity (ROE) before tax	**6.1**	2.2	8.3
Return on equity (ROE) after tax	**5.0**	1.8	7.2
Operating costs			
Operating costs / average assets	**0.7**	0.7	0.7
Liquidity in 2021			
Liquidity coverage ratio (%)	**2,334**	6,313	1,832
Net stable funding ratio (%)	**142**	132	140

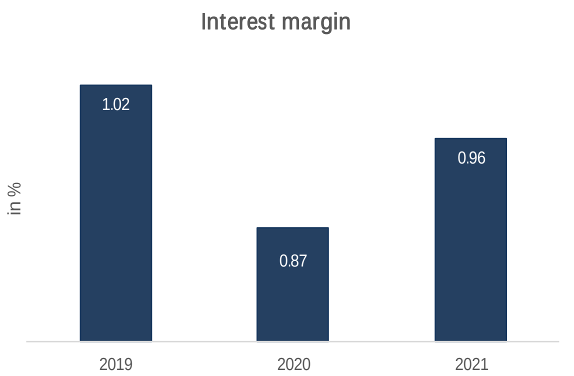

Total assets
in EUR million
2,406.2
2,907.4
2,834.0
2019
2020
2021

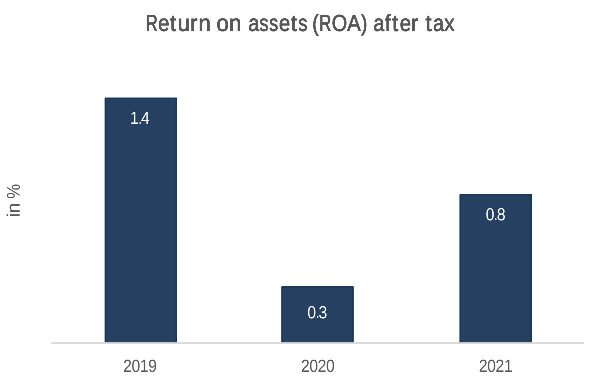

Total deposits by the non-banking sector
in EUR million
827.5
832.4
987.5
2019
2020
2021

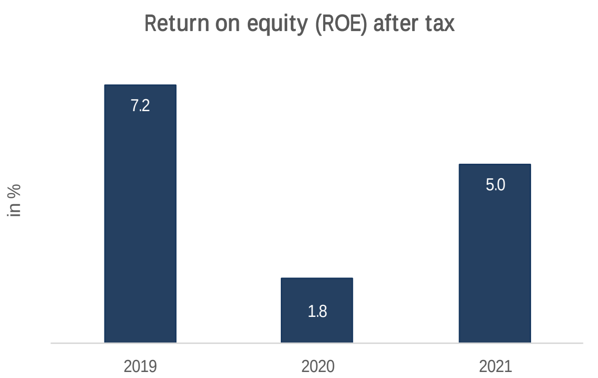

Total loans to the non-banking sector
in EUR million
816.6
1,091.6
1,199.7
2019
2020
2021


Total equity
in EUR million
463.9
476.1
491.8
2019
2020
2021


Net profit for financial year
in EUR million
32.0
8.5
24.0
2019
2020
2021


Interest margin
in %
1.02
0.87
0.96
2019
2020
2021


Return on assets (ROA) after tax
in %
1.4
0.3
0.8
2019
2020
2021


Return on equity (ROE) after tax
in %
7.2
1.8
5.0
2019
2020
2021

SIGNIFICANT BUSINESS EVENTS

- SID Bank continued its successful cooperation with foreign financial and promotional institutions in 2021. In the scope of this, together with other European financial institutions, EIB and the European Commission SID Bank recapitalised the EIF and thus increased its share portfolio from 15 to 25 shares. Even after the capital increase, SID Bank thus remains its sixth largest shareholder among financial institutions with participating interest in the EIF.
- In order to narrow the gap on the Slovenian equity financing market, SID Bank already established the Slovene Equity Growth Investment Programme (SEGIP) in 2017, which in July 2021 was expanded with a regional platform for technology transfer (CEETT platform). The platform was put in place in cooperation with the Croatian Bank for Reconstruction and Development (HBOR) and the EIF, and is earmarked for financing innovative technological research projects and the intellectual property of universities and research institutes and their commercialisation in the economy. The establishment of the platform was also heavily supported by the media. SID Bank organised an event for the media and for representatives from academic and research circles.
- SID Bank built on its successful cooperation with the EIB in 2021 by acquiring a guarantee from the Pan-European Guarantee Fund, which through the EIB's national guarantees enables an increase in lending activity by up to EUR 200 billion at the EU level. In order to effectively transfer the advantages of the guarantee into the corporate sector, it developed a new programme for financing the investments and working capital of micro, small and medium-sized enterprises and enterprises with mid-ranking market capitalisation in the total amount of EUR 150 million in loans. Use of the Pan-European Guarantee Fund guarantee as loan collateral in the scope of the programme ensures a lower interest rate and does not require additional collateral.
- In terms of communication activities, the year 2021 was a turning point for SID Bank, as it was the first time it carried out a Slovenia-wide multimedia campaign to increase recognition. The purpose of the campaign is to bring the Bank closer to Slovenian firms, portraying it as more accessible, and thus to ensure the successful implementation of its development and promotional role in the corporate sector.
- With a stock of EUR 2,782 million, insurance operations under Republic of Slovenia authorisation achieved the highest level in the history of SID Bank's operations to date. This is primarily the result of the COVID-19 situation and SID Bank's intervention role by insuring sales on the markets of the EU and of other OECD Member States.
- In 2021 SID Bank as the manager of the FI 2014–2020 Fund of Funds successfully drew down the third tranche in the amount of EUR 63.3 million in ECP funds, and in the scope of the COVID-19 Fund of Funds the third and fourth tranche of ECP funds in the total amount of EUR 32.5 million in ECP funds. A total of EUR 189.8 million in ECP funds was drawn until 2021 in the scope of the FI 2014–2020 Fund of Funds, while the total envisaged amount of ECP funds of EUR 65 million was drawn from the COVID-19 Fund of Funds.

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ABOUT SID BANK

SID Bank is a specialist promotional, export and development bank authorised to provide long-term financial services designed to supplement financial services in various areas defined by the Slovene Export and Development Bank Act (hereinafter: the ZSIRB) as important for promoting the competitiveness of the Slovenian economy and for Slovenia's sustainable development. Essential amongst the activities that SID Bank performs are the supplementation of 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, 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 activity is based on a clear strategy and business model that derives from the long-term development documents of Slovenia and the EU. 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 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, finance leasing, financial engineering, concessionary loans and other instruments of international development cooperation, capital investments and other methods of financing, and integrates these into internally designed development and promotional financing programmes.

History and legal status

1992

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

2004

- ✓ Entry into force of the ZZFMGP,[2] which stipulated that SID bring the insurance operations that it pursued in its own name and on its own behalf in line with the regulations governing insurance corporations. SID established an insurance corporation on this legal basis, to which it transferred its portfolio of marketable insurance that were provided in its own name and on its own behalf until the end of 2004.

[2] The Insurance and Financing of International Commercial Transactions Act (ZZFMGP) regulated the system for insuring and financing international commercial transactions as instruments of Slovenia's national trade policy.

2005

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

2006

- ✓ At the end of the year, by obtaining an authorisation to provide banking services and other financial services from the Bank of Slovenia, SID was converted into a bank and changed its name to SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana.[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 government gave its consent to key elements of the financial engineering measures to promote the development of SMEs, on the basis of which a new EUR 500 million loan fund was established at SID Bank. SMEs thus gained an opportunity to obtain loans to finance working capital and new investments, and the corresponding recruitment.

2014

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

[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 Bank Group' or simply 'the Group'.

2015

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

2016

- ✓ Under the agreement on financing and implementing the financial engineering measure to promote the investments, operations and capital enhancement of SMEs, SID Bank established a new loan fund in conjunction with the MEDT, within the framework of which two credit lines were introduced, namely a development and promotional programme for financing the operations and 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 the Republic of Slovenia authorised SID Bank to manage the Fund of Funds.
- ✓ Together with the EIF, the Bank set up a Slovene Equity Growth Investment Programme in the 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.

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.
- ✓ SID Bank, in conjunction with the MEDT, developed SID Bank's 'Development and promotional programme for financing under the Investment Incentives Act' ('NALOŽBE 2' programme).
- ✓ In 2019 SID Bank received the prestigious Best Regional Development Bank – Southeast Europe 2019 award, which is presented by Capital Finance International.

2020

- ✓ SID Bank has functioned counter-cyclically during the COVID-19 pandemic. It has expanded its financing programmes and introduced new products to help companies handle the economic crisis that followed the pandemic.
- ✓ The counter-cyclical activities of SID Bank were also seen in 2020 in the acquisition of new authorisations from the Republic of Slovenia for the implementation of government guarantee schemes. A government guarantee for deferred payment of credit obligations and for liquidity loans for the corporate sector is one of many government instruments to mitigate the consequences of the pandemic. In accordance with the rules of the ZIUZEOP and 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 sufficient 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 so-called 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 the HBOR (Croatian Bank for Reconstruction and Development) SID Bank set up a regional technology transfer platform (the CEETT platform). The CEETT platform was established in the scope of the expansion of the Slovene Equity Growth Investment Programme (SEGIP), which was established in 2017. The platform is already established, and the process of selecting a financial intermediary to manage the Technology Transfer Venture Capital fund is underway, with the selection expected to be completed in the first half of 2022. The fund will primarily earmark the funds for financing projects in their 'pre-seed' phase, when the projects are still with research teams at public research organisations.
- ✓ SID Bank together with other European financial institutions, the EIB and the European Commission successfully completed the capital increase of the EIF. It expanded its EIF portfolio of shares from 15 to 25 shares. SID Bank thus remains EIF's sixth largest shareholder among other financial institutions.
- ✓ SID Bank gained the Pan-European Guarantee Fund guarantee for financing the investments and working capital of micro, small and medium-sized enterprises and enterprises with mid-ranking market capitalisation in the total amount of EUR 150 million in loans.
- ✓ SID Bank as the manager of the Fund of Funds and the COVID-19 Fund of Funds successfully drew down the third tranche (of total four tranches) of ECP funds for the Fund of Funds and the third and fourth (final) tranche of the COVID-19 Fund of Funds.

Services

In line with its role, purposes and tasks, SID Bank primarily provides financial services within the scope of 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 enterprise;
- development of an environment-friendly society and environment-friendly production;
- development of a competitive economy; and
- regional and social development.

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

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

As at 31 December 2021, 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;
  - purchase of receivables with or without recourse (factoring);
  - financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting);
- issuance of guarantees and other sureties;
- trading for own account or for the account of customers:
  - in foreign legal tender, including currency-exchange transactions;
  - in standardised futures and options;
  - in currency and interest-rate instruments;
- trading on own account:
  - in money-market instruments; and
- credit rating services: collection, analysis and dissemination of information about creditworthiness.

[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.

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 an agent of the state.

The requisite funding for the effective provision of insurance operations under the ZZFMGP is provided to SID Bank by the Republic of Slovenia in the form of contingency reserves, which are used to settle liabilities to the insured (claims pay-outs) 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 the 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 in the scope of the European cohesion policy, into which EUR 253 million will be paid by 2023 from European cohesion funds that were available to Slovenia in the 2014–2020 financial perspective. The purpose of establishing this fund is the promotion and financing of sustainable economic growth and development, investments in innovations and current operations through debt and equity financing in four areas in which market gaps were identified based on a preliminary assessment of financing gaps that was conducted by the Slovenian company PwC (*PricewaterhouseCoopers*) and supplemented by an analysis conducted by the European Investment Bank: research, development and innovations, small and medium-sized enterprises, energy efficiency and urban development.

Together with the MEDT, SID Bank created the COVID-19 Fund of Funds in October 2020 aimed at financing 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. That fund includes an additional EUR 65 million in European cohesion policy funds, based on which a total of EUR 95.1 million is available to final beneficiaries in the form of financial instruments, such as micro loans and loans for research, development and innovations. 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.

Guarantee schemes based on intervention measures in 2020, and guarantee schemes

Based on two intervention acts, specifically Article 65 of the Act on Intervention Measures to Mitigate the Effect 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), SID Bank continued to execute the authorisation of the Republic of Slovenia in 2021 to carry out all transactions in its name and on its behalf related to the redemption of guarantees, 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 are respected.

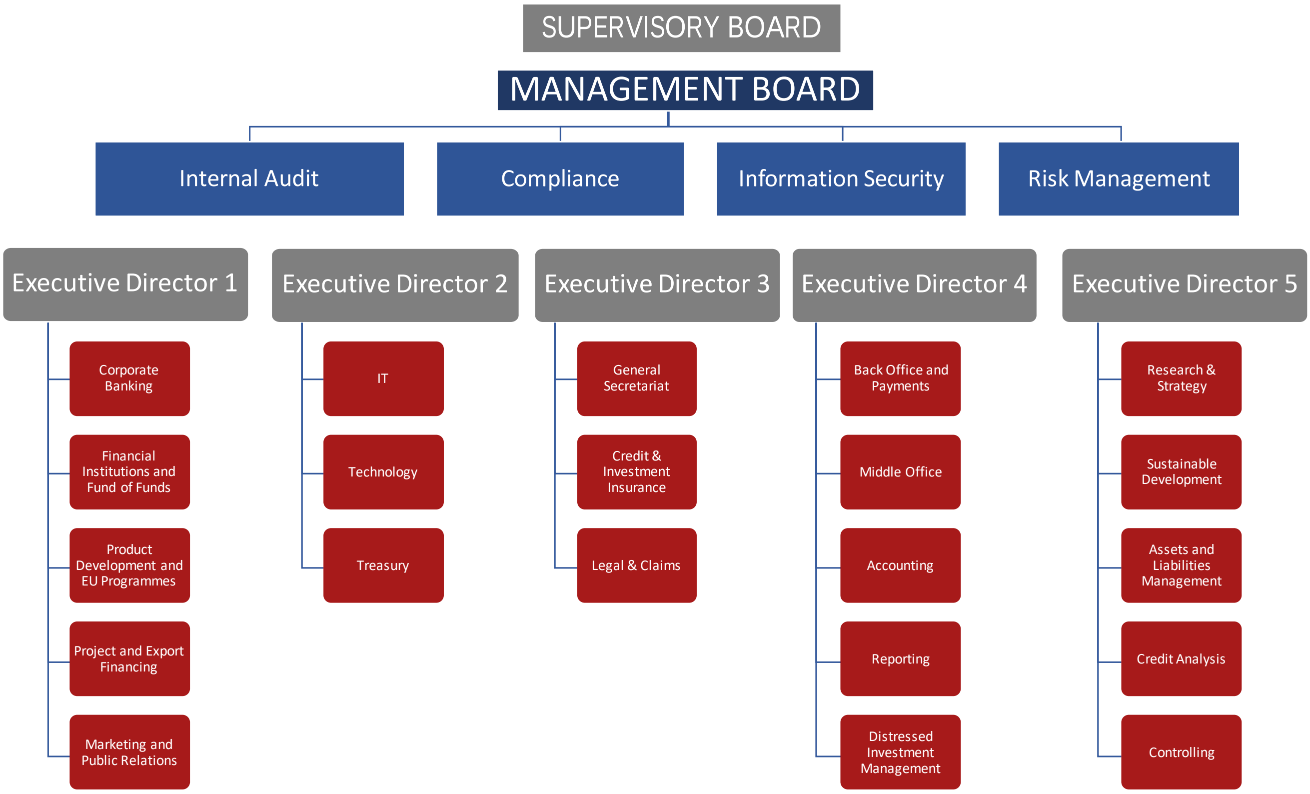
In accordance with both guarantee schemes under the ZIUZEOP and ZDLGPE, activities in 2021 continued in the area of monitoring the deferrals of credit obligation payments with a guarantee under Article 65 of the ZIUZEOP and liquidity loans under the ZDLGPE that had been registered in the guarantee scheme (banks ended up the registration of deferrals under the ZIUZEOP on 31 March 2021, and the registration of liquidity loans in the guarantee scheme under the ZDLGPE on 30 June 2021), the formal review of a list of the banks' credit documentation for concluded loan agreements under the ZDLGPE and the issue of confirmations of the allocation of government guarantees under the ZDLGPE, the processing of banks' requests for the payment of government guarantees for outstanding credit obligations of borrowers (individuals and legal entities) from past-due and outstanding payment deferrals under the ZIUOPOK with a government guarantee under Article 65 of the ZIUZEOP, the verification in substantive terms of the fulfilment of conditions for guarantee redemption under the ZIUZEOP, and the compliance of concluded annexes and loan agreements with the ZIUOPOK, which SID Bank completes in six months following the payment of the guarantee under the ZIUZEOP, the collection of periodic reports from banks to SID Bank on the balances of outstanding loans, and SID Bank's reporting to the ministry responsible for finance, and billing the guarantee premium to banks for loans included in the ZDLGPE scheme.

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 2021 in the name and on behalf of the Republic of Slovenia in the form of monitoring issued guarantees. The statutory deadline for issuing government guarantees passed at the end of 2010, where loan agreements with the longest maturity of 10 years expired at the end of 2020 (only a loan for which debt restructuring was agreed is still active).

Activities carried out in 2021 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.

SID Bank's activities under Republic of Slovenia authorisation in 2021 are presented in detail in the section entitled Operations under Republic of Slovenia authorisation.

Organisational structure as at 31 December 2021

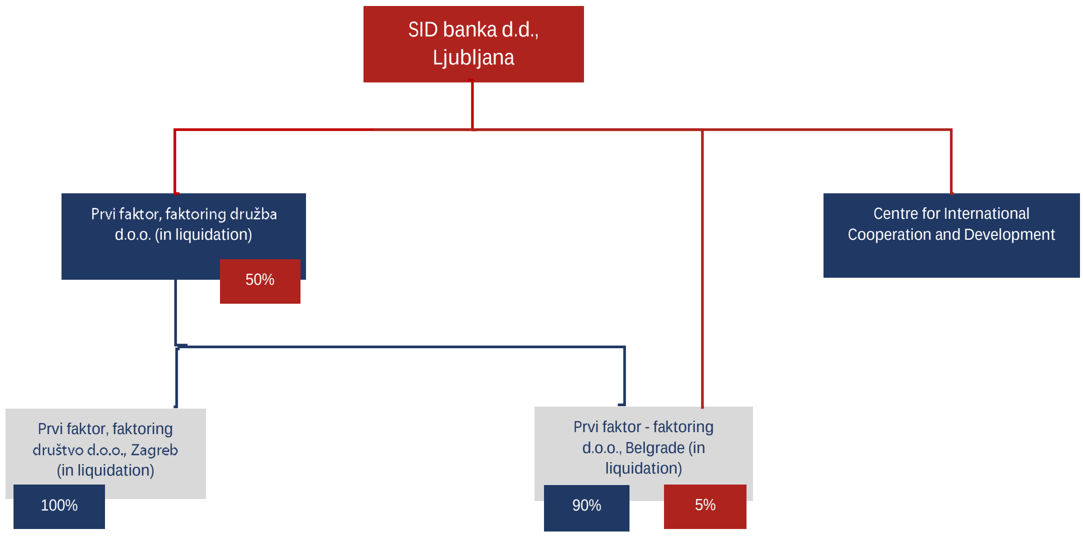


In terms of requests for changes to the organisational structure in relation to work, particularly due to the changed business and regulatory reasons, on account of process optimisation and the proper arrangement and allocation of responsibility and powers at the Bank steps were taken in 2021 in terms of organisational changes to information security, the management of the Bank's assets and liabilities, sustainable development and the reassignment of certain organisational units between pillars.

Three new organisational units were thus added to the organisational structure: information security department, sustainable development department and the assets and liabilities management department, while the distressed investment management department was renamed.

Due to the proper arrangement of powers and responsibilities at the executive director level and the balancing of burdens, certain organisational units were transferred between pillars, i.e. the treasury department was transferred from the fifth to the second pillar, the distressed investment management department from the second to the fourth pillar, while the temporary reallocation of organisational units between pillars completed in the initial phase of the project upgrading the core IT system (reallocation of the middle office to the fourth and the credit analysis department to the fifth pillar), was upgraded to a permanent reallocation on account of this reorganisation.

Organisational structure of the SID Bank Group as at 31 December 2021



As at 31 December 2021, in addition to SID Bank, the SID Bank Group also comprised:

- Prvi Faktor Group, which SID Bank jointly controls on the basis of an agreement (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 2021	Number of shares	Proportion of share capital
Republic of Slovenia	3,103,296	99.4
SID Bank (treasury shares)	18,445	0.6
Total	**3,121,741**	**100.0**

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 2021, which amounted to EUR 300 million as at 31 December 2021.

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.

In accordance with Article 4 of the ZSIRB, the Republic of Slovenia is the sole shareholder of SID Bank, and the distributable profit may not be used for distribution to shareholders, but is instead allocated to other profit reserves.

On 7 July 2021 SID Bank's general meeting passed a resolution allocating the distributable profit for 2020 in the total amount of EUR 4,032,728.09 to other profit reserves.

The Bank's total shareholder equity amounted to EUR 491,766 thousand as at 31 December 2021, while the audited book value of one share stood at EUR 158.47 (31 December 2020: EUR 153.42).

STRATEGY

Strategic planning at SID Bank envisages an annual review of the Bank's strategy for the coming three-year period. SID Bank's development strategy for the period 2022–2024 was adopted in 2021 on this basis. Through the regular annual audit of its strategy, SID Bank ensures that the strategic content that allows the Bank to adapt to its external circumstances is up-to-date, and ensures its continued evolution within the framework of the authorisations entrusted to it.

The changed economic circumstances still affected the development of the strategy in 2021 as a result of the COVID-19 pandemic. Discussed during the drafting of the strategy were key topics that will affect SID Bank's future operations, while the opportunities and challenges that those topics bring to the Bank's operations were defined. Key topics primarily cover the activities of SID Bank's Green Strategy, inclusion in the next financial framework and EU programmes, and computerisation of processes.

The central component of strategic planning comprises internal medium-term macroeconomic scenarios that define the fundamental assumptions regarding the development of the business environment in which SID Bank operates. It follows from scenarios and their weights that stimulating the economy at a moderate level will be required in the next three years, while focusing primarily on 'development gaps' and the promotion of sustainable economic growth.

SID Bank's development strategy for the period 2022–2024 pursues two fundamental objectives: (1) a high multiplier and sustainability effects in the economy and society, and (2) own performance that ensures the long-term financial viability of the Bank's operations.

Mission statement, vision and values

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

SID Bank breaks down its vision of strategic success until 2025 into four aspects.

- From the aspect of key stakeholders' expectations, within the framework of its mandates, SID Bank will increase the scope of its services while ensuring its ongoing financial viability. It will work proactively in formulating and implementing Slovenia's long-term development strategies, and will act as the main channel for placing government and EU funds with the real sector, contributing significantly to the green transformation of the economy.
- In terms of external relations, SID Bank will play an important liaising role in the framework of Slovenia's system of public promotion. In addition, it will work with development incubators, chambers and educational institutions in the domestic environment. It will also strengthen cooperation with international financial institutions and associations active in development, and will continue to base its operations primarily on cooperation with commercial banks. SID Bank will provide companies with development potential debt and equity financing in all phases of development, and prioritise financial engineering. A major part of activities will focus on project and export financing, and on financing a sustainable infrastructure.

- In terms of internal processes and capabilities, SID Bank is driven to provide high-tech support for its business processes, which are capable of adapting quickly to market and internal 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, which will be incorporated into its pricing policy.
- In terms of the organisational structure, culture and resources, SID Bank will strive for sound process management and organisation, high job flexibility with highly qualified staff, process automation, and effective decision-making, while ensuring a high level of internal and external operational transparency. SID Bank strives to ensure that its operations are transparent, efficient and socially responsible, with concern for its staff and for its own internal growth.

  SID Bank dedicates special attention to the satisfaction and development of employees and the promotion of the Bank's internal growth. The Bank's core activities rely on the responsibility, professionalism, commitment, cooperation and creativity of its employees. These values are key to maintaining a high organisational culture, and constitute fundamental principles and guidance in employees' everyday work, and in mutual contacts with customers and other stakeholders.

Adjustments to the business model

In 2021 SID Bank proceeded with its intervention role and activity focused on anti-crisis financing and insurance, primarily in the scope of programmes addressing direct, indirect financing and insurance, which were introduced in 2020. A programme of direct financing of economic operators in the area of road transport was added as a loan fund in that respect. SID Bank also stimulated economic recovery with the reinforcement of its development activity, for which new direct financing programmes were introduced for financing investment projects that contribute to the transition to a circular economy, working capital and investments with the possibility of an EGF guarantee (from internal resources).

In 2021 SID Bank, in terms of sustainable operations, took two important steps forward:

- it transitioned to a new, adjusted concept for assessing companies that is based on an assessment of ESG factors and the customer's core activity; and
- adopted a sustainable financing policy with which SID Bank sets a very important ultimate goal – the achievement of climate neutrality by SID Bank by 2050, inclusive.

More details in the section Promoting circular economy and sustainable operations.

Policies in 2022

SID Bank's activity in the coming period is based on five product pillars:

- direct financing via financial engineering;
- financing the economy through inclusion in the EU programmes of the financial framework 2021–2027;
- strengthening financing via banks by forming guarantee schemes and/or with the co-take up of risks;
- financing from programmes on the basis of ECP funds;
- direct financing on the basis of the Market Economy Operator Principle (MEO) or under state aid rules.

Aimed at implementing SID Bank's vision of strategic success the following key strategic activities have been envisaged for the coming medium-term period:

- establishing comprehensive information support;
- upgrading cooperation with financial intermediaries on the basis of the co-take up of risks and digitalisation;
- an effective HR policy;
- inclusion in EU's next multiannual financial framework;
- implementation of SID Bank's Green Strategy; and
- software support for the financing process.

In 2022 SID Bank will implement activities for the introduction of products aimed at the inclusion of commercial banks in the co-take-up, sharing or partial coverage of risks, as well as other products. In connection with the new Next Generation EU European recovery and resilience package and the updated and enhanced draft multiannual financial framework for the period 2021–2027, SID Bank will strengthen activities for inclusion in the next financial perspective framework as one of the key pillars of the functioning of that framework in the next strategic period. Focus in the scope of export financing in 2022 will be on increasing the number of supported exporters, the geographic diversification of exports and connecting with other banks in the realisation of major transactions. In terms of export insurance, SID Bank is planning an expansion of insurance to loans to secure long-term funds in the scope of preparations for exports.

SID Bank will further enhance its activities in the monitoring and management of environmental risks. It will continue to function proactively and in line with regulatory trends, and to systematically prepare itself for new developments in connection with the integration of climate and ESG factors in business processes and products. The management of climate and other environmental risks is shifting to the very core of the Bank's operations and business processes. SID Bank will invest in technology, data and employees, which will increase its knowledge capital in the area of sustainable financing. It will thus define more clearly its role as the leading bank in the promotion and financing of the transition to a sustainable economy.

Operating guidelines in 2022 will require the further adaptation of internal processes in such a way that sales departments will focus increasingly on direct communication with customers and the conclusion of (new) transactions, and on more active communication with financial intermediaries with the aim of identifying and addressing their needs and expectations. SID Bank will continue with the gradual digitalisation of its operations. With regard to upgrading information support, the Bank's strategy envisages the effective implementation of a new core system and the upgrading of technical support for the financing processes.

MACROECONOMIC ENVIRONMENT IN 2021[5]

International environment

After a sharp decline in global economic activity in 2020 (-3.4%) a strong rebound of 5.5% followed in 2021 in which the level of global GDP exceeded the pre-pandemic level. Recovery was clearly varied, while rapid economic growth alongside persistent disruptions in supply chains, increased macroeconomic imbalances and growing inflation began to wane in the second half of the year. Certain restrictions were reimposed on economies and companies during a new pandemic wave, which were not as rigorous as in the previous year. All relevant institutions reduced their global economic growth forecasts for this year, which was additionally contributed by significant increases in geopolitical risks. The year 2021 was thus largely still marked by the progression of the COVID-19 pandemic.

Developing countries with GDP growth of 6.3% more than compensated for the decline in the previous year, but unlike the developed world their growth trend in the coming years will not return to the pre-pandemic pace. They also significantly increased their borrowing and unlike the developed countries 60% of them are close to or already at a point where they will be required to restructure their debt (liabilities). During this process, they also faced increased income inequality and an increased need for structural changes.

China recorded 8% economic growth last year, but in light of increased risks we cannot expect it to record the same or even higher growth rates than in the pre-pandemic period in the coming years, in particular as private consumption recovered slower than expected, with high risks connected with China's real estate sector already appearing in 2021. The rapidly growing real estate sector has been a major generator of economic growth, comprising a major source of both private and public income, over the last two decades. However, in 2021 the accumulated risks started to emerge; with their management in the coming years expected to affect economic activity.

Among advanced economies, the United States recovered the quickest, which used its 5.6% growth to more than compensate for the decline in 2020 (-3.4%), which was not the case in the euro area with 5.4% growth (2020: -6.4%), and to an even lesser extent Japan with a mere 1.7% growth (2020: -4.5%). Despite the (very) gradual lifting of the support measures demand remained relatively robust (despite changes in the structure and slight decrease in H2), which stimulated a renewed increase in investments, also supported by extensive public funding. An asymmetric shock caused by the pandemic and containment measures, the heterogeneity of recovery and the necessary adjustments due to the changed structure in demand caused a series of inconsistencies and tension on markets also in 2021. The constant focus of demand on products contributed significantly to the burdening of supply chains (shortage of semiconductors, rare metals and other raw materials), while the gradual return to services led to increased tension on the labour market. The resulting imbalances, considerable amounts of liquidity and additional fiscal and other incentives contributed to growth in inflation and its persistence, which exceeded the forecasts issued by core institutions. Energy prices, in particular, rose in the second half of the year, which in part was also translated into other areas. Increased inflation thus significantly impacted expectations regarding future monetary policy in the second half of the year.

As a result of record-breaking low interest rates and extensive programmes of central bank bond purchases, the risks of asset bubbles increased in 2021; developed capital markets reached new record-breaking highs and concluded the year significantly above the starting prices (S&P 500 + 27%, Euro Stoxx 50 + 24%), while the consequences of the expansive monetary policy were also visible in a notable increase in

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

investments in less conventional forms (cryptocurrencies, NFTs). At the end of the year, major sector-based repositioning began on developed markets, as investors in the context of growing inflation and expected deterioration in monetary policy began to transfer their investments in large amounts from one segment of companies with potential high returns in the distant future into a segment with already proven annual returns.

A similar dynamic was seen in real estate markets; the growth in the prices of real estate was also pronounced in the euro area at 9.4% (the highest growth since 2005 was recorded in the second quarter of the previous year). This was the result of favourable borrowing terms, which were expected to persist in the euro area longer than in the United States, as markets expected the ECB to be more reserved in rising interest rates than the FED. Consumption in the euro area was high in 2021, with growth in private consumption (3.4%) not reaching growth in government consumption (3.8%). The latter was still supported by extensive borrowing and budget deficits in countries, with growth in the debt-to-GDP ratio slowing and stabilising below 100%. The expected deterioration in borrowing terms will lead to additional risks. Otherwise, robust consumption and the further recovery outlook stimulated investment into property, plant and equipment (3.5%) in the euro area. Euro area countries also recorded high budget deficits in the second year of the pandemic, standing at -5.5% in the euro area on average (2020: -7.2%), while the debt-to-GDP ratio stabilised around 95.8% due to the latter's growth. In terms of growth in the euro compared to the most important currencies in 2020, the euro depreciated vis-a-vis most currencies last year, especially in the final months of the year, to pre-pandemic levels.

The required yield on government bonds in the euro area in 2021, in the context of increased inflation, rose slightly (primarily recording an increase in February and then also in September). However, due to the rapid spread of the omicron variant of COVID-19 there was a prevailing conviction on markets at the end of the year that rises in interest rates could occur later than initially expected, leading to the end of growth in the required yield on bonds. The yield on the 10-year German government bond still persisted in red at the end of the year (at -0.18%; at the end of 2020: -0.58%). With the increased issue of green bonds *'greenium'* reduced (the difference in the premium between the comparable green and ordinary bond); after standing at 4.5 basis points in October for the German government bond with maturity in 2050 the difference fell to 3.8 basis points at the end of the year.

Slovenian economy

Unlike the euro area, the Slovenian economy with growth in GDP of 8.1% compensated for last year's decline in activity, with the annual GDP exceeding EUR 50 billion for the first time. Private consumption (also due to a low starting position in 2020) recorded a notable rise and reached similar levels to those prior to the pandemic in 2019, while government consumption persisted notably above the pre-pandemic levels also in 2021. Economic activity was visibly driven throughout the year by activities linked to international trade. These activities saw disruptions in international supply chains. However, these disruptions did not affect all activities to the same degree. In the context of strong export demand, activity in the manufacturing sector was very intensive (activity only subsided in part in the third quarter), despite the entire automotive industry seeing restrictions due to the global shortage of semiconductors. Production capacity utilisation was extremely high, reaching 86.2% in the third quarter, which since 1996 has only been exceeded once (86.3% in the second quarter of 2018). In 2021 the value of industrial production was 10.2% higher than in 2020 (in manufacturing sectors by 11.7%). The value of construction work in 2021 was down on the previous year, but this can be attributed in part to the fact that the construction sector in Slovenia was not affected in the first year of the pandemic compared with the average figures in the euro area. High growth and solid outlooks also stimulated growth in investments in property, plant and equipment, which reached 12.6% relative to 2020. During transition from the third to the last quarter of the year, economic sentiment deteriorated slightly (which was also impacted by the significant growth in energy prices), but remained solid, but then recovered over the last two months of the year and remained above the value from the previous year and its long-term average. Economic growth thus exceeded the level of the euro area throughout the year, despite Slovenia also being hit by the COVID-19 wave with the significantly more transmissible variant omicron.

Exports recorded growth of 13.2% and imports even 17.4% in 2021, in part also due to an increase in inventories that were generated by companies due to disruptions in supply chains; in part due to cautiousness, in part due to necessity (the value of inventories in 2021 was 4.9% higher than in 2020 and 6.5% higher than in 2019). Service imports and exports have not reached the level of 2019, primarily on account of the lower volume of tourism. The situation was also better in the domestic service sector than in 2020, but did not reach the pre-pandemic level.

A high level of economic activity also gave rise to good conditions on the labour market, especially in the second half of the year when the workforce in employment figure reached new record-breaking levels each month; around 916,800 workforce in employment in December, with only 65,969 registered unemployed workers. The average gross salary in 2021 was 6.1% higher in nominal terms than the 2020 salary, but was actually higher by 4.1% in real terms. As a result, the subjective understanding of the quality of living in Slovenia improved; 29% of household responded in a SORS survey that their income allows them to get by each month without any problems, which is nine percentage points higher than in the previous year. The percentage of households which believe that they have difficulties getting by each month stood at 13% in 2021, which was down by 7 percentage points on 2020. Similar to other economies, Slovenia also failed to avoid growing inflation; the annual inflation rate was 4.9% in 2021 (compared with -1.1% in 2020), and averaged 1.9% for the year (compared with -0.1% in 2020). During this period, prices increased at a significantly higher rate for merchandise (by 6.7%) than for services (by 1.5%). The fiscal policy in Slovenia remained strongly accommodative in 2021, which resulted in EUR 3.0 billion in general government deficit (2020: EUR 3.5 billion), with government debt reaching 74.7% in GDP at the end of the year, which is down on (primarily due to the effect of GDP growth) last year's figure of 79.8%.

In the context of high economic growth, increase in investments and high employment, certain risks in the Slovenian economy (similar to other countries) increased significantly, the long-term threat to further economic development also being one of them; from high government debt, rising prices of energy, raw materials and food, and the translation of inflation into inflation expectations, to the unpredictable development of the pandemic, labour force shortages, and high level of business-to-business lending, which in the event of deterioration leads to cascading effects. Transitioning from the resolution of an acute crisis to the resolution of structural problems also brings major challenges that will be accompanied by risks during the structural adaptation of the energy sector and other systems when pursuing EU policies to climate neutrality for society as a whole.

Banking environment

The operations of the ECB in 2021 also ensured that borrowing terms for all euro area countries remained very favourable. Liquidity in the Slovenian banking system remained at a high level throughout the year, while financing terms remained very favourable in general. After corporate loans declining in 2020 compared to the euro area, their growth of 6.3% in 2021 exceeded growth in lending in the euro area. To that end, an overview of the dynamic throughout the entire euro area indicates a notable spike in lending in December; the stock of new loans on a monthly basis is more than three times higher than that of November. However, this most likely cannot be attributed to an increase in the amount of investments or to a more positive economic sentiment, but is more likely a change in the trend for a one-off event of the adaption of banks. The reference period that provides banks with a more favourable interest rate on assets borrowed in the scope of targeted longer-term refinancing operations (TLTROs) expired in December, if these banks did not reduce their portfolio from October 2020 to December 2021 (a similar spike was also recorded in March when the previous reference period had expired).

Unlike in the previous year, in 2021 the Slovenian banking system increased household (retail) loans by less than corporate loans, i.e. by 5.1%, where the stock of housing loans increased by no less than 9.1%, while the amount of consumer loans decreased (-4.6%). The Slovenian banking system's total assets amounted to EUR 48.3 billion at the end of 2021, which was up by 8.1% on 2020. In 2021 the trend of reducing the proportion of loans to non-financial corporations in the portfolio continued; this proportion was at only 19.2% at the end of the year (while cash, cash balances at central banks and sight deposits at other banks, and securities and financial assets were at 41.1%).

Corporate lending is thus still at a relatively low level, which is primarily the result of demand and not supply; the terms of financing at banks remained favourable throughout the year. Companies increasingly used their own surplus funds for their investment activities in 2021 (unlike the precautionary saving in 2020 corporate surplus funds reduced by almost EUR 1 billion in 2021), as well as the trend of increased business-to-business lending continuing.

The proportion of non-performing exposures in the Slovenian banking system declined throughout the year (which is a continuation of the multiannual trend that was seen in most EU countries), with the accommodation and food service sector being the exception, which due to long-term restrictions on operations was finding it increasingly difficult to handle the financial burden. The level of the Slovenian banking system's non-performing exposures to non-financial corporations further declined in 2021, i.e. from 3.9% at the start of the year to 2.3% at the end (the accommodation and food service sector from the already high 10% to 13.2% at the end of the year).

With the improvement of the economic situation macroeconomic risk and also the ensuing credit risk of the entire banking system declined throughout the year (i.e. two types of risks that increased significantly due to the pandemic). Despite this income risk, which can impair the stability of the entire system, remains evident. The interest margin of Slovenian banks has been declining from year to year, while non-interest income cannot sufficiently compensate for the loss in interest margins. Increase in profits relies mostly on the decomposition of impairments and provisions (which in the past exceeded the level of the euro area average). The capital adequacy of the Slovenian banking system remains sound; the total capital ratio and the Common Equity Tier 1 capital (CET1) ratio, which stood at 18.2% and 16.8%, respectively, were both at similar levels at the end of 2021 than at the end of 2020.

In October the Bank of Slovenia revoked the validity of the macroprudential liquidity recommendation for monitoring the structure of financing from 2014, which it used to attempt to slow the decline in the LTD ratio. Since the situation has changed dramatically since then (as deposits by the non-banking sector exceed the stock of loans to the non-banking sector by one half, unlike before when loans prevailed over deposits), the Bank of Slovenia determined that the recommendation was no longer relevant. The Bank of Slovenia also did not extend the macroprudential measure that had temporarily (until the end of September) in deteriorating economic conditions restricted banks and savings banks from profit distributions, or the recommendation to leasing companies advising moderation in profit distributions.

In 2021 the entire Slovenian banking sector accelerated the adjustment of its operations to the new and coming regulatory framework relating to sustainability; banks thus implemented sustainable financing guidelines, which were created under the auspices of the BAS with a significant contribution from SID Bank.

At the end of 2021 SID Bank accounted for 5.9% of the total assets of the entire Slovenian banking system, which was less than in the previous year (6.5%), but still more than in the pre-pandemic year of 2019 (5.8%). This is in line with the mandate given to it as a development bank, which tasks SID Bank with focusing on market gaps, also cyclical gaps, due to which it increased its scope of operations tremendously upon the outbreak of the pandemic, but in 2021, when the financing gap narrowed, SID Bank also stopped increasing its scope of operations.

Impact of the external environment on operations

In 2021 the liquidity of the Slovenian banking system was continuously at a very high level, and as such SID Bank constantly decreased its operations via banks and tried to focus more on direct financing. Given the needs of the corporate sector, it prepared a programme to finance working capital and investments with the possibility of utilising the Pan-European Guarantee Fund guarantee. In accordance with its broad focus on stainability projects, SID Bank used its knowledge from this area and via the 'NALOŽBE 3' programme directed its funding into investments projects that contribute to the transition to a circular economy.

With a small debt financing gap in the system, SID Bank began its transition from intervention to development activity with long-term focus on sustainability projects with maximum social effect. A new programme for financing public sector entities 'JAVNI SEKTOR 1' was thus developed in 2021. Comparatively lower demand for loans relative to other countries of the euro area further encouraged SID Bank to develop additional equity and quasi-equity forms of financing that focus on development, research and innovations; in collaboration with the EIF and the Croatian Bank for Reconstruction and Development, SID Bank set up a regional technology transfer platform (CEETT platform) in 2021. As a response to exceptional changes in the macroeconomic environment (caused by the pandemic) the European Union finalised its agreements with Member States in 2021 regarding the directing of funding from the recovery and resilience facility. SID Bank with its extensive experience in placing EU funds thus dedicated more of its attention to the Slovenian recovery and resilience plan, and sought ways to direct this funding in the most effective manner into the Slovenian corporate sector and society. Due to the small time frame to earmark these funds into specific projects, programmes were adopted in Slovenia that directed the funds into the corporate sector in the fastest possible way, meaning through non-refundable means and without using a variety of financial instruments. As a result, SID Bank took no part in the mediation of the majority of these funds. In 2021 SID Bank as the manager of the FI 2014–2020 Fund of Funds successfully drew down the third tranche of ECP funds, and in the scope of the COVID-19 Fund of Funds the third and fourth tranche. The macroeconomic conditions therefore gave rise to the SID Bank's operations to be similar in terms of volume to the level of the previous year, and in terms of structure adapted to the circumstances.

Impact of COVID-19 on operations

SID Bank directed a significant portion of its operations into direct financing of sectors that were among the most affected due to COVID-19 (tourism, a new loan fund for financing road transport, etc.) and the entire SME segment, which was hit harder by the pandemic compared to the average effect on large enterprises. The impact on companies during the pandemic was extremely varied, with micro and small enterprises with not much liquidity reserves requiring additional support for both resilience and extensive growth. SID Bank will therefore provide targeted support in the future to small and medium-sized enterprises and finance their development and, where necessary, their penetration onto foreign markets. SID Bank extended the financing lines that were intended to mitigate the consequences of the pandemic on the economy and maintained their implementation in 2021. COVID-19 impacted the internal activity of the Bank primarily through the required adjustments for the safe performance of processes that were already introduced in 2020 and in 2021 were adjusted to the development of the pandemic.

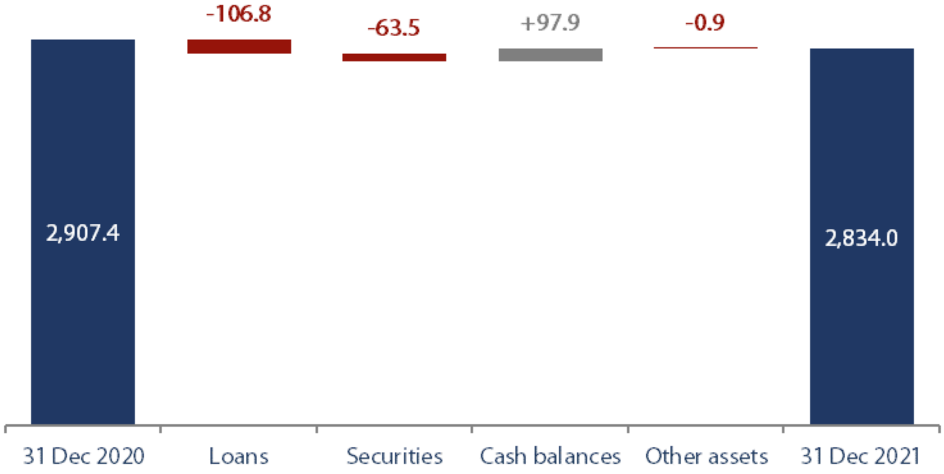
OVERVIEW OF FINANCIAL PERFORMANCE

Financial position of SID Bank

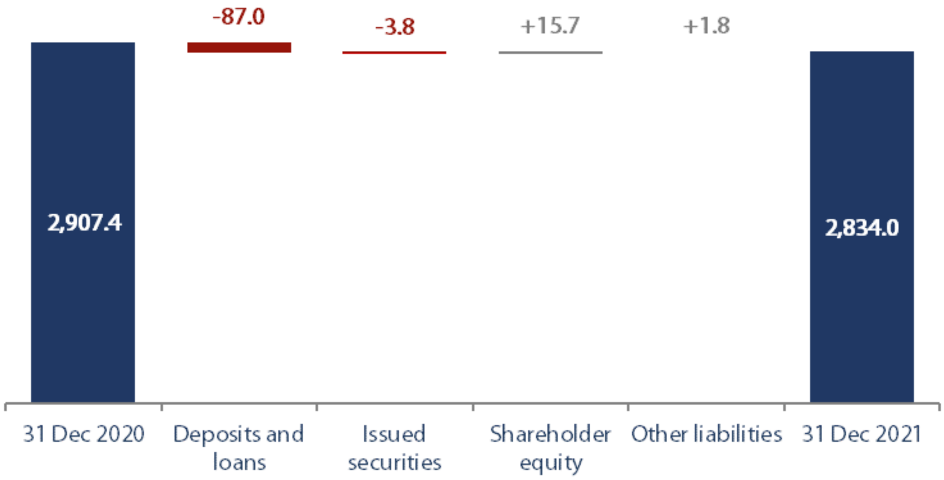
Total assets

SID Bank's total assets at the end of 2021 stood at EUR 2,834,032 thousand, a decrease of 2.5% or EUR 73,326 thousand relative to the end of the previous year.

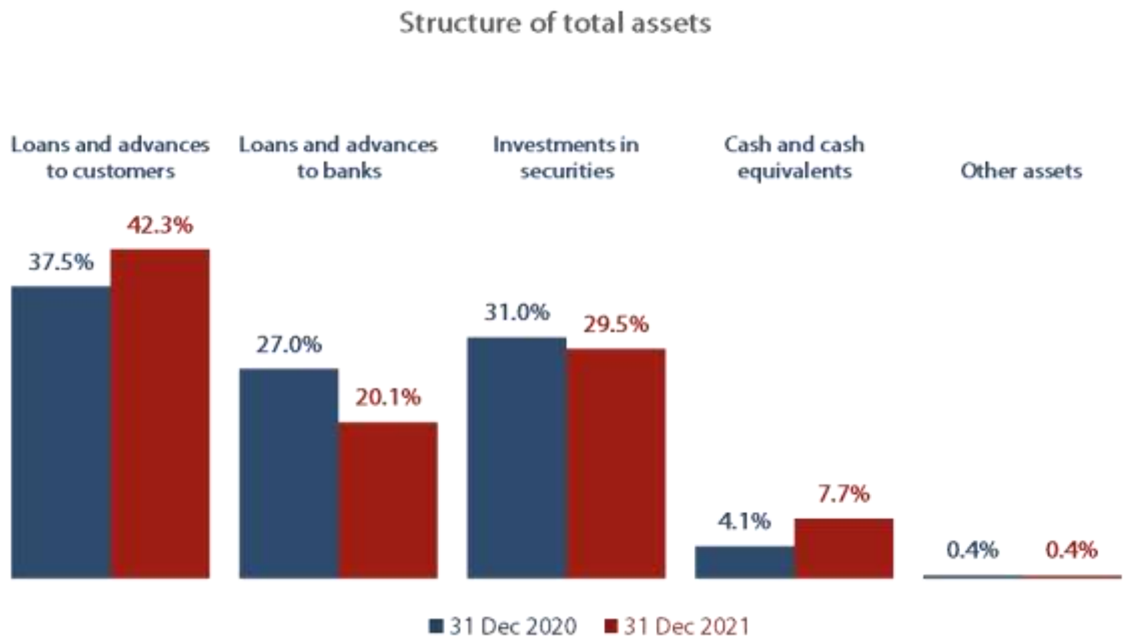
Changes in assets in 2021 (in EUR million)



Changes in liabilities and equity in 2021 (in EUR million)



Assets



At 42.3%, loans and advances to customers accounted for the highest proportion of the Bank's assets in 2021, with growth in total assets of 9.9% during the year. The stock of loans and advances to customers stood at EUR 1,199,698 thousand at the end of 2021 (2020: EUR 1,091,560 thousand). Accounting for the highest proportion were loans to Slovenian non-financial corporations (83%), followed by loans to the government sector (primarily loans to municipalities and loans for the infrastructure) at 15%, while the remainder was accounted for by loans to other financial organisations, foreign non-financial corporations and loans to sole traders.

9.9% growth in loans and advances to customers

Loans and advances to banks, which include loans and deposits, totalled EUR 568,769 thousand at the end of the year, a decrease of EUR 27.4% relative to the end of 2020. The proportion of the Bank's total assets accounted for by loans and advances to banks fell to 20.1% in 2021 (2020: 27.0%). Loans to Slovenian banks, which as financial intermediaries mediate development funds to final beneficiaries, accounted for 87% of loans and advances (excluding deposits) to banks at the end of the year (2020: 91%). The other 13% was accounted for by loans to foreign banks for financing the export transactions of Slovenian firms.

Loans are broken down in detail in the section entitled Financing.

Investments in securities amounted to EUR 837,005 thousand at the end of 2021 (2020: EUR 900,538 thousand). A total of 95% of investments relate to debt securities, the stock of which stood at EUR 796,197 thousand at the end of the year (2020: EUR 876,566 thousand). *Debt securities are broken down 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 implements within the framework of the Slovene Equity Growth Investment Programme (EUR 19,885 thousand in 2021 and EUR 9,366 thousand in 2020), investments in the Three Seas Initiative investment fund in the amount of EUR 8,421 thousand (2020: EUR 8,066 thousand) and the Bank's holding in the European Investment Fund in the amount of EUR 12,502 thousand (2020: EUR 6,540 thousand). *The equity financing programme is described in the section Financing.*

The proportion of the Bank's total assets accounted for by investments in securities stood at 29.5% at the end of 2021 (2020: 31.0%).

SID Bank had EUR 218,126 thousand in cash balances at the central bank and at commercial banks at the end of 2021, which were up by 81.5% on the previous year; and their proportion of the Bank's total assets increased from 4.1% at the end of 2020 to 7.7% at the end of 2021.

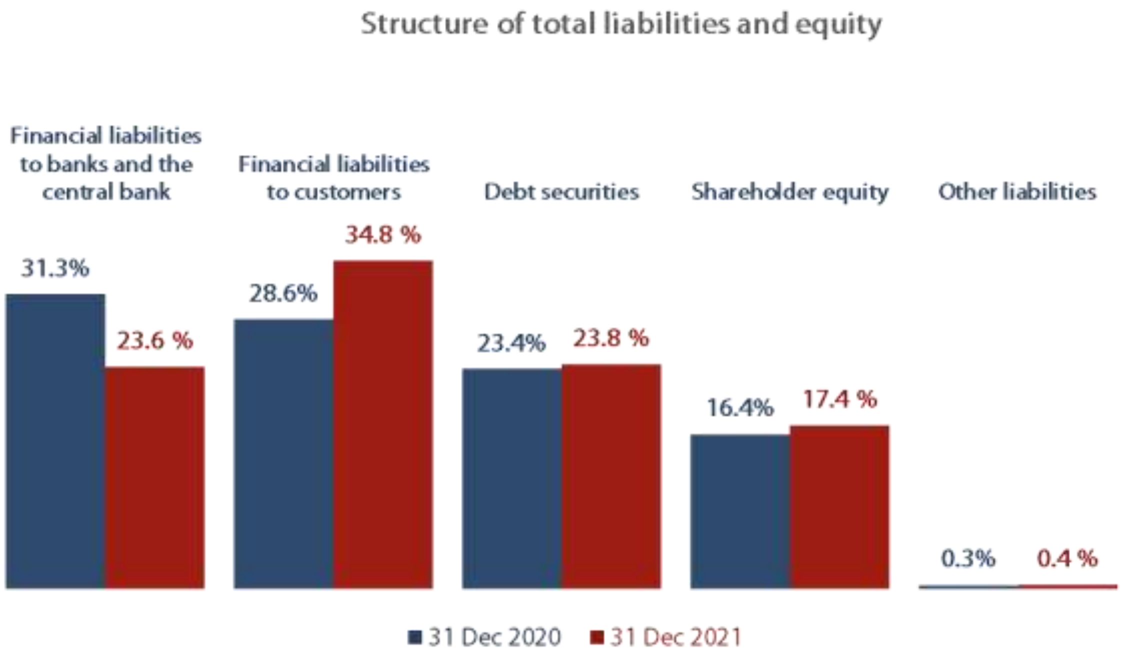
Other assets in the amount of EUR 10,434 thousand comprised:

- property, plant and equipment and intangible assets in the amount of EUR 5,056 thousand (2020: EUR 5,328 thousand);
- corporate income tax assets in the amount of EUR 1,663 thousand (2020: EUR 2,423 thousand);
- all other financial assets in the amount of EUR 2,601 thousand (2020: EUR 2,383 thousand); and
- other assets in the amount of EUR 1,114 thousand (2020: EUR 1,214 thousand).

	Actual		Index	Structure	
in EUR thousand	31 Dec 2021	31 Dec 2020	2021/2020	31 Dec 2021	31 Dec 2020
Loans and advances to customers	1,199,698	1,091,560	109.9	42.3%	37.5%
Loans and advances to banks	568,769	783,725	72.6	20.1%	27.0%
Investments in securities	837,005	900,538	92.9	29.5%	31.0%
Cash and cash equivalents	218,126	120,187	181.5	7.7%	4.1%
Other assets	10,434	11,348	91.9	0.4%	0.4%
Total assets	**2,834,032**	**2,907,358**	**97.5**	**100.0%**	**100.0%**

Equity and liabilities

SID Bank's equity and liabilities comprised liabilities in the amount of EUR 2,342,266 thousand and shareholder equity in the amount of EUR 491,766 thousand at the end of 2021. Liabilities accounted for 82.6% of total equity and liabilities (2020: 83.6%), while equity accounted for 17.4% (2020: 16.4%).



Liabilities were down by EUR 88,985 thousand on the previous year. Financial liabilities to banks and the central bank went down the most (by EUR 242,111 thousand), while financial liabilities to customers were up by EUR 155,135 thousand.

With 34.8% of total equity and liabilities, the highest proportion of total equity and liabilities was accounted for by loans and advances from customers amounting to EUR 987,512 thousand at the end of 2021, an increase of 18.6% relative to the end of the previous year. The EUR 75 million increase was the result of a transfer of SID Bank's liabilities from the Bank to another financial organisation, meaning that the actual increase in loans of research institutions and MEDT and MI funds was EUR 80 million.

Liabilities to banks and the central bank, which decreased by EUR 242,111 thousand relative to the previous year (of which EUR 75 million was the result of the aforementioned transfer of SID Bank's liabilities from the Bank to another financial organisation), amounted to EUR 667,859 thousand at the end of 2021 (2020: EUR 909,970 thousand). Their proportion of total equity and liabilities declined from 31.3% to 23.6% at the end of 2021. Most of the decline was accounted for by liabilities for long-term loans of development banks, while liabilities to the central bank increased by EUR 22 million.

Securities stood at EUR 675,479 thousand at the end of 2021 (2020: EUR 679,327 thousand); their proportion reaching 23.8% (2020: 23.4%).

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

Provisions in 2021 were down by EUR 1,988 thousand and stood at EUR 2,647 thousand at the end of the year. They are broken down into provisions for off-balance-sheet liabilities arising from guarantees and approved undrawn loans in the amount of EUR 1,091 thousand and provisions for liabilities to employees in the amount of EUR 1,556 thousand.

Corporate income tax liabilities increased by EUR 2,792 thousand relative to the previous year, and at the end of 2021 stood at EUR 3,494 thousand.

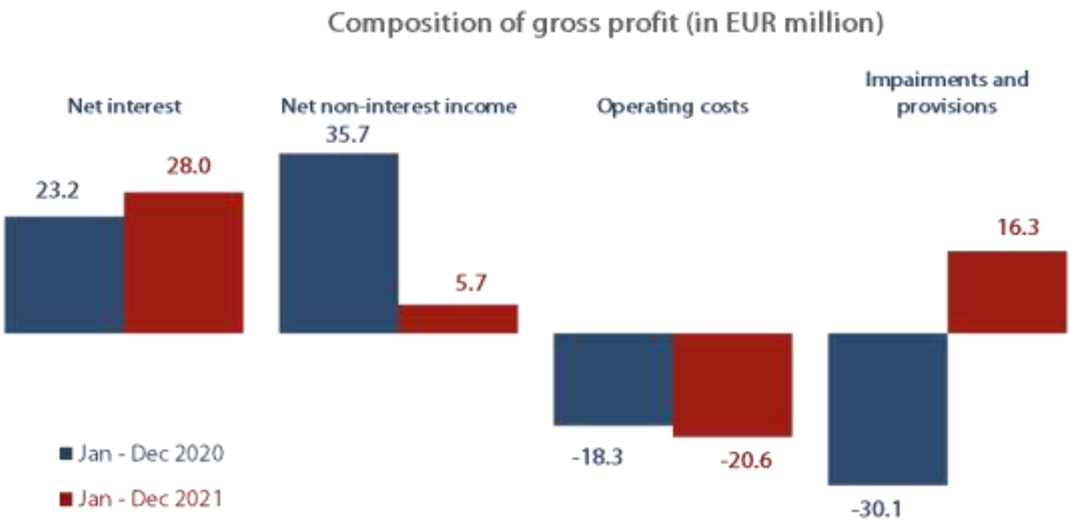
Other liabilities in the total amount of EUR 5,275 thousand comprised:

- other financial liabilities in the amount of EUR 1,947 thousand (2020: EUR 1,837 thousand);
- hedging derivatives in the amount of EUR 1,924 thousand (2020: EUR 1,087 thousand); and
- miscellaneous liabilities in the amount of EUR 1,404 thousand (2020: EUR 1,316 thousand).

SID Bank's equity was up by EUR 15,659 thousand or 3.3% in 2021, to stand at EUR 491,766 thousand at the end of the year. Accumulated other comprehensive income was down by EUR 8,371 thousand, and profit reserves and retained earnings (including net profit for financial year) were up by EUR 16,649 thousand and EUR 7,381 thousand, respectively, relative to the previous year.

Capital increase by EUR 16 million

	Actual		Index	Structure	
in EUR thousand	**31 Dec 2021**	**31 Dec 2020**	**2021/2020**	**31 Dec 2021**	**31 Dec 2020**
Financial liabilities to banks and the central bank	667,859	909,970	73.4	23.6%	31.3%
Financial liabilities to customers	987,512	832,377	118.6	34.8%	28.6%
Debt securities	675,479	679,327	99.4	23.8%	23.4%
Shareholder equity	491,766	476,107	103.3	17.4%	16.4%
Other liabilities	11,416	9,577	119.2	0.4%	0.3%
Total equity and liabilities	**2,834,032**	**2,907,358**	**97.5**	**100.0%**	**100.0%**



SID Bank generated a pre-tax profit of EUR 29,486 thousand in 2021, which was reflected in a return on equity of 6.1% (2020: 2.2%).

Gross profit was up by EUR 19,024 thousand relative to 2020, while net profit for the financial year amounted to EUR 24,030 thousand, an increase of EUR 15,540 thousand relative to the previous year.

Higher profit relative to the previous year was mostly the result of net income from the reversal of impairments of loans (the Bank generated net expenses in 2020), higher generated interest income from loans granted, positive valuation of equity instruments in the scope of the Slovene Equity Growth Investment Programme (SEGIP) and one-off effects connected with the repayment of loans measured at fair value.

Net profit: EUR 24 million

Net interest

The Bank generated net interest in the amount of EUR 28,006 thousand in 2021, an increase of EUR 4,813 thousand or 20.8% on 2020 (2020: EUR 23,193 thousand). The Bank's interest income amounted to EUR 33,177 thousand (2020: EUR 28,121 thousand), while interest expenses amounted to EUR 5,171 thousand (2020: EUR 4,928 thousand).

Higher net interest is mostly the result of higher income from interest on loans granted, of which EUR 1,823 thousand was accounted for by extraordinary income from one-off effects associated with the early repayment of loans mandatorily at fair value through profit or loss. Without these effects net interest would amount to EUR 26,183 thousand.

Net interest account for 83.0% of the Bank's total net income (2020: 39.4%). The Bank recorded a net interest margin of 1.0% in 2021 (2020: 0.9%). Without this extraordinary income the interest margin would amount to 0.9%.

Interest margin 1.0%

Non-interest income

Net non-interest income amounted to EUR 5,718 thousand in 2021, a decrease of EUR 29,984 thousand relative to 2020 (2020: EUR 35,702 thousand).

Lower net non-interest income is mostly the result of net loss from financial liabilities measured at amortised cost from the positive result generated by loan funds (the loan fund result was negative in 2020). Under the contract each positive/negative financial result increases/decreases SID Bank's liabilities to the MEDT.

Net losses from financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 11,628 thousand (2020: net profit in the amount of EUR 22,962 thousand) comprise:

- net losses from financial liabilities measured at amortised cost in the amount of EUR 12,489 thousand (2020: net profit in the amount of EUR 20,900 thousand), of which EUR 12,521 thousand relates to losses from the positive operations of loan funds; and
- net gains on financial assets measured at fair value through other comprehensive income in the amount of EUR 861 thousand (2020: EUR 2,060 thousand), which relates to the effects of the purchase/sale of securities.

Net gains on non-trading financial assets mandatorily measured at fair value through profit or loss in the amount of EUR 13,335 thousand (2020: EUR 8,710 thousand) relate to net gains on loans in the amount of EUR 10,460 thousand (2020: EUR 9,427 thousand) and net gains on equity instruments in the amount of EUR 2,875 thousand (2020: net losses in the amount of EUR 717 thousand). Most gains on loans resulted from one-off effects associated with the early repayment of loans.

Net fees and commission amounted to EUR 1,544 thousand in 2021 (2020: EUR 293 thousand). The most notable increase was in fee and commission income from loans granted (by EUR 1,287 thousand), to stand at EUR 1,783 thousand (2020: EUR 496 thousand).

The Bank received dividends in the amount of EUR 446 thousand in 2021 (2020: EUR 316 thousand).

Expenses from changes in fair value in hedge accounting amounted to EUR 36 thousand in 2021 (2020: revenues in the amount of EUR 126 thousand).

The majority of other net operating income in the amount of EUR 3,482 thousand relates to income from activities under Republic of Slovenia authorisation in the amount of EUR 2,572 thousand (2020: EUR 2,941 thousand), which was down primarily due to the failure to conclude the agreement for new guarantee schemes (ZIUZEOP, ZDLGPE), while income from activities implementing the Fund of Funds under Republic of Slovenia authorisation increased. The Bank's income as a financial intermediary from the fee for the implementation of the Fund of Funds, which amounted to EUR 744 thousand increased (2020: EUR 454 thousand), while other operating income was down and stood at EUR 166 thousand (2020: EUR 456 thousand).

Net losses on change in repayment terms for financial assets measured at amortised cost amounted to EUR 1,399 thousand (2020: net losses EUR 573 thousand), while other net losses amounted to EUR 26 thousand.

The Bank's financial intermediation margin stood at 1.2% in 2021 (2020: 2.2%), down on the previous period primarily as a result of a more favourable result generated by loan funds and thus lower net non-interest income.

Operating costs

The Bank's operating costs amounted to EUR 20,563 thousand in 2021, an increase of 12.3% relative to 2020, most notably accounted for by labour costs and costs of services. The cost/income ratio (CIR) was at 61.0% in 2021 (2020: 31.1%). The higher CIR is mostly the result of lower net non-interest income due to net losses from financial liabilities measured at amortised cost from the positive result generated by loan funds.

Administrative costs amounted to EUR 19,577 thousand, with labour costs accounting for EUR 14,567 thousand of the aforementioned amount (2020: EUR 13,389 thousand), the costs of services accounting for EUR 4,438 thousand (2020: EUR 3,460 thousand), the costs of material accounting for EUR 177 thousand (2020: EUR 165 thousand), and the costs of taxes and membership fees accounting for EUR 395 thousand (2020: EUR 328 thousand). Amortisation and depreciation stood at EUR 986 thousand (2020: EUR 970 thousand).

The higher labour costs were also impacted by the higher average number of employees in 2021 relative to 2020. Since 2021 labour costs have also included costs in connection with remuneration given to supervisory board members (comparative figures also adjusted).

Growth in costs of services is primarily the result of the Bank's development activities.

Impairments and provisions

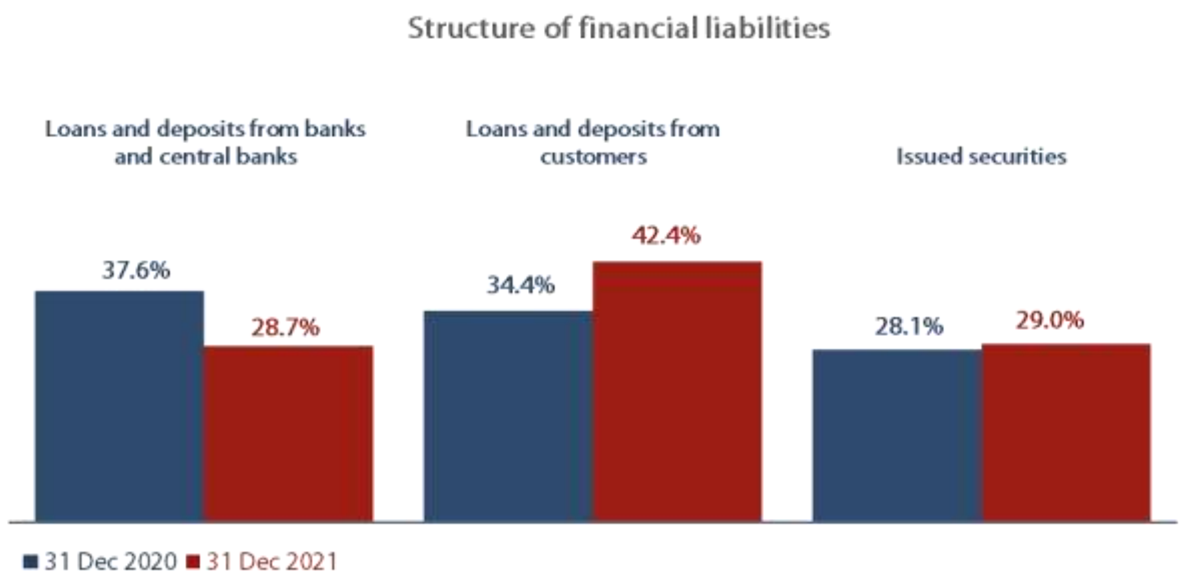
The Bank generated net income from the reversal of impairments and provisions in the amount of EUR 16,325 thousand in 2021 (2020: net expenses of EUR 30,121 thousand). Net income from the reversal of impairments amounted to EUR 14,353 thousand (2020: net expenses in the amount of EUR 27,839 thousand), of which income from the reversal of impairments of loans and other financial assets, measured at amortised cost, amounted to EUR 13,944 thousand and income from the reversal of securities' impairments EUR 409 thousand. Net income from the reversal of provisions stood at EUR 1,972 thousand in 2021 (2020: net expenses of EUR 2,282 thousand).

	Actual		
in EUR thousand	**Jan–Dec 2021**	**Jan–Dec 2020**	**Index 2021/2020**
Net interest	28,006	23,193	120.8
Net non-interest income	5,718	35,702	16.0
Operating costs	(20,563)	(18,312)	112.3
Impairments and provisions	16,325	(30,121)	--
Profit from ordinary operations	29,486	10,462	281.8
Corporate income tax	(5,456)	(1,972)	276.7
Net profit for financial year	**24,030**	**8,490**	**283.0**

BREAKDOWN OF OPERATIONS BY SEGMENTS

FUNDING AND LIQUIDITY

Funding



On the basis of Republic of Slovenia authorisation, SID Bank secures sources of funding on the domestic and foreign financial markets. In the process of securing funding it pursues the required diversification, primarily in terms of the type and geographic diversification of investors and type of financial instruments, which provides it with stable access to mostly long-term funding. Accordingly, SID Bank actively worked again with banks and other institutional investors in the domestic and international environment in 2021.

Since 2019 the European Central Bank (ECB) has been carrying out long-term refinancing (TLTRO-III) operations, which it adjusted to banks with their favourable interest rate and long maturity so that they could finance non-financial corporations even during the pandemic period and thus contribute to the quicker recovery of the euro area economy. In December 2020 the ECB announced that as of March 2021 it will enable banks to borrow additional amounts of a favourable three-year TLTRO-III funds. In 2021 SID Bank participated in the TLTRO-III tender in the amount of EUR 33,670 thousand, thus taking additional advantage of the allocated quota and securing a favourable long-term source of funding.

Due to sufficient liquidity and the long-term structure of sources of funding, SID Bank did not take on additional borrowing on international capital markets in 2021.

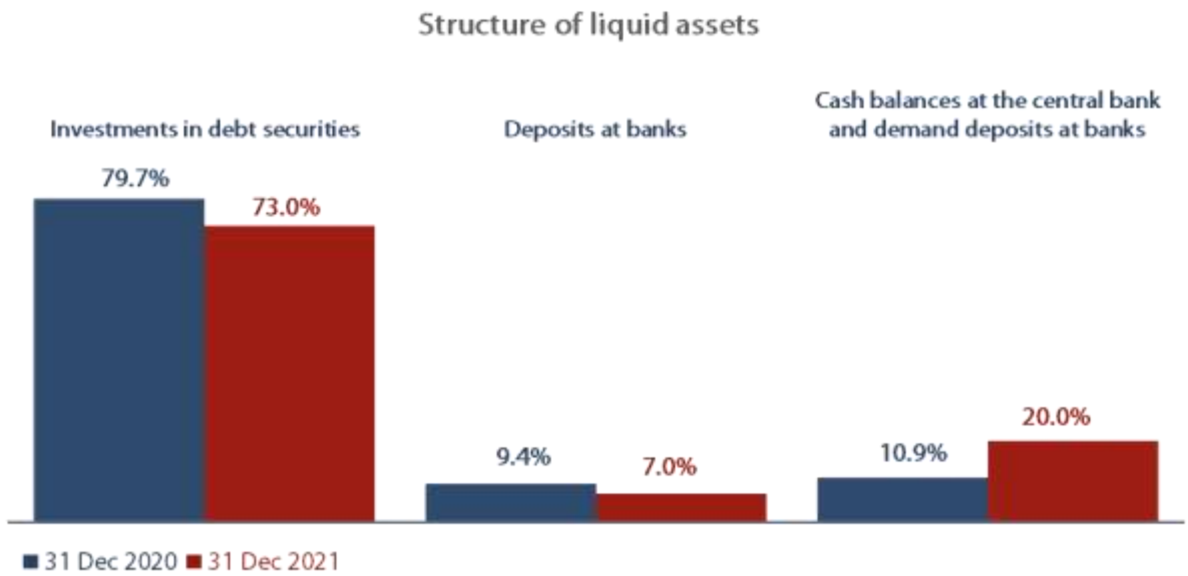
With the aim of generating new value for the target groups of final beneficiaries and to improve access to favourable long-term funding, the Bank's credit lines and programmes comprise long-term purpose-specific funding from the European Investment Bank, the Council of Europe Development Bank, Kreditanstalt für Wiederaufbau, the MEDT and the MI, in addition to other sources of funding. SID Bank adjusts the structure and scope of purpose-specific funding to financing needs.

SID Bank drew down EUR 25 million in purpose-specific funding from development institutions in 2021. SID Bank signed a new contract on long-term borrowing in the amount of EUR 50 million with the European Investment Bank for financing the infrastructure projects of municipalities and public funds. In addition, it also received EUR 44,359 thousand in 2021 in purpose-specific ECP funds for the direct implementation of five financial instruments via the existing 2014–2020 Fund of Funds and the COVID-19 Fund of Funds.

Liquid assets

SID Bank continued to maintain an appropriate level, quality and structure of liquid assets in 2021 for covering its expected and unexpected liquidity outflows and for business continuity in demanding circumstances.

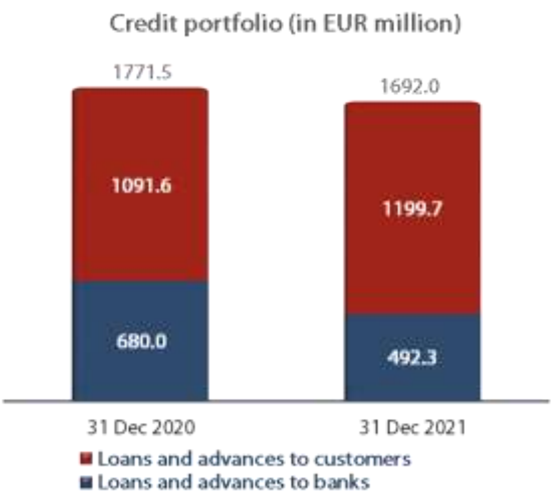
The Bank's liquid assets amounted to EUR 1,090,765 thousand at the end of 2021, representing 99% of the level at end of 2020. Accounting for the highest proportion of liquid assets at the end of 2021 were investments in debt securities in the amount of EUR 796,197 thousand (2020: EUR 876,566 thousand), followed by balances at the central bank and demand deposits at banks totalling EUR 218,126 thousand (2020: EUR 120,187 thousand), and deposits at banks totalling EUR 76,442 thousand (2020: EUR 103,763 thousand).

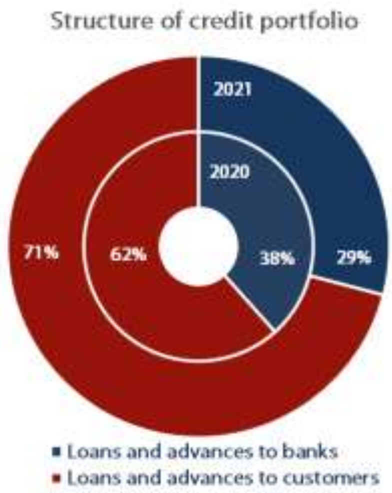


The Bank manages investments in debt securities for the purposes of liquidity provision, asset-liability management, and the stabilisation of the interest margin. In investing liquid assets in debt securities, the Bank follows a conservative and prudent strategy, as the majority of the portfolio comprises 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 location of the issuer. Around 67% of the entire debt securities portfolio is accounted for by government debt securities, securities with guarantees of EU Member States and securities of international organisations and multilateral development banks, followed by the debt securities issued by financial corporations and debt securities issued by non-financial corporations. In investments in new debt securities, investments in green bonds are given priority. The Bank does not implement 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 was 9.3% at the end of 2021. The average residual maturity of the debt securities portfolio was 3.9 years at the end of 2021.

The main challenges in the management of liquid assets related to the placement of liquidity surpluses in an environment of low or negative interest rates and increased volatility on financial markets. In 2021 market interest rates were mainly historically low, despite the economic recovery, on both the money and capital markets. The core topic on financial markets in the second half of the year was inflation and the corresponding expectations regarding the departure from current monetary policy terms, which could cause a growth in market interest rates and the associated tightening of financial conditions. In addition, the situation on financial markets deteriorated further due to increased geopolitical tensions regarding the war in Ukraine and the resulting economic sanctions, continued disruption to international supply chains and the growth in the prices of energy and raw materials. Due to the expected increased volatility on financial markets, SID Bank will continue to implement a conservative and prudent strategy for managing liquid funds in the future, with the primary aim of ensuring liquidity and security.

FINANCING





At the end of 2021 net loans totalled EUR 1,692,025 thousand (2020: EUR 1,771,522 thousand), a decrease of 4.5% on the stock at the end of 2020.

Financing is carried out with previously established instruments, including new instruments, and instruments adapted to actual needs. It is based on purpose-specific loans to commercial banks (global loans), direct loans to corporates classified as state aid (primarily in the form of financial engineering instruments) or without such classification, syndicated loans, loans to municipalities and the wider public sector, export credits, project financing, the purchase of receivables, accession to debt and other forms of risk take-up, as well as financial instruments via SID Bank's Funds of Funds that are provided indirectly via financial intermediaries or directly via SID Bank (FI 2014–2020 Fund of Funds and COVID-19 Fund of Funds). The scope and method of financing is implemented by SID Bank given the identified market gaps, market needs and activity of other financial institutions.

Due to the consequences of the COVID-19 pandemic and to support the revival of the economy, SID Bank also proceeded with its intervention role and anti-crisis financing in 2021, also strengthening its development activity. The range of financing programmes within financial engineering was complemented by direct and indirect financing from own funds, which was also reflected in an increase in the number of customers.

With the aim of stimulating economic recovery, the Bank developed a programme in 2021 for the financing of enterprises of all sizes for working capital and investments with the option of utilising the financial instrument implemented by the European Investment Fund within the scope of the Pan-European Guarantee Fund; i.e. a guarantee in the amount of 70% of the loan principal that serves as a loan collateral asset. The Bank also strengthened its financing of technological development projects, its cooperation in the drafting and implementation of investment, infrastructure and export projects, investments, and joined projects focusing on the circular economy, environmental protection and energy efficiency.

In the mediation of purpose-specific funding via commercial banks and savings banks, it enabled the use of adapted terms and conditions of indirect financing programmes to meet the needs of the economy during the pandemic and thus facilitated quicker and more simple provision of funds to companies. In cooperation 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 that focuses on the financing of investments and the financing of corporate liquidity needs in order to mitigate the consequences of the pandemic.

In its anti-crisis and development role, SID Bank concluded 174 direct financing and indirect financing transactions with financial institutions in 2021 in the total amount of EUR 253 million.

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

In 2021 SID Bank funds were used for loans in the amount of EUR 314.2 million granted directly, and via co-financing with commercial banks and via intermediary banks. The number of SID Bank customers increased by 7%, with 15% new customers.

There were 1,010 final beneficiaries financed indirectly via commercial banks and savings banks, and 875 borrowers financed directly by the Bank as at 31 December 2021. The funds were earmarked primarily for job preservation and creation, the financing of the current operations of primarily small and medium-sized enterprises, the internationalisation of business, the promotion of investments, research, development and innovation, an improved (education, municipal, etc,) infrastructure, energy efficiency, renewable energy sources, the reduction of pollution and increased environmental protection.

In terms of the primary purpose, the development of economic competitiveness accounted for 71% of new loans in terms of total value, regional development for 19%, the development of a knowledge society and innovative enterprise for 9% and the development of an environment-friendly society for 1%.

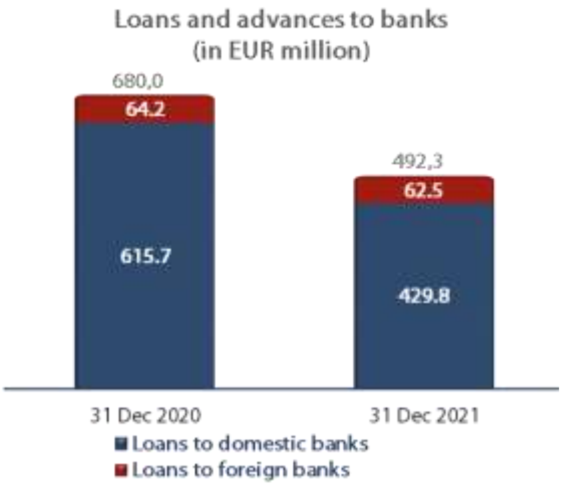
In terms of company size, a total of 12 large enterprises received financing in the amount of EUR 113 million, 271 SMEs received financing in the amount of EUR 170 million, 32 sole traders received financing in the amount of EUR 6.5 million and 19 other entities, including 7 municipalities, received financing in the amount of EUR 25 million in 2021.

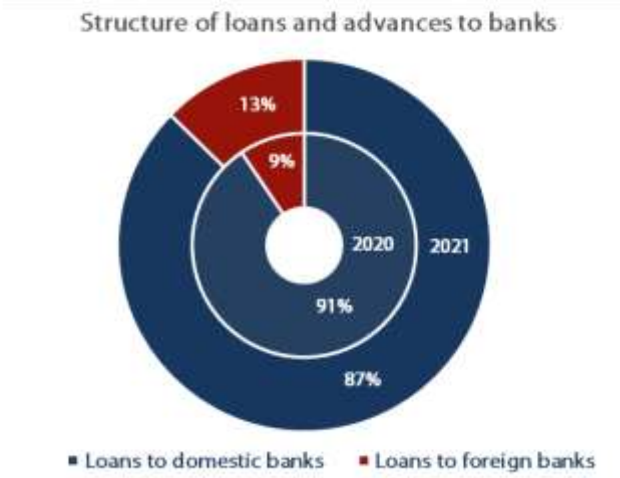
In the regional breakdown of loans approved in 2021 for borrowers established in Slovenia, borrowers from Central Slovenia accounted for the largest proportion (38%), followed by borrowers from the Coastal-Karst region (13%), the Savinjska region (11%), the Gorenjska region (9%), and other regions (29%).

Companies in the manufacturing sector were prevalent among borrowers in 2021 (34% of new loans in terms of value), followed by wholesale and retail: trade and repair of motor vehicles (17%); food service and catering (13%), transport and storage (7%), the supply of electricity, gas and steam (7%), and other sectors.

Indirect financing

Loans and advances





Loans to commercial banks and savings banks accounted for 29% of SID Bank's credit portfolio at the end of 2021 (2020: 38%), of which 87% was accounted for by loans to Slovenian banks, and 13% by loans to foreign banks to finance Slovenian export transactions. The stock of those loans amounted to EUR 492,327 thousand, a decrease of 27.6% on the stock at the end of 2020, which is primarily a reflection of the situation on financial markets with high liquidity and low interest rates (high amount of deposits, cash market instruments) and the resulting smaller needs for new sources of funding and early repayments, focus on intensifying the use of available funds at intermediary banks and savings banks, as well as the parallel use of instruments in the scope of financial programmes that are available in the scope of the FI 2014–2020 Fund of Funds and the COVID-19 Fund of Funds.

A significant portion 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, while public funds are also involved in intermediation. In this process, SID Bank combines and ensures the benefits of financing are transferred on the basis of long-term borrowing at development banks and other sources of funding, which is complemented 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.

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

SID Bank continued to enhance its cooperation with commercial banks and savings banks in 2021 which, taking into account 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, the provision of indirect financing, marketing activities, etc. On the basis of strategic policies and a selection of measures for the adjustment of the business model for operations via commercial banks and savings banks, SID Bank's activities in 2021 focused on the development of new ways to mediate funds by taking up risks to final beneficiaries via commercial banks and savings banks, and a broad selection of products whose purpose is in line with the ZSIRB.

In order to mitigate the financial consequences of the COVID-19 pandemic on the economy and financing, the adjusted indirect financing lines aimed at meeting the liquidity needs of companies were extended, with the possibility of providing up to 100% financing of the costs of the project and moratorium, and the purpose of loans also expanded to refinancing.

The adjustment of financial instruments will 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 implementation of financial engineering instruments, where significant emphasis will be placed on the financing of green economy and digitalisation projects. The functioning of both Funds of Funds via financial intermediaries is becoming an increasingly important manner of SID Bank's operation in the segment of indirect financing.

SID Bank will continue to expand its range of products and services in 2022 for commercial banks and savings banks with products that will focus on the take-up of risks and guarantees due to the high level of liquidity on the banking market.

Slovenian Equity Growth Investment Programme (SEGIP)

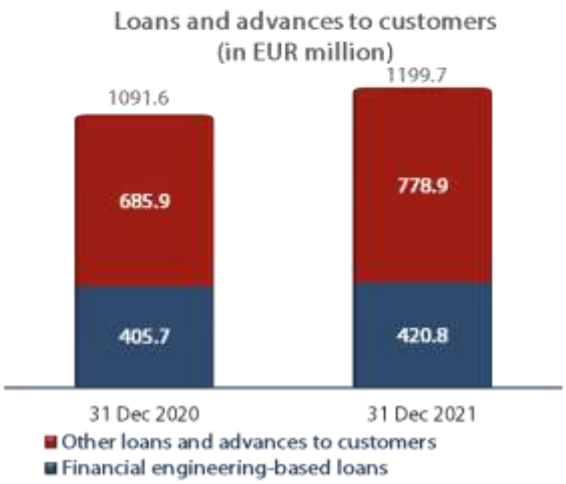
By the end of 2021, four years after establishing the 15-year SEGIP, firm commitments were given that two-thirds of the funds from the SEGIP (approximately EUR 68 million of the EUR 100 million in available funds; the EIF and SID Bank each contributing EUR 50 million of that amount) were distributed for investment. Commitments were given either to private equity funds, which then invest these funds over a four- to five-year period into companies, or directly to Slovenian companies via the Co-Investment activity.

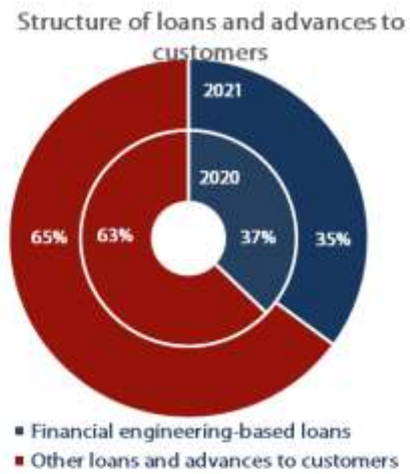
Of the EUR 50 million of SEGIP funds available to establish new private equity funds in Slovenia (for the purpose of capacity building), the entire EUR 50 million were already distributed to two funds registered in Slovenia, which are managed by two managers of alternative funds registered in Slovenia as well, namely ALFI PE d.o.o. and Generali Investments d.o.o. Both Slovene funds managed to mobilise EUR 85 million in commitments for investment by private investors In addition to the EUR 50 million from SEGIP. The two funds have an investment strategy to distribute approximately 75% of the funds for investment purposes (i.e. commitments from investors, less operating costs and fees) into Slovene companies, which accounts for about EUR 95 million. Moreover, this does not include any additional funds from the leverage due to loans for investment purposes. Therefore, the total commitments of both funds represent almost four times the SEGIP funds committed by SID Bank for that purpose. By 2021 these two funds already transferred approximately EUR 57.5 million in equity to Slovenian companies, of which roughly EUR 41 million was from paid-in capital from investors and EUR 16.5 million from loans of Slovene commercial banks.

Leverage is also ensured via other SEGIP investments. By the end of 2021 through the Co-Investment activity Slovene companies were financed by equity and quasi equity instruments in the amount of around approximately EUR 11 million (of which SID Bank's share accounted for approximately EUR 3.9 million).

In terms of investing in foreign private equity funds, a commitment was given to a private equity fund from Luxembourg to provide equity financing to Slovene companies in the amount of at least EUR 10 million (EIF and SID Bank both are contributing EUR 5 million).

Direct financing





Loans to customers amounted to EUR 1,199,698 thousand at the end of 2021, an increase of 9.9% relative to the end of 2020. The proportion of the credit portfolio accounted for by the aforementioned loans increased by 9 percentage points in 2021 to 71%.

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

The largest category within direct lending to companies and other customers in 2021 was independent financing and financing in the scope of financial engineering measures. SID Bank implemented financial engineering measures primarily for these purposes:

- business operations of companies affected by the COVID-19 pandemic;
- investments that contribute to the transition to a circular economy;
- technology development projects;
- investments and working capital in the forestry and wood processing chain; and
- companies operating in the field of 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, and green and circular economy projects.

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

Products based on financial engineering from national budgetary funds and SID Bank's own funds

For the implementation of financial measures of national and European public policies, SID Bank implements a set of financial instruments that are based on refundable forms of promotion with a combination of own, budgetary and other favourable sources of funding, and for which state aid schemes (the EC's temporary framework and GBER[6]) and *de minimis* aid were notified.

[6] General Block Exemption Regulation

In the scope of implementing financial engineering measures in which the MEDT and MI participate, SID Bank provides long-term sources for financing micro, small and medium-sized enterprises and large enterprises, as well as cooperatives and the development projects of companies. This was the most important direct financing instrument in terms of the Bank's interventional role in 2021.

In 2021 the Bank offered six programmes whose funds could be obtained by companies directly from SID Bank:

- '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 moratorium period of half of the loan maturity and a loan amount of EUR 100 thousand to EUR 5 million. In addition to the typical development effects in terms of target areas (long-term financing of working capital), the main purpose of the product is to enable firms with low capital adequacy to improve the maturity structure of their debt, to gradually strengthen their capital position and to introduce a (new) business model with good prospects. The programme facilitated the raising of loans under the state aid scheme (*de minimis*).
- 'MSP 9': a programme for financing SMEs with a maturity of two to twelve years, and loan amounts of EUR 100 thousand to EUR 7 million for companies dealing with the liquidity consequences of the COVID-19 pandemic, and for those companies that produce products or provide services that contribute to treating and preventing the spread of COVID-19. The programme facilitated the raising of loans to finance operations under two state aid schemes (*de minimis* and the EC's temporary framework).
- '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 moratorium period of half of the loan maturity, but no more than five years. Using loans of this type, firms can expand and technologically update their production and service capacities, thereby strengthening their competitiveness. The programme facilitated the raising of loans for financing operations under two state aid schemes (*de minimis* and the EC's temporary framework).
- '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 moratorium on the repayment of principal, which 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 organisation innovation; the loans could be raised in accordance with three types of state aid (*de minimis*, GBER and the EC's temporary framework).
- 'LES 1': a programme for financing investments in the forestry and wood processing chain, which is earmarked for financing the construction of new 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 moratorium period of half of the loan maturity, but no more than six years. The programme enabled the raising of loans under the state aid scheme (*de minimis*).
- 'PROMET 1': a programme for financing economic operators in the area of road transport. A loan in the amount of EUR 100 thousand to EUR 800 thousand for carriers affected by the COVID-19 pandemic outbreak with a maturity of six to eight years and a moratorium on the payment of the loan principal of two years; the programme facilitated the raising of loans under a state aid scheme (EC's temporary framework).

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 11.2 years, while the weighted average premium over the benchmark interest rate was 1.7%.

The net stock of loans granted from all financial engineering programmes totalled EUR 420.8 million at the end of 2021. A total of 49 agreements were signed in the amount of EUR 50.2 million in 2021.

In terms of financial engineering programmes, placement proceeded in line with planning, with the 'PROMET 1' programme being fully active in the second half of 2021, which gave rise to slightly lower realisation than planned. The remaining realisation of this programme is expected in 2022. The drawdown of certain long-term investment loans, mostly approved under programmes 'NALOŽBE 3', 'RRI 3' and 'LES 1', is normally conducted successively by long-term investments, which could also result in a multi-annual purpose-specific use of loans. In these cases there is a delay and distribution in the realisation 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 from SID Bank's own funds

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

- 'SDMKV': a programme for financing companies whose operations were affected by the outbreak of the infectious disease COVID-19 and for those companies that produce products or provide services that contribute to treating and preventing the spread of COVID-19. The programme facilitated the raising of loans in a minimum amount of EUR 100 thousand to finance operations under two state aid schemes (*de minimis* and the EC's temporary framework).
- 'OSN': a programme for financing companies of all sizes for working capital and investments with the option of utilising the EGF guarantee in the amount of 70% of the loan principal as a loan collateral asset. The programme facilitates the raising of loans in a minimum amount of EUR 100 thousand, a loan maturity of one to twenty years, and in the event of an EGF guarantee up to 12 years, with a moratorium of loan repayment for no more than half 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 EC's temporary framework). The Bank initiated the 'OSN' programme in the second half of 2021, when lending by commercial banks strengthened and SID Bank's intervention role started to decline, which was reflected in a slightly lower stock of these loans than planned. This programme will be 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

SID Bank pushed ahead in 2021 with its activities under the aegis of the FI 2014–2020 Fund of Funds and the COVID-19 Fund of Funds, which is earmarked for effective response to the consequences of the COVID-19 pandemic. In the scope of the FI 2014–2020 Fund of Funds, SID Bank implemented three financial instruments in the form of ECP loans for RDI (available ECP funds totalling EUR 11 million), ECP loans for the comprehensive energy renovation of public-sector buildings (available ECP funds totalling EUR 25 million) and ECP loans for urban development (available ECP funds totalling EUR 5 million). In 2021 SID Bank as a financial intermediary, on the basis of an agreement with the MEDT, increased funds in the scope of the ECP instrument Loans for RDI in the amount of EUR 9.9 million, as it used up all the funds available via this instrument for the entire period. The successful direct implementation of the Fund of Funds only lagged behind relating to the financial instrument ECP loans for the comprehensive energy renovation of public-sector buildings, in particular due to restrictions on the purposes of the product and also high availability of non-refundable funds for these purposes.

Financing of municipalities and public sector entities

In 2021 SID Bank continued the promotion of investments in public infrastructure, local measures regarding the efficient use of energy and utilities connections. Funds may finance a maximum of 85% of the total project costs, while at least 15% must be provided by the borrower. Public sector entities frequently obtain the majority of funds from non-refundable EU funding and the government, using SID Bank's loans to obtain the other required long-term funds.

In 2021 the existing framework for the financing of municipalities was upgraded to a public sector programme. SID Bank thus expanded its range of borrower target groups in this segment and provided additional capacities for the long-term financing of the public infrastructure.

Export financing

SID Bank provided support to the export-oriented part of the Slovene economy in two segments through long-term financing of the investments and through direct financing of investments abroad. SID Bank has contributed to an increase in the competitiveness of the Slovenian exports also through financing of foreign customers of Slovenian goods and services, directly or indirectly via foreign banks.

SID Bank also promotes the financing of exports through commercial banks to which it provides the necessary sources to support Slovenian exporters, and through the direct financing of companies in the scope of other programmes whose export strategies on markets outside of the EU and the OECD represent an important element of export financing.

SID Bank will continue to implement activities that will facilitate competitive terms and conditions, and easier integration of the Slovenian economic enterprises into international commercial flows and their inclusion in value chains.

In 2021 an in-depth analysis of Slovenian exports was conducted based on which the Bank developed an estimator of export potential by sector and region. This enabled an assessment of the potential of the Slovenian exports. The results of the analysis will be used for a more targeted approach to Slovenian exporters in the future aimed create higher added value through tailor made financing and consultancy.

Project financing and consultancy

SID Bank strengthened its project financing and consultancy activities in 2021. Via the project and export financing department, it focuses its consultancy services on one of the key challenges in the area of implementing infrastructure projects, i.e. faster and more effective project preparation.

SID Bank is included in the development of investments and projects in the initial phase through its Project office. This includes the systematic review of the market, the identification of potential investors and the provision of the necessary consultancy and technical support. A single access point provides investors professional and technical assistance in the development of projects according to their needs. 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 prepared to receive financing.

In 2021 the Bank made an assessment of an infrastructure project that was applying for grant in the scope of the *CEF Blend* (*Connecting Europe Facility*) instrument. The project with total investment costs of EUR 22.3 million successfully obtained the requested grant in the amount of EUR 3.4 million.

The Bank successfully completed the project of upgrading the SID Bank's Project office, for which it received non-refundable EU funds in the amount of EUR 440 thousand.

Other direct financing

By using long-term sources of funding, in cooperation (primarily via co-financing) with other banks, and individually, SID Bank complements the range of services of commercial banks in all areas for which it can provide support in accordance with the ZSIRB, 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 innovations, and the provision of housing for vulnerable groups. To that end, it employs various financing instruments, such as syndicated loans, independent direct financing, the purchase of receivables, accession to debt 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.

In addition to its other funding, the Bank also used funds from loans from development-focused international financial institutions, and thus secured long-term funds under favourable terms for the development of infrastructure projects.

OPERATIONS UNDER REPUBLIC OF SLOVENIA AUTHORISATION

Insurance against non-marketable risks

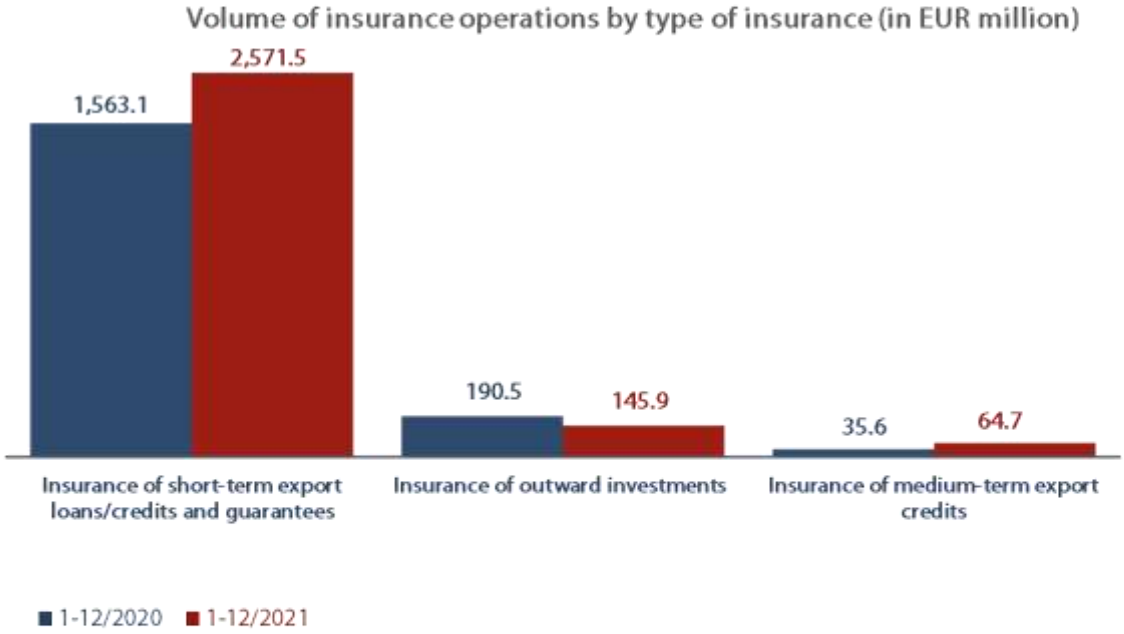
As an authorised institution, in the name and on behalf of the Republic of Slovenia, SID Bank insures/reinsures against those commercial and non-commercial or political (non-marketable) risks that, due to their nature and level of risk, the private sector in general is not willing to take up or has limited capacity to take up. During the COVID-19 pandemic in 2020, the European Commission in the Communication from the Commission Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak declared that all export credits are non-marketable regardless of their maturity and country of debtor. The validity of the measure was also extended into 2021 in accordance with the European Commission's assessment that justified grounds still existed for its validity. Similar to 2020, this fact affected insurance operations significantly.

Volume of insurance operations

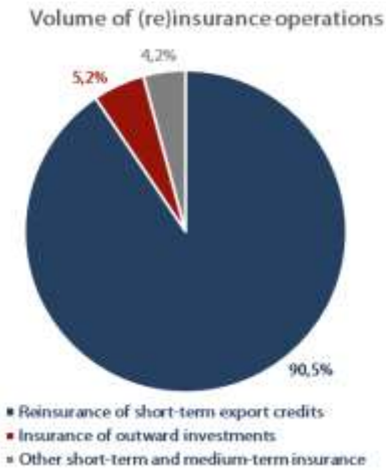
The volume of operations amounted to EUR 2,782,018 thousand in 2021, an increase of 55.5% relative to the previous year.

55.5% increase in the volume of insurance operations

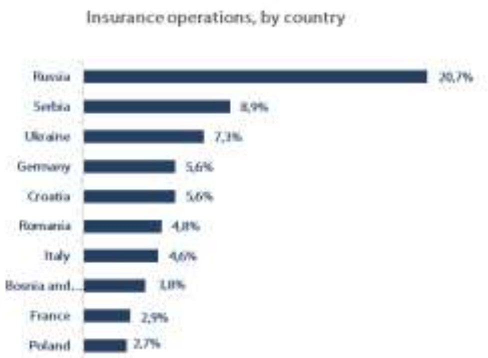
Higher insurance volumes were realised, primarily in short-term operations, particularly in the reinsurance of short-term credits. The insurance of bank guarantees, where a higher number of small-value transactions was insured, was predominant in terms of the number of issued insurance policies.



The realised volume in 2021 was equivalent to 20.2% of the limit on new annual liabilities set out in the ZZFMGP. Reinsurance of short-term export credits accounted for the largest proportion of the volume of insurance and reinsurance operations at 90.5% (renewable insurance of short-term non-marketable risks), followed by insurance of outward investments (5.2%), while the remainder was accounted for by other short-term and medium-term insurance (the insurance of medium-term and short-term credits, guarantees and pre-shipment).



There was no significant change in the breakdown of insurance by country. The largest proportion in 2021 related to the insurance operations in Russia (20.7%), followed by Serbia (8.9%), Ukraine (7.3%), Croatia and Germany (each 5.6%), Romania (4.8%), Italy (4.6%), Bosnia and Herzegovina (3.8%), France (2.9%) and Poland (2.7%).



The majority of export financing insurance was concluded for transactions in Eastern Europe, and many activities were also undertaken in Southeast Europe. Ukraine and, to some extent, Belarus and Croatia stand out in terms of insurance business generated. A large number of policies for the reinsurance of short-term transactions were concluded in Russia, where the majority of export transactions were accounted for by pharmaceutical products and household appliances. A significant portion of insurance and reinsurance business was also generated for claims against debtors from the countries of the former Yugoslavia and from countries that are traditional export markets for the Slovene economy (EU Member States). Export transactions with short maturity were prevalent in these transactions.

Individual attempts by Slovenian exporters were made on markets of Central Asia and Western Sub-Saharan Africa, but these were mostly single transactions. The situation connected with the COVID-19 pandemic cooled certain past business connections. Slovenian companies had a solid business starting position in Ghana, as SID Bank established a credit line with the Ghana export bank (GEXIM), but a large number of the transactions that were initiated were not completed due to COVID-19. This market is believed to still provide good opportunities for Slovenian companies, meaning that more promotion of Slovenian interests is expected in this country in the future. Certain business outlooks are still in Angola and Uganda, where the successful realisation of insurance business in Ruanda in 2021 is deemed a positive factor.

The interest of commercial banks for insurance that the banks expressed at the outset of the pandemic is waning with the stabilisation of the COVID-19 situation. They only opt for insurance in cases when dealing with customers that pose increased risk. More banking transactions were nevertheless insured in 2021 than in the previous year, in particular due to strengthened business activity from exporters, and thus also from banks.

Taking into account corporate demand, it is possible to expect the most significant business opportunities in export financing insurance, but only few are successfully realised. These transactions are complex in terms of how they are structured, are accompanied by complex risks and include many stakeholders, and therefore require a great deal of time and knowledge. It will be necessary to continue to support cooperation between commercial banks in this area, and include foreign banks in banking consortiums, particularly if high-value transactions are involved. This will lead to the appropriate exchange of knowledge between banks in this area, resulting in an increased number of banks on the market capable of executing such transactions independently.

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

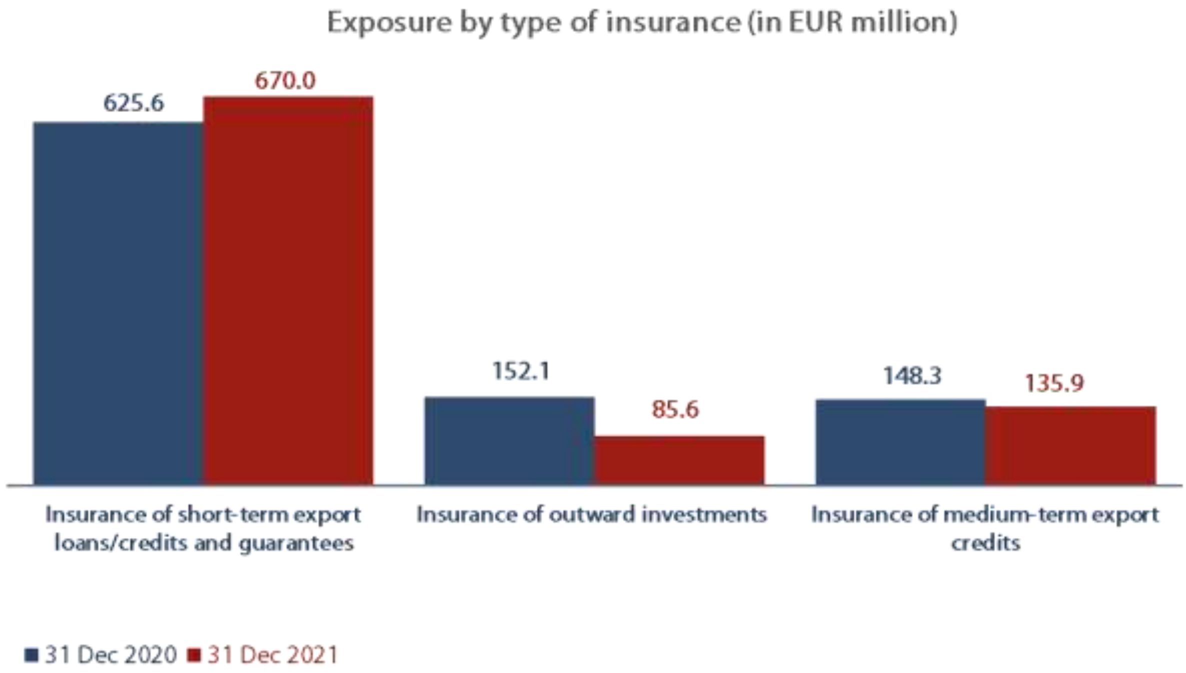
SID Bank continued with its product updates and additions in 2021. All the insurance terms were thus updated for all products, with the products for the insurance of bank guarantees and for the insurance of export preparation loans (credit lines) undergoing a substantive expansion. The product for the insurance of payment guarantees was introduced in this scope, and the maturity of the insurance of export preparation loans (credit line) was extended to four years.

Reinsurance operations are prevalent in the insurance volume structure, with the 'top up' programme as a product developed in the scope of the temporary framework of state aid for the economy being very significant. Very high insurance volumes were realised during the period of the COVID-19 pandemic, particularly in 2021, which was a record-breaking year.
SID Bank will continue with development of support in the area of insurance (export preparations, bank guarantees, non-shareholder loans). With its new products it plans to focus on loan collateral for investments, for both equipment and intangible assets, as this is the only way it will be able to provide enough long-term funding for export economy to complete its transformation to a green and digitalised economy. Emphasis in the future will be given to providing portfolio insurance for commercial banks.

It is also expected that the volume of insurance business will decline significantly, which is mostly linked to the validity of the 'top up' programme, which will mostly likely expire in 2022.

Exposure

Exposure from current insurance policies amounted to EUR 885,624 thousand at the end of 2021. Exposure from firm insurance commitments, which under the ZZFMGP is included in the total net exposure, amounted to EUR 5,892 thousand. Total exposure from insurance operations on behalf of the state and from issued firm insurance commitments amounted to EUR 891,516 thousand, a decrease of 3.7% relative to the end of 2020.



The exposure amount represents 42.5% of the permitted limit defined in the Implementation of the Republic of Slovenia Budget for 2021 Act (ZIPRS) and 2.2% of the permitted limit defined in the ZZFMGP. The largest exposures in the insurance portfolio in 2021 were disclosed to Russia, Ukraine, Belarus, Serbia, Croatia, Bosnia and Herzegovina, Germany, Italy, Romania and North Macedonia. Exposure decreased in 2021 primarily due to certain premature repayments of high-value secured loans, which SID Bank was not expecting beforehand.

Other insurance-technical provisions

in EUR thousand	31 Dec 2021 or Jan-Dec/2021	31 Dec 2020 or Jan-Dec 2020	Index 2021/2020
Premiums and commissions	7,720	5,434	142.1
Potential claims	405	107	377.6
Claims under consideration	1,414	1,737	81.4
Claims paid	(512)	(104)	491.3
Recourse	17	1,040	1.6
Insurance technical result	**5,993**	**5,127**	**116.9**
Investment income	760	578	131.5
Surplus of income over expenses	**6,753**	**5,705**	**118.4**

Premiums and fees from insurance against non-marketable risks amounted to EUR 7,720 thousand in 2021, up 42.1% on 2020. A higher insurance premium relative to the previous year is the result of an additional increase in the volume of short-term reinsurance. A significantly higher volume of short-term and medium-term insurance operations were realised in 2021 relative to the previous year. The premium rates for short-term insurance are lower than those for medium-term insurance, and consequently premiums are also lower.

(Re)insurance of short-term export credits accounts for the largest proportion of paid premium, followed by premiums from the insurance of medium-term credits and investment insurance.

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

Claims paid amounted to EUR 512 thousand in 2021, an increase relative to the previous year (2020: EUR 104 thousand). Eleven minor claims from the reinsurance of short-term credits were paid and one claim from short-term export preparation loans, while the remainder relates to costs of the recovery of paid claims from previous years.

Claims under consideration (claims filed) amounted to EUR 1,414 thousand as at 31 December 2021, a decrease of EUR 323 thousand relative to the end of 2020.

At EUR 405 thousand, potential claims in 2021 were up by EUR 298 thousand on the 2020 figure, and relate exclusively to the reinsurance of short-term credits.

The insurance technical result in 2021 was EUR 5,993 thousand (2020: EUR 5,127 thousand), while the surplus of income over expenses amounted to EUR 6,753 thousand (2020: EUR 5,705 thousand).

Insurance technical result is higher by 16.9%

Contingency reserves

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

Contingency reserves were up by EUR 6,753 thousand in 2021 relative to the previous year as a result of a positive operating result.

Increase in contingency reserves by EUR 6.8 million

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 insurance and reinsurance of export credits, guarantees and export preparation amounted to EUR 2,571,498 thousand in 2021, an increase of 64.5% relative to 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 and annexes thereto that SID Bank has signed with Coface PKZ and Zavarovalnica Triglav. A small proportion relates to insurance of individual export transactions.

The volume of short-term insurance operations realised in 2021 primarily related to export transactions in Russia, Ukraine, Serbia, Bosnia and Herzegovina, Germany, Croatia, North Macedonia, Turkey, Kazakhstan and Belarus. The value of insured export operations vis-à-vis debtors from other countries was lower. Exposure from these operations, including commitments, stood at EUR 670,040 thousand at the end of 2021, an increase of 7.1% relative to the end of 2020 (EUR 625,624 thousand).

The increase in the volume of short-term insurance operations in 2021 was only partially tracked by realised insurance premium, which was up by 48.6% to stand at EUR 4,146 thousand. The reason lies in the higher proportion of the insurance portfolio accounted for by debtors with higher credit rating from EU and OECD Member States, for whom the price of risk insurance is significantly lower than outside the EU and OECD.

Despite a major increase in the scope of insured receivables, the number of exporters fell, while insurance operations were concluded with an increasing number of foreign debtors, resulting in the increased diversification of risks taken up in terms of the insurance of receivables.

A lower volume of (re)insurance operations to that of 2021 is planned for 2022. We expect the export markets of EU and OECD Member States to be non-marketable until the end of March 2022, meaning that the validity of the 'top up' programme to insure short-term receivables from debtors from these states expires on that date. Taking into account that the primary insurers are aware of the envisaged duration of the temporary measure, it is likely that they will already be seeking other solutions in the first quarter of 2022 for the limits included in the 'top up' programme, thus expecting the reinsurance volume to be significantly lower despite the measure still being in place.

Insurance of medium-term export credits

The largest proportion of insured medium-term export credits, bank guarantees and export preparation loans in 2021 related to exports of communications and other electrical devices, tools and machinery, engineering and technical consultancy services, and construction. The largest share of medium-term operations was insured for receivables from customers from Belarus, Ghana, Ukraine, Croatia, India, Germany, Albania and Austria. 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 (export credits, bank guarantees and pre-shipment financing) in 2021was up relative to the previous year and stood at EUR 64,663 thousand (2020: EUR 35,608 thousand).

As at 31 December 2021, exposure from the insurance of medium-term export credits, bank guarantees and pre-shipment credits for exports (concluded insurance policies and commitments) amounted to EUR 135,925 thousand, with Belarus prevailing among countries in terms of exposure with a 43.8% share. Premiums from this insurance amounted to EUR 3,016 thousand in 2021. Claims paid from the insurance of medium-term export credits amounted to EUR 7 thousand in 2021.

For 2022, the exposure from medium-term business insurance is expected to decrease significantly, as the war in Ukraine and the consequently imposed international sanctions against Belarus and Russia prevent Slovenian companies from doing business with companies from these three countries.

Slovenian exporters will strive to partly compensate for the loss of business on these markets through the realisation of business in the countries of the former Yugoslavia, in Africa and Middle-Eastern countries.

Insurance of outward investments

The volume of insured outward investments reached EUR 145,857 thousand in 2021, down 23.4% on the previous year. Newly insured outward investments and renewals of investments insured in previous years that in terms of content can be deemed as newly insured investments are included among the stock of insurance contracts.

Exposure from investment insurance amounted to EUR 85,551 thousand at the end of 2021, a decrease of 43.8% relative to 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. In addition to the decline in the number of new insurance operations, the decline in exposure in 2021 was affected significantly by the early repayment of certain major secured loans, which in terms of insurance renewals will also affect the future insurance volume.

Croatia accounts for the largest proportion of insured investments, followed by Serbia, the Netherlands, North Macedonia and Bosnia and Herzegovina. In 2021 premiums from investment insurance were down 54.7% on the previous year and stood at EUR 528 thousand.

In the future the business environment will remain highly dependent on events in connection with the COVID-19 pandemic which, in addition to caution in business decisions, will generate new opportunities for takeovers of markets and competitive companies. It will be important that SID Bank has developed all necessary instruments that will make it possible for Slovenian investors to take advantage of such opportunities.

The majority of operations were realised in the non-shareholder loan insurance scheme. There has been no demand for investment insurance (equity holdings and shareholder loans solely against non-commercial risks) for a number of years now. In current insurance arrangements for non-shareholder loans that are repaid in accordance with the signed loan agreements, exposure in that regard is declining, which in the current crisis situation is almost impossible to replace with new types of collateral.

SID Bank expects certain investment operations to be realised in 2022 by Slovenian firms in former Yugoslav republics, primarily in Croatia and Serbia.

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 2021 the third tranche of EUR 63.3 million in ECP funds was drawn down, and collectively EUR 189.8 million by the end of 2021 of the total funds of EUR 253 million earmarked for the entire period.

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 150 million collectively across all years, which means that a total of more than EUR 400 million will be available to companies and other final beneficiaries within this financial framework.

More than EUR 400 million in total available to final

With the formation of the Fund of Funds modelled after foreign practices, there was also an upgrade in Slovenia to 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 revolving effect on state budget funds.

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

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

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

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

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

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, 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.

In 2021 SID Bank initiated the implementation of the last financial instrument, i.e. the ECP portfolio guarantees for RDI, which improves access to sources of financing at commercial banks and savings banks for SMEs. Two financial institutions were selected based on two public calls to tender. Those institutions provide SMEs loans with a free SID Bank guarantee in the total amount of EUR 30.2 million.

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. The third and fourth tranche in the total amount of EUR 32.5 million from European cohesion policy funds were drawn down in 2021, thereby successfully drawing all the funds earmarked until 2021 under the agreement concluded between SID Bank and the MEDT.

On the basis of this, the Bank developed and already implemented 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.

Together with additional funds from other institutions, a total of EUR 95 million are available to companies.

EUR 95 million available to companies

With the establishment and implementation of the COVID-19 Fund of Funds, SID Bank is supplementing the range of measures for an effective response to the COVID-19 pandemic in a significant way, while contributing to the use of ECP funds. The final public tender was carried out in the scope of the fund and a financial intermediary was selected for the financial instrument micro loans in the amount of EUR 10.5 million.

In 2021 SID Bank as the manager of the FI 2014–2020 Fund of Funds successfully drew down the third tranche, and in the scope of the COVID-19 Fund of Funds the third and fourth tranches of ECP funds. In the scope of the implementation of financial instruments to date from both Funds of Funds, 6,243 transactions in the total amount of EUR 259.8 million were concluded via all financial intermediaries, including SID Bank, by the end of 2021.

Performance of the function of official auctioneer at emission allowance auctions

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 2021 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 132 auctions as an official auctioneer of emission allowances in 2021, at which a total of 2,454,500 allowance units were sold. The consideration amounted to EUR 129,808 thousand. Five auctions for EU aviation allowances were also held in 2021. A total of 5,000 units were sold for consideration of EUR 271 thousand.

In 2020 SID Bank also assumed 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.

Guarantee schemes based on intervention measures in 2020, and guarantee schemes

Guarantee schemes based on intervention measures in 2020

SID Bank continued to carry out guarantee scheme activities also in 2021 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.

Banks reported outstanding balance of loans at the end of 2021 for a further 116 of total 118 registered loan agreements secured by a government guarantee under the ZDLGPE. Of the total amount of contractual loan principals in the amount of EUR 82,880 thousand, the outstanding balance of loan principals amounted to EUR 67,490 thousand at the end of 2021, 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 49,315 thousand. A total of 81% of all liquidity loans in the guarantee scheme under the ZDLGPE concluded in 2020 and 2021 fall due for payment in 2025 and 2026.

The reported outstanding balance of deferred credit obligations included in the guarantee scheme under Article 65 of the ZIUZEOP breaks down as follows as at 31 December 2021: 998 legal entities and 3,232 individuals and persons who perform agricultural activities. The balance of outstanding deferred credit obligations for legal entities was EUR 28,403 thousand at the end of 2021 (the government guarantee balance was EUR 11,552 thousand) and EUR 4,954 thousand for individuals and persons who perform agricultural activities (the government guarantee balance was EUR 2,474 thousand). The total balance of outstanding deferrals for all groups of borrowers included in the guarantee scheme under the ZIUZEOP at the end of the year was EUR 33,357 thousand (the government guarantee balance was EUR 14,026 thousand). The balance of outstanding deferrals is also declining due to the expiry of the deadline for the redemption of the government guarantee. All deferrals approved under the ZIUOPOK expired by 31 December 2021, while banks can submit requests to SID Bank for the guarantee redemption until the end of 2022, within 12 months following the end of the deferral period.

SID Bank did not receive any requests from banks in 2021 for the redemption of the government guarantee in respect of loans approved in accordance with the ZDLGPE, while it received thirteen requests for the payment of a guarantee relating to deferred credit obligations under the ZIUOPOK with a government guarantee on the basis of Article 65 of the ZIUZEOP.

SID Bank also carried out substantive detailed verification of the fulfilment of the conditions for the redemption of guarantees under the ZIUZEOP and the compliance of concluded annexes and loan agreements with the ZIUOPOK for all the government guarantees paid in 2021 under Article 65 of the ZIUZEOP, in a legal period of six months following the payment of the guarantee to the commercial bank. The Bank did not identify any irregularities or deviations from the law and/or decree terms for the payment of the guarantee during the conducted review of the banks' credit and other documentation.

SID Bank is entitled to a fee for the execution of operations under the guarantee schemes which are determined in detail in the agreement between the Republic of Slovenia and SID Bank. The agreement has not been concluded by the end of 2021, and as such SID Bank did not yet receive any fee from the Republic of Slovenia in 2020 or 2021 for the provision of the services that it provided under authorisation in accordance with the ZDLGPE and Article 65 of the ZIUZEOP.

Other guarantee schemes

In line with its legal authorisations, in 2021 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 and the Republic of Slovenia Guarantees for Financial Investments by Companies Act). There was one loan agreement secured by a Slovenian government guarantee still active at a commercial bank at the end of 2021. SID Bank received one request for redemption in 2021 for loans approved under the Republic of Slovenia Guarantee Scheme for Natural Persons Act. The stock of loans comprised 58 loans as at 31 December 2021 (2020: 65), while the total loan principal amounted to EUR 2.1 million (2020: EUR 2.5 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 2021, with the exception of the new guarantee schemes (ZIUZEOP, ZDLGPE). Since no agreement has been concluded with the Republic of Slovenia for the guarantee schemes, and the fee amount has also yet to be agreed, SID Bank has yet to include in the income statement the income from the implementation of these schemes (it also excluded the accrued income from the income statement at the end of 2021 for the pursuit of this activity that it included in the income statement in 2020), only recognising the off-balance-sheet receivable from the government, and will include the income in the income statement once the fee amount is agreed or the agreement is 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.

On the basis of this, the calculated costs of EUR 3,460 thousand exceed the revenues (EUR 2,572 thousand) by EUR 888 thousand.

Activity under Republic of Slovenia authorisation (in EUR thousand)	Revenues	Costs
Insurance	1,740	(2,250)
Fund of Funds	1,188	(743)
Guarantee schemes (under the ZIUZEOP and ZDLGPE)	(387)	(413)
Auctions of emission allowances	24	(24)
Other transactions under authorisation	7	(30)

Chairmanship of the Council of the European Union's Exports Credit Group

Taking into account the expertise of SID Bank in publicly supported export financing, it was entrusted with leading the Council of the European Union's Exports Credit Group. In the second half of 2021 the three-member presiding team from SID Bank achieved all the previously identified (coordinated with the MEDT) and set targets.

Modernisation of the OECD's Arrangement on Guidelines for Officially Supported Export Credits (Arrangement)

The emergence of new global trade superpowers, failure to abide by the agreements in the WTO, the development of practices outside the Arrangement and changed conditions on financial markets require a fundamental change to the terms derived from the Arrangement, as only slightly below 40% of all global officially supported export credits are now covered in accordance therewith. The purpose of the modernisation of the Arrangement was the improvement of its flexibility and improvement of its financing terms.

During its term of office, the Slovenian presidency began performing tasks in this extremely important area that affects the global competitiveness of the export economy, put together two technical working groups (for the holistic renewal of the premium system and for variable interest rates), coordinated the first priorities and proposed the first measures to the OECD. On this basis, a special working group was established under the aegis of the OECD, which has already started its work.

An agreement was reached at the EU level on revision and the content of the revision of trade-related aid, while the process of coordinating fixed interest rates in the area of export credits, which is equally important for ensuring equal financing terms at a global level, was completed.

In the scope of the Slovenian presidency work commenced on modernising the agreement, in terms of adapting the premium system to climate risks, with important own expert inputs.

The common European timetable for the abolition of measures to contain the spread of COVID-19

The Slovenian presidency intensely monitored temporary rules and practices, and the exchange of measures at the national level in order to ensure the required transparency. In that regard, intensive communication with *DG Competition* was established and the extension of Temporary Framework measures until 31 March 2022 coordinated. In this way, during a new pandemic wave European exporters will be provided further public support in the form of insurance and financing of export credits, and their resilience and recovery during the envisaged emergence from the crisis.

In addition a revised version of the *Short Term Communication on Export Credits* was adopted that facilitates significantly greater flexibility in adapting the regulatory framework governing this area to the current situation on the market.

EU Green Deal relating to export credits

The Slovenian presidency team took advantage of the impetus connected with the United States re-entering the Paris Climate Agreement and commencing the intensive adaptation of export credits to global and EU climate goals.

In this context, an agreement was adopted on the EU's proposal at the OECD level at the end of October to end export credit support for coal-fired power plants without operational carbon capture, utilisation and storage (CCUS) facilities. According to certain expert teams, this was one of two most important steps achieved during the Climate Change Conference (COP26).

In addition to that, the working group commenced with intensive activities relating to the adaptation of the standardised sectoral understanding for projects that mitigate climate changes (Climate Change Sector Understanding). In the scope of the Slovenian presidency, a special technical team was put together for this purpose. An upgrade to measures adapting to climate changes has also been adopted, while work with respect to risk mitigation measures will proceed in the scope of the French presidency; similar to the area where the premium system was adapted to climate risks and where financial and non-financial incentives were set up.

To that end, the objective of the reasonable implementation of EU Taxonomy standards, also in the context of representation and implementation of EU standards, values and EU interests, was pursued successfully.

Public financing of exports/trade and outward investments

At the first session of the working group on 7 July 2021, the Slovenian presidency submitted a *Presidency Paper* focusing on EU *Strategy for reinforcing the role of export credits*, which proposed a fundamental revision of the European system of insurance and financing of publicly supported export credits, as a potential response to non-compliance with the WTO rules in this area by certain Member States, and the adaptation of the export credit system to new models of internationalisation (global value chains, *e-Sales*, etc.) and especially to the structure of the export economy of small export-oriented countries.

The Slovenian presidency team also prepared a catalogue of potential holistic measures in all relevant areas (additional attempts to ensure the same conditions for export credits at the global level, parallel development of autonomous EU rules in this area, a review and re-arrangement of EU regulations in all areas of internationalisation, ambitious goals relating to the internationalisation of SMEs and transition to a green economy, the introduction of new innovative instruments, greater link to the new *EU Trade Policy* and *Global Gateway* initiative, linking with other EU measures and policies, including the use of publicly supported export credits as a counter-cyclical measure, improvement of coordination and cooperation of national export credit agencies, etc.).

International Working Group on Export Credits (IWG)

The work of the International Working Group on Export Credits (IWG), which was established to define new rules for the largest global providers of export credits, was suspended for one year in 2020. During its term, the Slovenian presidency strove to renew communication with certain countries outside the OECD, including the discussion of problems at the COREPER (*Comité des représentants permanents* or Committee of Permanent Representatives in the European Union).

The goals set by the Slovenian presidency were adjusted beforehand to the current structure of the Slovenian export economy, thereby contributing the best possible way to its further development in the future.

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 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 2021.

The main activity of Prvi faktor, faktoring družba, d.o.o., Ljubljana – in liquidation [hereinafter: Prvi faktor, Ljubljana (in liquidation) or 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.

Klemen Hauko was the company's liquidator in 2021 until 28 February 2021 inclusive. SID Bank was represented at the general meeting in 2021 until 28 February 2021 inclusive by its proxies Saša Keleman and Branko Jerak. Iztok Zupanc and France Zupan have been the company's liquidators since 1 March 2021. SID Bank is represented at the general meeting by Janez Ferbar.

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)]. Since 31 December 2016 the company has been undergoing regular liquidation proceedings. Its share capital amounts to HRK 19,466 thousand (or EUR 2,590 thousand according to the middle exchange rate of the Croatian National Bank as at 31 December 2021). Its liquidator in 2021 was Jure Hartman until 28 February 2021 inclusive, and then Vjekoslav Budimir as of 1 March 2021;
- 100% holder of participating interest in the share capital of Prvi faktor, d.o.o., Sarajevo (in liquidation). Prvi faktor, d.o.o., Sarajevo (in liquidation) has been in regular liquidation proceedings since 29 December 2016, with Đenan Bogdanić appointed as its liquidator. In 2021 the liquidation proceedings were legally finalised, resulting in the deletion of this entity from the companies register on 24 August 2021, with its assets and liabilities acquired by parent company Prvi faktor, Ljubljana (in liquidation) as its universal legal successor;
- 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)]. Since 3 August 2017 Prvi faktor, Belgrade (in liquidation) has been in regular liquidation proceedings. Its share capital amounts to RSD 299,196,366 (or EUR 2,545 thousand according to the middle exchange rate of the National Bank of Serbia as at 31 December 2021). 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 owners 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 2021 was Željko Atanasković.

Orderly wind-down activities continued at the Prvi Faktor Group in 2021, 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 liquidation proceedings. On the basis of the successful liquidation of the claim portfolio, Prvi faktor, Zagreb (in liquidation) in 2021 repaid all its open credit facility, i.e. EUR 1 million, to ultimate owners SID Bank and NLB, while Prvi faktor, Ljubljana (in liquidation) also repaid a portion of its open credit facility to ultimate owners SID Bank and NLB.

Total assets at the consolidated level amounted to EUR 6,016 thousand as at 31 December 2021. In terms of total assets, the largest Group company is Prvi faktor, Belgrade (in liquidation) with total assets of EUR 3,492 thousand, followed by Prvi faktor, Zagreb (in liquidation) with total assets of EUR 2,669 thousand and Prvi faktor, Ljubljana (in liquidation) with total assets of EUR 1,333 thousand.

The Prvi faktor Group ended 2021 with a net profit of EUR 869 thousand owing to the successful liquidation of its claims portfolio, of which Prvi faktor, Zagreb (in liquidation), generating EUR 653 thousand in net profit, contributed the most. That company was followed by Prvi faktor, Belgrade (in liquidation) with EUR 283 thousand in net profit, and Prvi faktor, Ljubljana (in liquidation) with EUR 67 thousand in loss. The loss generated at Prvi faktor, Ljubljana (in liquidation) is a result of the fact that revenues from recovery did not suffice to fully cover the costs, primarily labour costs and administrative costs (attorney's fees and IT costs).

The Prvi Faktor Group disclosed positive equity in the amount of EUR 4,945 thousand.

Centre for International Cooperation and Development

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

The CMSR's management bodies are its director and council. The institute is represented by its director Tadej Baškovič. The council had six members as at 31 December 2021. SID Bank's representatives on the council are Bojan Pecher, who is also deputy chair of the council, and Igor Jarc.

In 2021 the CMSR also faced challenges associated with the continued COVID-19 pandemic and failure to conclude an agreement on the financing of the CMSR programme to implement international development cooperation projects. As a result, the CMSR incurred loss of key income over the previous period for the performance of its activities, which required a restriction to be placed on all non-urgent costs. For this reason, the CMSR generated lower revenues in 2021 than planned, meaning that expenses incurred exceeded revenues generated by EUR 80 thousand.

In terms of market activity, the CMSR also continued its cooperation with SID Bank in 2021 on the preparation of country risk assessments, surveys of companies, data processing, and the preparation of market gap analyses, and also worked with the Ministry of Foreign Affairs in preparing the cost-of-living indices. After preparing an in-depth analysis in 2020 for the Ministry of Foreign Affairs, which included the bases, strengths and weaknesses of the current UN methodology and provided multiple alternative methods for calculating cost-of-living indices, the CMSR in 2021 determined three times the cost-of-living indices for 72 cities abroad (also including cities not covered by UN) for the Ministry of Foreign Affairs according to the new methodology.

In 2021 the CMSR implemented international development cooperation projects, which were co-financed by the Republic of Slovenia under agreements concluded in advance with the Ministry of Finance, Ministry of Economic Development and Technology and the Ministry of Foreign Affairs. Four projects were completed in 2021.

In accordance with past international development cooperation project evaluations and based on a review of the centre's past operations, the approved CMSR programme for implementing international development cooperation programme for 2020 and 2021 was re-examined in June 2021. On the basis of these findings a decision was adopted to create a new selection of projects in 2021, which was approved by the council in July

2021. The Slovenian government adopted a decision on co-financing six international development cooperation projects from the new selection in 2022 and 2023 on 27 January 2022.

In order to ensure transparency in the selection and monitoring of projects on the basis of the coordinated decision-making process regarding the selection of international development cooperation projects, the CMSR began preparing a fundamental overhaul of the system implementing bilateral projects in autumn 2021 in accordance with the guidelines of the Ministry of Foreign Affairs as the national coordinator of international development cooperation. This resulted in the adoption of the CMSR rules for the implementation of international development cooperation project of the Republic of Slovenia in December 2021, which was coordinated in advance with the Ministry of Foreign Affairs and the centre's council, while other documents are also being prepared.

In terms of legal analyses and publications, CMSR continued its permanent projects in 2021, including the Slovenian Business Portal, the annual business publication Doing Business in Slovenia and the journal International Business Law, which ceased publication at the end of 2021. The 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 portal InvestSlovenia) also continued in a slightly larger scope.

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:

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

Organisational aspects of the risk management process

The risk management process is established 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.

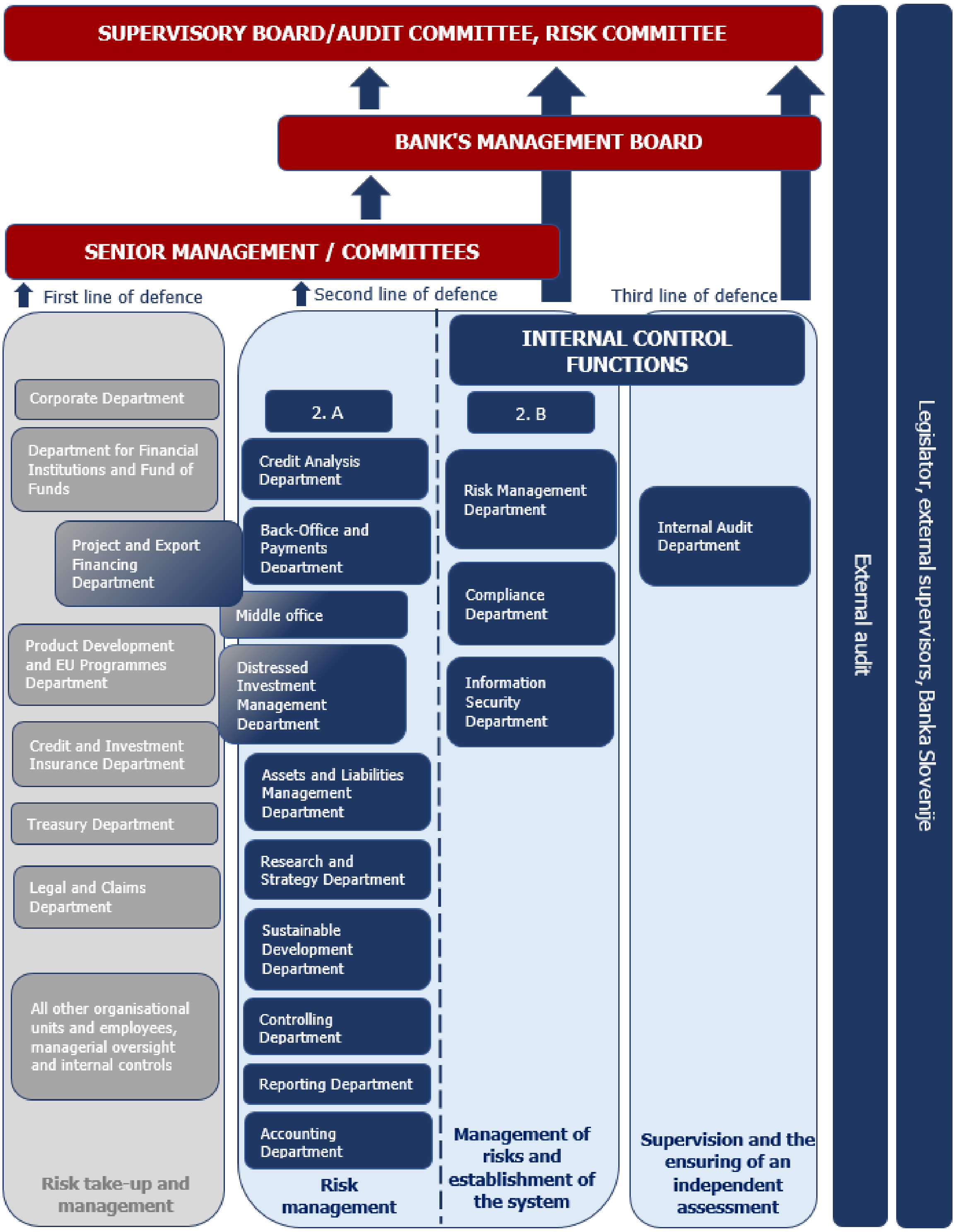
Delineation of roles and responsibilities in the risk management process

The system of competences and responsibilities relating to risk management relies on three lines of defence, which by accurately defining the internal relations regarding accountability provide 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 correct decisions. The lines of defence are structured in the following manner:

- **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 provides recommendations to improve 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.



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 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 credit and 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. The regular risk reports contain information regarding SID Bank's exposure to credit risk at the level of the entire credit portfolio, including a detailed analysis of individual and sectoral concentration of the credit portfolio, the credit portfolio structure by geographical area, credit rating, exposure to currency risk, liquidity risk, interest rate risk, operational risk and an assessment of any other risks. Once a year, the management body discusses and approves 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, 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. 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 dealing with the transitional watch list, the list of forborne and insolvent exposures, reports on recoveries, collateral, and fulfilment of the financial and other contractual commitments applying to forborne transactions.

The committee that was newly established in 2021, 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, which 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 power, 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. In the scope of this concept, risk identification begins in commercial organisational units, and continues with the measurement and assessment of risks and the formulation of risk management measures in organisational units segregated from the commercial organisational units, and proceeds all the way up to the management board. All mandatory functions of internal controls have direct access to the management body.

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, 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 and audit 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 and cooperation in the oversight and implementation of monitoring in accordance with the internal instructions within the context of the credit process.

The **project and export financing department** assesses investment projects that envisage the long-term financing of the public infrastructure of investments made by companies owned by the Republic of Slovenia that carry out important infrastructure tasks for the government and hold a natural monopoly, and of companies that are responsible for major economic development and play a significant role in linking companies in supply chains and in the internationalisation of the corporate sector or companies in which the Republic of Slovenia exercises its general meeting function.

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 watchlists 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 this 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, and makes payments for SID Bank's needs and operations under the authorisation of the Republic of Slovenia. It also participates in groups for the monitoring of loans under guarantee schemes and keeps analytical records of financing, borrowing and treasury operations.

Two new departments relating to risk management were established in 2021: the assets and liabilities management department and the sustainable development department. 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, the relevant methodology and conducting the risk profile assessment, calculating the internal capital requirement and the 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 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 exposed in its operations, and regularly reports its findings to the Bank's management board and supervisory board. 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:

- rules and 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 absorption capacity, its strategies and policies for the take-up and management of risks, and its capital, liquidity and remuneration policies. In keeping with the mandates of a development bank, the risk appetite is higher than at other commercial banks, as SID Bank operates in the realm of market gaps. Risk appetite is approved on an annual basis by the management board and supervisory board when adopting the business strategy, business policies and risk management strategy within the scope of SID Bank's annual operational plan. Regular monitoring of risk appetite indicators is provided for on SID Bank's management body. For 2022 SID Bank updated 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.

The Bank assesses the risk profile on an annual basis, which comprises a broad assessment of risk areas, business processes and the control environment. The risk profile is a tool for the comprehensive risk management process, in terms of the Bank's governance, the management of financial risks and the organisation of business processes. To ensure a comprehensive and comparable overview of risks and the control environment by individual business process, the risk profile serves as the fundamental basis for the planning of internal auditing and the compliance function, and serves as the basis of the internal capital adequacy assessment process. In addition, the Bank also conducts stress tests on the basis of its own scenarios and scenarios submitted by the supervisor. On the basis of the results of these tests, the Bank is able to define in advance in a timely manner those areas where it is most vulnerable, and to mitigate risks and improve its performance by means of appropriate measures. SID Bank established an extensive framework for integrated stress testing, which it takes into account, at minimum, in the process of reviewing and planning the Bank's risk appetite and risk absorption capacity, 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. At the end of 2021 SID Bank upgraded the methodology for the calculation of the internal capital requirement for credit risk within the ICAAP. The calculation was completed according to an internal ratings-based (IRB) approach and includes sub-types of credit risk to which the Bank is exposed that the Bank defined as material: default risk, concentration risk, migration risk and residual 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 absorption capacity.

Management of and exposure to risks in 2021 and view to the future

With emergence of the COVID-19 pandemic, SID Bank transitioned quickly from a development to an intervention and counter-cyclical role, and responded quickly to the changing needs of the corporate sector with its expanded range of financing programmes. Despite the dimensions of the COVID-19 pandemic, the Slovenian economy in 2021 proved to be more resilient than expected, which was also contributed by stimulus measures at the national and EU level and monetary policy measures. The Bank's development-promotional role thus again came to the forefront.

SID Bank's total assets remain at the same level as last year, and stood at EUR 2.8 billion at the end of 2021. The value of the credit portfolio, measured at amortised cost, was EUR 1.8 billion at the end of 2021, while the value of the insurance portfolio, in the scope of operations under Republic of Slovenia authorisation, was EUR 2.8 billion. The structure of loans shifted in favour of the non-banking sector also on account of early repayments of loans granted to banks.

SID Bank continues to pay particular attention to risks that derive from loan funds and products based on financial engineering from national funds, where the state covers an agreed share of first loss, as increased credit risk in the scope of individual financing programmes is reflected through the financing of customers with poorer current credit ratings, the financing of higher-risk segments, through longer moratorium periods, and poorer LTVs, which is in line with the role and policies of a development bank. When managing risks that derive from loan fund transactions, SID Bank takes into account methods and procedures for measuring and assessing, managing and monitoring transactions used in other operations on own account.

In 2022 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 the Bank manages as part of the internal capital adequacy assessment process, in the scope of which it takes into account normal operating conditions and stress situations. Capital strength is reflected in the quality composition of capital; SID Bank's regulatory capital is comprised solely of Common Equity Tier 1 capital. The Bank disclosed a high total capital ratio of 28.8% as at 31 December 2021. The value of that ratio was down by 0.3 percentage points relative to the previous year. In addition, the leverage ratio stood at 15.5% at the end of 2021, which is significantly higher than the prescribed regulatory figure and will allow the Bank to operate stably also in the future. In accordance with the Bank of Slovenia's decision, SID Bank was required to meet the buffer for other systemically important institutions in 2021 in the amount of 0.25% of total risk exposure, while that requirement will also have to be met by the latter in 2022.

Maintaining an appropriate level of liquidity and a sound liquidity position is the next key objective in the area of risk management and is 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, 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 liquidity coverage ratio is maintained 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. The average value of the liquidity coverage ratio (LCR) was 3,618% in 2021, while the average value of the weighted available liquidity buffer stood at EUR 373.2 million in the form of investment-grade debt securities and ECB investments. The net stable funding ratio was 142% at the end of 2021. The Bank regularly verifies its liquidity position in the scope of ordinary operations and in connection with 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 economy in 2021 proved to be more resilient than expected despite the dimensions of the COVID-19 pandemic, with stimulus measures at the national and EU level and monetary policy measures mitigating the negative effects of the COVID-19 pandemic, as the actual impact of the crisis was smaller than originally anticipated. The intensity of the direct intervention financing of SID Bank declined in 2021, with added impact on the level of surplus liquidity by one-off events involving the repayment of non-performing exposures and early repayment of loans granted to banks and customers, which was impacted significantly by high liquidity in the Slovenian banking system, an increase in lending activity of commercial banks and an environment of low interest rates. 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 sufficient diversification.

The Bank also adjusted its activities in the management of funding sources and in 2021 made an early repayment of a portion of loans raised at the European Investment Bank in the amount of EUR 108.5 million, with a relatively short residual maturity. In March 2021 the Bank drew down a loan in the scope of taking part in the ECB operation (TLTRO-III) in the amount of EUR 33.7 million with maturity in 2024, with the stock of liquidity reserves not increasing, as this comprises borrowing secured by ECB eligible securities and bank loans. Depending on future market terms, SID Bank will also be able to embark on the active management of existing funding sources in 2022.

SID Bank maintains the appropriate level, quality and structure of liquid assets to support the Bank's operations and for covering its expected and unexpected liquidity outflows. In the future the Bank will continue to implement a policy outlining the prudent management of liquid assets in terms of the appropriate structure and sufficient diversification of liquidity reserves, taking into account potential adverse trends on the financial markets. During this process, the Bank will primarily pursue the objective of investment in liquid and less risky financial instruments. In 2022 the Bank expects liquidity reserves to be managed in uncertain conditions, where the gradual omission of non-standard monetary policy measures in order to control medium-term inflation expectations, the potential increase in credit spreads and the resulting tightening of financial conditions and increased financial market volatility that will be caused by geopolitical risks, are all believed to be key risk factors.

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 2021 complied with the adopted risk appetite.

The quality of the credit portfolio deteriorated slightly in 2021. The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of A decreased by 8.4 percentage points to stand at 49.5% as at 31 December 2021. The decline in A-rated exposure was caused by the early repayment of loans to banks and the reclassification (downgrade) of loans and advances to customers to rating category B. As a result, the proportion of B-rated financial assets increased and stood at 45.5% at the end of 2021. The newly approved credit operations were also a significant factor in the increase in B-rated exposure. The proportion of C-rated financial assets declined and fell to 3.1% at the end of 2021. The proportion of D- and E-rated financial assets increased by 0.3 percentage points and stood at 1.9% at the end of 2021. The new reclassifications of performing exposures to non-performing exposures brought an increase in the proportion of D-rated financial assets, while the write-offs of financial assets led to a decrease in E-rated exposures.

The proportion of classified loans and other financial assets accounted for by non-performing loans and other financial assets was down and stood at 2.3% at the end of 2021 (end of 2020: 3.6%). The decline was primarily the result of an early repayment of non-performing loans that SID Bank disclosed as non-trading financial assets mandatorily at fair value through profit or loss. The coverage of NPEs remains relatively high and stood at 69.4% at the end of 2021, which facilitates an additional decline in non-performing exposures without a major impact on the costs of risk in upcoming periods.

The sharp decline in GDP as a result of the COVID-19 pandemic was not reflected in a deterioration of the quality of SID Bank's credit portfolio in the expected scope because of extensive government support measures to mitigate the negative effects adopted in 2021. The proportion of new non-performing exposures did not increase significantly and the proportion of exposure in the scope of the portfolio of non-financial corporations classified into the category with increased credit risk (Stage 2) declined and amounted to 13% according to the situation as at 31 December 2021 (31 December 2020: 17%). Due to deteriorating expectations in food services, tourism, the automotive industry and road transport, SID Bank reclassified certain exposures from Stage 1 to Stage 2 at the end of 2020 on the basis of additional analyses at the level of individual companies. A portion of these exposures were reclassified to Stage 1 in 2021. The majority of deferral of the payment of liabilities (loan moratoria) approved in accordance with the government's emergency legislation expired by the end of 2021, and the volume of additional bilateral moratoria as well as new non-performing exposures in this segment of the credit portfolio did not increase significantly.

More favourable macroeconomic forecasts (GDP passed the pre-crisis level already in the third quarter of 2021) impacted the decline in allowances and provisions for credit losses at the end of 2021. Inclusion of 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. Sudden and pronounced adverse changes in the macroeconomic environment, as witnessed upon the outbreak of the COVID-19 pandemic, increase allowances and provisions for credit losses, while a reverse in the economic cycle caused them to decline. A major factor in the decline in allowances for credit losses were also the early repayments of loans and advances to customers and loan to banks. 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 2021 are presented in the financial section of the annual report under point 2.3.8 in the section Impairments of financial assets and provisions.

In the scope of performing its intervention and counter-cyclical role, SID Bank over the past two years has increased its stock of new loans to companies (corporate loans) which were directly affected by the COVID-19 pandemic. A deterioration in the quality of the credit portfolio could occur in this segment of the portfolio in the coming years. Due to the government support measures the financial statements of companies do not yet fully disclose the negative effects of the COVID-19 pandemic on their operations and further development. Due to increasing energy prices credit risk is increasing for energy-intensive firms, with the growing prices of raw materials and disruptions in supply chains impeding operations in certain industries. The operations of companies and their profitability will also be affected going forward by the growing inflation, through increasing prices of input materials as well as requirements for salary increases, which companies will not be able to fully transferred into an increase in their product and service prices, while the declining purchasing power and economical behaviour of consumers can have an adverse effect on the companies' revenues. On the basis of additional analyses, SID Bank assessed the impact of growing energy prices on the operations of energy-intensive firms in its portfolio in 2021 and adjusted its assessment of credit risk accordingly.

The Russian-Ukrainian war could also be a factor in the quality of the credit portfolio moving forward, particularly depending on the length of this war and the restrictive measures adopted against the Russian Federation associated therewith and the potential further tightening of these measures, which could adversely affect various economic activities. The direct exposure of SID Bank to Ukraine and Belarus is low, with exposures being secured by SID Bank insurance policies issued for the account of the Republic of Slovenia to insure against commercial risks and non-commercial risks (95% coverage), also covering the risk of war. SID Bank has no direct exposure against the Russian Federation. Even before the ultimate deterioration of conditions in Ukraine the Bank conducted sensitivity analyses in terms of exposure and the potential negative effects on the quality of its credit portfolio, including an analysis of exposure to companies that depend significantly on the Ukrainian and Russian markets.

In 2022 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 managing **environmental, social and governance risks (ESG risks)**, SID Bank already commenced the initial activities in 2021 for their inclusion in its internal policies relating to credit risk appetite and management. Regular monitoring of SID Bank's exposure to provisional climate risks was established via regular quarterly reporting on the Bank's exposure to firms that perform climate-critical activities. ESG risk was included in the scope of risk appetite in the form of a dynamic limit on total exposure to the most high-risk ESG customers. In terms of ESG factors, SID Bank conducts its assessment at the borrower level above certain exposure. The result of the comprehensive assessment of ESG factors in the form of a sustainability report enters the Bank's credit process as an input parameter and can impact the loan rejection/approval and the terms of financing.

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 2021 is 4.0% of the Bank's equity in the scenario of a parallel shift in market interest rates by +200 basis points.

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. 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 stabilising the interest margin. The management of the debt securities portfolio was interfered in 2021 in terms of achieving adequate returns as a result of low or negative market interest rates. The continuation of economic recovery and reduction of unemployment is expected in 2022, which could bring additional inflation pressures. If the growth in prices remains at the elevated levels for an extended period of time, we can expect the accelerated omission of monetary policy measures, which could cause growth in market interest rates and a deterioration in financial conditions via an increase in credit spreads. In terms of the interest rate risk taken up by SID Bank, this could cause a revaluation of the current portfolio of debt securities, while also providing higher returns on the reinvestment of the funds from the liquidity reserves.

In 2021 SID Bank upgraded the measurement of the impact of changes to market interest rates on the economic value of equity and established the measurement of risk of change to the credit spread for the portfolio of debt securities measured at fair value through other comprehensive income. The Bank will also continue to upgrade and improve its methodology for measuring interest rate risk in 2022 in accordance with the envisaged 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 2021.

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. In 2021 the Bank also upgraded the model risk management framework by adopting the rules on model risk management. The framework was upgraded so that it clearly defines the essential features of model risk and its management through identification, measurement, monitoring/reporting and management. In the scope of managing model risk, the Bank also upgraded 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 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 2021.

In addition to the epidemiological situation, SID Bank focused on actual risks brought to banking practices by digitalisation, which systematically increases risks in connection with information and communication technology (ICT), and risks in connection with fraud, money laundering, terrorist financing and compliance. With regard to the management of fraud risk, SID Bank enhanced the control environment by introducing the in-depth assessment of exposure to the risk of fraud 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. There should be an awareness 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. SID Bank will therefore continue to devote a lot of its attention to the information security segment – for more details see section Development of information technology and cyber security.

During the year the Bank earmarked many resources and funds to information security training, as people are often the weakest link (vulnerability) in information security. Educational content was updated and adapted to providing lectures via e-training platforms and upgraded by employee testing. Education and training also included the following content: secure use of electronic devices, safe on the internet programmes, secure email use and general information security training.

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 in 2021 due to still relatively high macroeconomic risks and the unpredictable macroeconomic situation and the required proper definition of the countercyclical stance of SID Bank's activity and its gradual transition to its development role. Strategic risks are also derived from the need to adapt to market gaps, which also impacts **profitability risk**. An environment of low interest rates and still relatively low credit activity at the aggregate level has essentially an unfavourable impact on profitability risk, and even more so in unpredictable conditions.

The **remuneration policy**, which is presented in detail in the financial report in section 6.14 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 absorption 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. It also gives its opinion regarding the fulfilment of conditions by employees (whose job has a material impact on the Bank's risk profile) for the payment of the deferred variable component of wages in terms of risks in connection with the viability of the Bank. The compliance function analyses how the remuneration policy affects the Bank's compliance with laws, regulations, internal policies and the risk take-up culture. 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

Guarantee schemes based on intervention measures in 2020

In the scope of measures to mitigate the consequences of the COVID-19 pandemic on the Slovenian economy, the Republic of Slovenia authorised SID Bank in 2020 in accordance with fourth paragraph of Article 7 of the ZDLGPE and fifth paragraph of Article 65 of the ZIUZEOP, to execute all transactions in the name and on behalf of the Republic of Slovenia related to the redemption of guarantees, 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 legal conditions for obtaining the guarantee are respected. In terms of recording loans into the guarantee scheme, both measures expired in the first half of 2021. Last deferrals of credit obligations (loan moratoria) of borrowers under the ZIUOPOK with the guarantee under Article 65 of the ZIUZEOP have been reported by banks on 31 March 2021, and data on liquidity loans under the ZDLGPE on 30 June 2021. All the required activities from the above authorisation were also performed by SID Bank in 2021.

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 competent committees discuss reports associated with reputation risk, operational risk (through loss events) and profitability risk (given the fact that the agreement on the implementation of regulations governing guarantee schemes has yet to be concluded with the Republic of Slovenia, SID Bank has yet to receive the fee for the costs incurred for services rendered in 2020 and 2021). 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.

Credit and investment insurance against non-marketable risks

In addition to the guarantee scheme, 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. That committee makes decisions regarding exposure limits for individual customers, 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. The 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 by country).

In the area of credit and investment insurance against non-marketable risks of a commercial and non-commercial nature, SID Bank uses a risk management model (value-at-risk or VaR technique) to calculate 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, to assess whether contingency reserves are sufficient to cover these claims, and to estimate the maximum potential claim and the impact of new insurance operations on potential claims. The methodology used to calculate the assessment of potential 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 assessments, and the corresponding adjusted probabilities of default.

As at 31 December 2021, contingency reserves amounted to EUR 173,010 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 2021, we can assert with 99.60% certainty that claims over the next one-year period will not exceed the amount of the contingency reserves.

The outbreak of the COVID-19 pandemic could impact operations on behalf of the state where SID Bank also provides credit and investment insurance against non-marketable risks of a commercial and non-commercial nature in the name and on behalf of the Republic of Slovenia. Due to the implementation of economic measures to mitigate the consequences of the COVID-19 pandemic, the stock of and exposure from insurance operations have risen significantly compared to the pre-pandemic situation. Despite the trend of an improving general economic situation, forecasts still appear that the pandemic still has some unfinished business in terms of the economy. In that respect, events could arise that will cause a significant deterioration in the economic situation and the resulting payment of claims.

This situation will, most likely, not be derived from the pandemic directly, but the COVID-19 situation will certainly impact its progression and occurrence. The specific events could be geostrategic or of a different nature, and will certainly be global as was also the case with the pandemic. Aid from states will be limited in these cases due to the macroeconomic situations in which specific countries are in and that resulted from the prolonged pandemic conditions. In light of this, there could be a deterioration in the future in the operating result generated from insurance against non-marketable risk.

The portfolio of insured credit and investments that are made in the name of and on behalf of the Republic of Slovenia records high exposure to debtors from the Russian Federation, Belarus and Ukraine. Considering the war in Ukraine and the restrictive measures that will affect the ability to repay the liabilities of Russian and Belarusian firms and banks, there are grounds for believing it is likely that there will be a large insurance payout in the near future. SID Bank is closely monitoring this situation, preparing various exposure projections and adopting measures to reduce the latter and prevent potential losses.

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

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 2021 to strengthening internal communications, primarily due to the persisting circumstances associated with the spread of the COVID-19 pandemic and work being done mostly from home. The Bank's management gave special emphasis to the regular notification of employees, particularly with respect to changed circumstances at the end of the management board's term of office and the organisation of work. This put in place two-way communication that contributed to the regular resolution of employee issues and ensured greater satisfaction at the workplace and enhanced positive corporate culture. A regular dialogue between the Bank's management and trade union was also maintained in 2021.

Online applications ensure the rapid exchange of documents and access to all rules and bylaws, while also enabling the lending of technical materials between departments. In order to further strengthen communications, the Bank in 2021 also introduced a new 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 that are then decided on by a committee elected for that purpose that also rewards the best innovations. Providing information to employees was also reinforced through more frequent, monthly releases of the in-house newsletter *Cekinčki*, which familiarises employees with personnel changes, events and active projects and with the success of individual department and companies.

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

SID Bank facilitates flexible working hours, making it easier to achieve work-life balance, in particular by allowing parents with young children to arrange different working hours from other employees. The management board allows employees to occasionally work from home, when the nature of their work allows this and their absence does not impede the organisation of work. In the context of modernisation and digitalisation of work methods, the Bank also formally introduced a hybrid form of work in 2021 that will still allow employees a combined manner of work at the office and from home even after the epidemiological situation has come to an end, provided that the requirements of the work process so allow.

On account of conditions in connection with the COVID-19 pandemic and to reduce employees' exposure to infection to the lowest possible level, the Bank in 2021 also followed and consistently implemented in full all measures determined by the competent institutions and the business continuity plan, which was adopted in accordance with banking legislation and imposes conduct and measures in the event of a pandemic. Given the extraordinary circumstances, the Bank ordered work from home to those employees whose work facilitated this approach or who could perform work from home. For this reason, the Bank did not record any transmissions of infection between employees.

Special attention is also given to the rights of employees, their health and safety, working conditions, social security, personal and professional development, social dialogue and mutual relationships. In the area of employee health and safety, SID Bank organises preliminary, specific-purpose and periodic medical examinations, as well as professional training in the areas of occupational safety and health and fire safety, the organisation of which in 2021 was affected in part by the conditions relating to the COVID-19 pandemic. 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.

Development of employees and remuneration

SID Bank puts special focus on the 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. In 2021 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 be better and accomplish more.

The system of competencies for specific posts ensures quality within the framework of SID Bank's complex functional structure as a development bank. In terms of employee management, in order to achieve greater flexibility, data quality and support for managers in managing and developing personnel in 2021, the Bank introduced a HR IT system (*eHRM*) in which data is kept on employees in accordance with the rules governing personal data protection. The eHRM provided the Bank with different connections and the flow of data into other applications and systems that require this data. This single data entry point provides greater quality of data, saving time and additional options for the monitoring and quality processing of this data.

Management conduct annual development interviews with employees that represent the basis for assessing the development potential of individuals, the definition of key staff members and the formulation of annual training plans. 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 2021 the conducting of development interviews was also properly supported by applications, which also facilitated simpler and quicker performance during an increase in work from home due to the current epidemiological situation. The conducting of annual development interviews will also be further upgraded in terms of systems and application support in 2022, which will provide managers and employees with simple and transparent insight into the agreed objectives and development support, and also with continuous adjustments where needed.

Promoting the acquisition of additional knowledge and skills and their practical use is one of the guidelines of SID Bank's action strategy. All Bank employees took part in at least one training course in 2021. Some education and training programmes were organised online during the year due to the specific conditions connected with the COVID-19 pandemic.

The Bank upholds all applicable legislation and the collective agreement for the banking sector when setting salaries and determining other labour costs for employees. Remuneration for performance and advancement are governed by the 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. In

2021 the Bank continued the practice of paying premiums for voluntary health insurance and supplementary pension insurance for employees, and jubilee benefits for employees in accordance with the provisions of the collective agreement for the banking sector.

In terms of concern for key staff, the Bank introduced a talent management concept in 2021 for key and promising staff and successors for key jobs and a programme to retain these employees.

In order to maintain a suitable climate and employee satisfaction and their dedication, a survey was conducted in 2021 in the scope of the SiOK project (Slovenian organisational climate). This provides a comparison of achieved results for the Bank with the results of past years and the Slovenian average. The results of the survey indicate that the Bank, in terms of organisational climate and employee satisfaction, is above the Slovenian average, with both indicators improving since the previous survey was conducted in 2019. On the basis of the achieved results, the Bank will put in place targeted activities for improvement and advancement in places where needs for an upgrade are detected.

Employee structure

Recruitment was undertaken in line with the annual employment plan in 2021, and in line with guidelines from the strategy, which are based on the adjustment of recruitment to business growth 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 17 new employees in 2021, to replace employees who found new challenges outside the Bank or due to temporary additional needs, and partly as a response to needs dictated by new tasks and the increased workload brought by the launch of new products (and also as the consequence of the COVID-19 pandemic) and other development activities. SID Bank had 223 employees at the end of the year, of whom 146 were women and 77 were men. The headcount averaged 223.5 in 2021.

	2021		2020	
Qualification level	Number	Proportion in %	Number	Proportion in %
5	15	6.7	17	7.6
6/1	14	6.3	14	6.3
6/2	47	21.1	49	22.0
7	108	48.4	105	47.1
8/1	31	13.9	32	14.3
8/2	8	3.6	6	2.7
Total	**223**	**100.0**	**223**	**100.0**

DEVELOPMENT OF THE BANK

Development in 2021

The Bank pushed ahead with the development of products and performance of activities geared towards process and IT updates. During this process, it was successful throughout the year in providing continuous support for the hybrid form of work, as most employees performed their work obligations from home due to the epidemiological situation. It was successful in finalising two major public contracts, i.e. the project for the development, implementation and maintenance of the software solution ePortal and support for the financing process, and the project for the external management of Security Operations Centre services. Limited HR availability due to the epidemiological situation has already resulted in the lengthening of deadlines for the completion of certain projects. The Bank is paying close attention to these cases via its management bodies.

Product development

In 2021 SID Bank obtained a guarantee from the Pan-European Guarantee Fund for the partial coverage of risks associated with financing micro, small and medium-sized enterprises and Mid-cap enterprises with mid-ranking market capitalisation for working capital and investments. The guarantee is issued for the total stock of loans to final beneficiaries in the amount of EUR 150 million in 2021 and 2022. SID Bank offers loans secured by a guarantee given by the Pan-European Guarantee Fund in the scope of a programme that finances companies of all sizes for working capital and investments (the 'OSN' programme), which was also developed in 2021. Loans that are not secured by a Pan-European Guarantee Fund guarantee are also available in the scope of the 'OSN' programme. All loans in the scope of this programme include elements of state aid.

In 2021 SID Bank began with the expansion of the Slovene Equity Growth Investment Programme (SEGIP) with three additional products. This includes:

- The Central Eastern European Technology Transfer fund (CEETT platform), for which an amendment to the mandate agreement between SID Bank, the Croatian Bank for Reconstruction and Development (HBOR) and the European Investment Fund (EIF) was already signed in July 2021 and which provides financing to research projects, the development of technologies and intellectual property at universities and research institutions (in Slovenia and Croatia), with potential commercial value for the commercial sector. The scope of the platform includes at least EUR 40 million (EUR 10 million from SID Bank, EUR 10 million from HBOR and EUR 20 million from EIF) as well as and additional funding for which an amendment to the mandate agreement between SID Bank and the EIF is expected to be signed in the first quarter of 2022.
- A venture capital fund that will provide financial support to young Slovenian innovative SMEs in the early stage (primarily during start-up stage) and in scale-up stage. The objective is to mainly adress market gaps in this area and to provide support to the venture capital ecosystem, which in Slovenia is among the least developed in the EU. A minimum EUR 52 million have been earmarked for this product, of which EUR 44 million are provided by SID Bank and the EIF (each EUR 22 million), and at least another EUR 8 million by private investors.
- A private equity fund for succession that will address the problem of ownership succession in Slovene family businesses, where companies, due to the non-existence of family members or relatives or their unwillingness to take over ownership and management of the company, when the current owner retire, either ceases to exist or are dismantled or forced to do so. A minimum EUR 75 million have been earmarked for the implementation of this product, of which EUR 50 million are provided by SID Bank and the EIF (each EUR 25 million), and at least another EUR 25 million by private investors.

The products have been developed, the CEETT is already in the execution phase, while the other two products (venture capital and succession) will follow in the first half of 2022. This will also complete the current expansion of the SEGIP.

SID Bank also developed a new programme in 2021 for financing public sector entities ('JAVNI SEKTOR 1' programme) for investments in Slovenia the financing of which is not subject to state aid rules. SID Bank can also use the funds gained from borrowing at the EIB and the Council of Europe Development Bank to implement this programme.

Due to changes in state aid rules, SID Bank also prepared all the required adjustments to other programmes in 2021, thereby ensuring the largest possible range of favourable loans for the corporate sector (i.e. loan with aid under the Temporary Framework).

Development of information technology and cyber security

The management of information systems at the Bank was taken over by new management, which has been functioning in its full composition since June. The Bank provided continuous support to business processes throughout the year, completed more than 50 major adjustments to software solutions and ensured the required availability and information system security at all times.

In the context of the strategic overhaul of the information system, the Bank also introduced a number of new tools and adjustments, such as a solution for the computerisation of support for compliance processes, an upgrade to the back-office system and the provision of comprehensive support for the 'OSN' product backed by a Pan-European Guarantee Fund guarantee. The upgrade of comprehensive support for HR processes, with the eHRM solution and the introduction of a platform for e-training and consolidation of time use management should also be noted among major projects that were introduced successfully. It also had success in making a number of adjustments to managing data in the data warehouse, and in the field of regulatory and internal reporting.

The Bank adheres to increasingly higher information security requirements due to rising cyber threats in the external environment, and is aware of the importance of protecting Bank employee and customers' data, including personal data. On this basis, the Bank earmarked a great deal of resources and funds to the training and upgrading (with new versions and rules of operation) of security systems during the year, such as ATP (*Advanced Threat Protection*), SIEM (*Security Information and Event Management*), and the strengthening of security settings of key servers. The Bank upgraded its two-factor authentication for remote access, introduced DNS Sec (*Domain Name System Security Extensions*) for public DNS (*Domain Name System*) servers and upgraded its firewall hardware. The Bank also introduced the ITAM tool (*IT Asset Management*) to improve the management and control of information systems.

The Bank continued training in the area of information security for all employees, and verified the vulnerability of SID Bank's IT systems to threats from the external and internal environments through external security reviews (penetration tests). It set up a new information security department and created the role of chief information security officer (CISO) for more efficient management. 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.

On the basis of assessing the maturity of information security, the Bank carried out a successful public contract for the SOC (*Security Operations Centre*), in the scope of which it was also taken care for the maintenance and upgrading of licences for the SIEM system and introduction of the EDR (*Endpoint Detection and Response*, i.e. a system for the detection of and response to security events on endpoint IT devices, including mobile devices).

Projects

In order to improve the digital maturity of SID Bank, in particular in relation to customers and the efficiency of processes, the Bank's first development priority was geared towards the project redesigning the web portal and comprehensive support for financial and insurance processes. In September it ended the public contract procedure and with the selected partner commenced with planning activities and solution implementation, which is expected to be finalised at the end of 2022. In terms of major annual project activities, the selection of the target core banking system, where activities focused primarily on the precise inventory of requirements and the conducting of extensive workshops in the scope of holding a competitive dialogue with potential suppliers, should be highlighted.

Development in 2022

Product development

In 2022 SID Bank's development activities will focus on the introduction of products aimed at the inclusion of commercial banks in the co-take-up, sharing or partial coverage of risks, as well as other products. SID Bank also plans, with the required support, to introduce products that will be specifically geared towards green solutions and digitalisation. 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 are all planned. SID Bank will also carry out activities for participation in implementing the new multi-annual financial framework for the period 2021–2027.

Operating guidelines in 2022 also require the further adaptation of internal processes so that commercial departments will focus more on direct communication with customers and the conclusion of (new) transactions, and on more active communication with financial intermediaries with the aim of identifying and fulfilling their needs and expectations. SID Bank will also continue the gradual digitalisation of its operations, the result of which will be a simple and digitalised credit and insurance process.

Development of information technology and cyber security

This year the Bank will primarily focus on the implementation phases of strategic activities. With its new portal solution the Bank upgrades the portal's function as a crucial digital communication channel between customers, financial intermediaries and the Bank in all phases of operations, i.e. from consultancy and approval to monitoring. All key information on operations will be available to all stakeholders in one place, thereby significantly raising the level of the effectiveness of business cooperation. New support on the decision-making level will put in place a transparent and controlled process for the approval of investments on the basis of business rules and authorisations for making decisions, the purpose of which is not merely the mitigation of credit risk, but also an opportunity to optimise and shorten the approval process.

The other major project is the replacement of multiple back-office systems into a single consolidated solution for the core banking system. In the context of successfully completing the supplier selection, the project will begin with an in-depth feasibility and gap analysis, which with the aim of the maximum management of project risks will define further implementation and migration steps.

With its strategic activities geared towards an IT upgrade, the Bank will focus on mitigating risks associated with key systemic fields and eliminate gaps associated with risk management. In that respect it will upgrade its IT service management (ITSM) and draft a strategic plan regarding the comprehensive overhaul of infrastructure, which to a great extent will follow external management trends.

In terms of information security, the Bank has already begun the introduction of the SOC and EDR in 2022. The Bank will continue training and tests of knowledge in the area of information security for all employees, which in terms of content will focus on specific groups of employees, and verify the vulnerability of SID Bank's IT systems (in particular newly introduced systems, e.g. ePortal) to threats from the external and internal environments through external and internal security reviews (e.g. penetration tests and self-assessments).

Regarding the management of IT services, the Bank began conducting market research for the ESM tool (Enterprise service management), with which it will be able to consolidate the management of key IT services and also various other internal services. The Bank will also gradually expand the application of Microsoft 365, both in terms of using advanced security services and improving cooperation and internal performance.

SOCIAL RESPONSIBILITY AND SUSTAINABLE OPERATIONS

Promoting sustainable development

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 supplement the market, SID Bank contributes to economic growth and the well-being of the population, and strives for the sustainable development of Slovenia. SID Bank must adhere to the principle of balanced and sustainable development in the economic, environmental and social areas, and observe the comprehensive, long-term sustainable stance for all financial transactions. In addition to the economic justification of activities, the Bank must also take account of their social externalities, i.e. the non-financial or indirect benefits and/or costs for the entire economic and social environment. Financing socially beneficial infrastructure projects and target groups in the economy is the basic way in which SID Bank provides financing for Slovenia's sustainable development policies.

The changing circumstances as the result of the outbreak of the COVID-19 pandemic have brought the Bank's intervention and counter-cyclical role into focus, which in 2021, with the stagnation on macroeconomic markets, no longer required such degree of intervention as was the case at the outset of the pandemic. In combatting the consequences of the pandemic, SID Bank targeted its financing towards the most affected activities and for purposes that achieve the maximum macroeconomic effect. Here it should be emphasised that the purpose of SID Bank's operations is to achieve not just the aforementioned economic effects, but also other social and environmental effects as the result of promoted projects, and the development-promotion and intervention programmes that it implements.

SID Bank is especially focused on the monitoring and management of environmental risks and the promoting of the green transition of firms. The management of climate and other environmental risks is shifting to the very core of the Bank's operations and business processes. SID Bank's green strategy was developed to ensure continued activity in this area. SID Bank will invest 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 is planning to adapt the ESG questionnaire to sustainable and ESG standards of reporting, which are being developed at the EU level for the needs of sustainable reporting by companies. As a result, there is also a plan in place to upgrade the methodology for defining and monitoring ESG risks at the company level. The questionnaire will be adapted to companies depending on the activity in which they operate and their size. The questionnaire is expected to be more extensive and will require additional tasks regarding the automation, processing and analysis of data, and thus needing to consider how can customer data be accessed without putting too much extra burden on the customer.

Role and effects of SID Bank's operations

Given its size and the scope of its activities, SID Bank plays the role of the central Slovenian institute for the financial promotion of the effective achievement of basic development objectives. Its activities are based on long-term development policies of Slovenia and the EU. SID Bank's role is intermediation in the area of market gaps, and the resulting creation of wider social benefits in terms of:

- sustainable and balanced economic development in Slovenia;
- research and innovation, and other forms of economic development activity that increase the competitiveness and excellence of businesses in Slovenia;
- sustainable (environmentally-friendly) development with a high degree of protection of the environment and habitat, and energy and material efficiency;
- advanced public and economic infrastructure;
- social progress, providing equal opportunities, education and employment; and
- other economic activities that contribute to growth, development and prosperity.

By assessing companies over the various developmental stages of operations and providing tailored financial services, SID Bank ensures suitable financing terms and conditions where the market offer proves insufficient. To this end, it encourages the Slovenian economy to take advantage of its opportunities at home and abroad. Special attention is given in particular to SMEs with high development potential. In parallel with the planned adjustment in its lending activities, SID Bank is also developing and introducing systemic solutions, and is tailoring its range of services in substantive and technical terms to the changing needs of final beneficiaries, and of commercial banks when they act as intermediaries for SID Bank's purpose-specific funding.

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. In so doing SID Bank is aware that its specific position requires it to act in a way that prevents the distortion of free competition. SID Bank's activities have therefore essentially been established within a framework that is complementary to other market participants in the area of financing.

Key business principles that SID Bank takes into account in its operations:

- balanced and sustainable development;
- long-term development policies of Slovenia and the EU;
- Slovenian and EU legal system;
- non-competition, complementarity and subsidiarity;
- non-discrimination;
- financial value of services for final beneficiaries;
- transparency;
- coverage of a company's entire lifecycle.

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 the Bank's equity and earmarks all profits for the additional financing of 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 specific projects, special attention is given to the prevention of corruption and money laundering.

Through proactive cost management, SID Bank develops its responsibility to society, as it is aware that the funding that it manages originates directly or indirectly from the national budget. Each cost saving contributes, considering the legal provision governing the mandatory distribution of distributable profit to reserves, to the Bank's financial soundness, permanent sustainability of its operations and financial self-sufficiency, while also increasing the amount of funds that the Bank can earmark to the sustainable development programmes intended for the wider community.

In 2021 SID Bank again used its products and programmes to pursue the concept of covering key phases in the production chain where market gaps arise. SID Bank also enhances the accessibility of financial services by developing new products and adapting its existing offer.

Promoting circular economy and sustainable operations

SID Bank was one of the first to promote the establishment of the circular economy concept in Slovenia. With the realisation of its Green Strategy in 2021, it took a more decisive step towards promoting the green transformation of the Slovenian economy and increased the role of social responsibility in operations. In accordance with the Green Strategy, SID Bank functions proactively and systematically introduces new developments in connection with the integration of climate, environmental, social and governance factors (ESG factors) in business processes, where its aim is to maintain its leading role in this area in the Slovenian banking environment. It therefore strives to increase its knowledge capital in the area of sustainable financing.

SID Bank is already implementing initiatives aimed at the circular and green economy directly through existing general financial programmes to finance companies. A special programme for financing investment projects that contribute to the transition to a circular economy was also formed in 2021. SID Bank also promotes a circular economy indirectly by assessing the circularity of business model of its customers.

SID Bank assessed the sustainability and circularity of a company's business model in the past from five perspectives. In 2021 it transitioned to a new, adjusted concept for assessing companies that is based on an assessment of ESG factors and the customer's core activity, which also ended the assessment of companies from five perspectives. A new ESG questionnaire and ESG tool were developed for this purpose. They were created to assess the customers' responses to the ESG questionnaire in the scope of an analysis, take account of climate-critical activities, their carbon intensity and a classification system for environmentally sustainable economic activities (i.e. EU taxonomy). The ESG tool automatically generates a sustainability report from the above input data that is comprised of three components:

- an analysis of the sector that includes an assessment of the carbon intensity of the borrower's activity, an assessment of the exposure of the borrower's activity to temporary and physical climate risks, an assessment of potential compliance of the borrower's core activity with activities deemed environmentally sustainable;
- an assessment of the ESG risks to which a company is exposed (a borrower's exposure to ESG factors and risks, primarily to environmental factors, the impact of climate changes and the appropriateness of the borrower's protection and adaptation strategies); and
- an assessment of the circularity of a company's business model.

In terms of ESG factors, SID Bank conducts its assessment of a borrower at the borrower level above certain exposure. The result of the comprehensive assessment of ESG factors in the form of a sustainability report enters the SID Bank's credit process as an input parameter and can impact the loan rejection/approval and the terms of financing. Currently, the greatest challenge in implementing the new approach is the inaccessibility and unreliability of many ESG data, and the lack of comparability of certain categories, as companies in most cases do not (yet) use standard methodologies to calculate/assess certain parameters.

SID Bank adopted a sustainable financing policy in 2021. The objectives of the sustainable financing policy are as follows:

- adaptation to the regulatory requirements in the area of sustainable financing;
- establishing a framework for the gradual transition of SID Bank's financing to sustainable financing in accordance with the action plan for financing sustainable growth that will contribute to the achievement of the targets set out in the Paris Agreement;
- establishing a framework for the introduction of other elements of sustainable development (introduction of ESG standards[7]) into the processes and operations of SID Bank.

Sustainability is being formally integrated into the loan approval and monitoring processes in the following two ways with the sustainable financing policy:

- through the assessment and treatment of companies and their activities in terms of ESG factors;
- by establishing a framework for the recording, assessment and monitoring of environmentally sustainable economic activities.

SID Bank defines a list of environmentally sustainable projects and activities in the policy, including the criteria that it takes into account for a specific type of financing to be deemed eligible for environmentally sustainable lending. When forming the list and criteria of environmentally sustainable financing, SID Bank proceeds from the requirements of the delegated act on contributions to climate targets[8].

With its sustainable financing policy SID Bank sets a very important ultimate goal – the achievement of climate neutrality by SID Bank by 2050, inclusive. On this path, SID Bank has taken the first steps in the scope of the adopted policy in relation to excluded activities. The activities that SID Bank excludes from financing comprise investments and projects that are based on the extraction, sale or use of coal. In order to facilitate the transition of companies to carbon-free status, exemptions have been added for financing these activities: funding can also be provided to companies where the implementation of the project/investment for which the company gained funding from SID Bank contributes to reducing pollution of the environment, while simultaneously not allowing the extension of the lifetime of a plant that uses coal, and does not increase its capacities. The implementation of CCUS technologies can also be financed. A measure was also adopted in 2021 relating to liquidity management for the purchases of securities in the fossil fuels sector to be excluded from purchases of new securities.[9]

In terms of managing ESG risks, SID Bank commenced the initial activities for the inclusion of environmental, social and governance factors in its internal policies relating to credit risk appetite and management. Regular monitoring of SID Bank's exposure to provisional climate risks was established via regular quarterly reporting on the Bank's exposure to firms that perform climate-critical activities. ESG risk was included in the scope

[7] Upon publishing this policy, the most notable are the *EU Sustainability Reporting Standards* (EU SRS), which are being developed under the aegis of the EFRAG and will have to be used for reporting in the scope of the new *Corporate Sustainability Reporting Directive* (CSRD). ESG reporting standards, which are currently being developed under the IFRS, also bring further standardisation.

[8] This involves Commission Delegated Regulation (EU) 2021/2139 that supplements Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, dated 4 June 2021;

[9] The CPRS (Climate policy relevant sectors) classification includes activities with the following NACE codes as categorised under fossil fuels: 05, 05.1, 05.10, 05.2, 05.20, 06, 06.1, 06.10, 06.2, 06.20, 08.92, 09, 09.1, 09.10, 19, 19.1, 19.10, 19.2, 19.20, 35.2, 35.21, 35.22, 35.23, 46.71, 47.3, 47.30, 49.5, 49.50.

of risk appetite in the form of a dynamic limit on total exposure to the most high-risk ESG customers.

SID Bank also continuously actively shares its knowledge in the area of sustainability by taking an active role in the scope of various partnerships and working groups, primarily on the BAS level. In terms of sustainability, SID Bank was an active participant in 2021 in three BAS initiatives: in the process of preparing sustainable financing guidelines, amending risk management guidelines in terms of the treatment and management of ESG risks. The most recent initiative in which SID Bank is involved is an initiative from the BAS to form a standard ESG questionnaire for all banks.

SID Bank strives for a better tomorrow

Through its programmes, SID Bank primarily pursues the objectives of achieving wider social benefits, particularly for Slovenian society, thus also pursuing sustainable development goals that were adopted in broad consensus of 191 countries 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: environmental protection, eradication of poverty, ensuring peace and prosperity for all people.

The fact that SID Bank operates in accordance with the sustainable development objectives was also recognised by the Morningstar company Sustainalytics, which studied the Bank's activities during the issue of SID Bank's green bond. A team of international experts emphasised SID Bank's major importance in the achievement of progress, in particular with regard to environmental goals, such as affordable and clean energy, sustainable cities and communities, clean water and sanitation, responsible consumption and production, and life on land.

In combatting the consequences of the pandemic, SID Bank targeted its financing towards the most affected activities and for purposes that achieve the maximum macroeconomic effect. This way it is contributing to reaching targets[10] 1, 8 and 9, and by strengthening its focus on promoting a sustainable economy it also strives to achieve targets 11–15. Through its development and incentive programmes for SMEs, even via commercial banks, SID Bank contributed to the achievement of targets 8–10 last year, with loans to finance projects focusing on the comprehensive energy renovation of public-sector buildings and urban development projects for companies targets 9 and 11, and with programmes to finance technological and development projects 'RRI 3' and 'NALOŽBE 3' also contributed to the achievement of targets 8 and 9. An additional contribution to achieving targets 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. In 2021, SID Bank also offered favourable financing for green projects. These projects could be financed in 2021 under all SID Bank programmes, as green bonds were used for projects with a sustainable component as the source of financing.

[10] 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.

Communication with the public

SID Bank, as the central development financial institution, by supplementing the financial market's current range of services and products with complementary services, enjoys a unique market position. Appropriate and coordinated communication with the public therefore functions as support to the Bank's operational goals and to its promotional and development role. The entire communication is coordinated in the visual and content-based sense, with SID Bank's corporate image used in all publications. In accordance with the Bank's operating manner, communication with customers, business partners, various stakeholders and public in general is carried out directly and also indirectly in cooperation with other financial and public promotional institutions.

Through transparent and consistent communication with all stakeholders, the key objectives of the communication activities in 2021 comprised support for the Bank's business policy, the strengthening of its recognition and solidification of its role that it has as a promoter of sustainable development in the Slovenian economy and society.

The Bank's central general communication channel with external publics are the websites *www.sid.si* and *www.skladskladov.si*, which also remained the basic source of information in 2021. With the installation of virtual assistants (*Chatbots*) SIDko and SKLADko, the Bank closed the gap to customers and simplified their direct access 24/7. The Bank maintains direct contact with stakeholders also through weekly communication on social networks LinkedIn and Facebook and via the monthly e-newsletter, which is used to inform customers of its developments and current offer.

The Bank maintained and strengthened contact with the business and professional public this year via its presence in the media and network of business interest associations, such as the Chamber of Commerce and Industry of Slovenia, Chamber of Crafts and Small Business of Slovenia, regional development agencies and similar associations of undertakings. SID Bank representatives took part or were actively involved and represented the Bank at 49 domestic and international events that were held in digital, physical and hybrid format. Events that were suitable for participation were selected in accordance with SID Bank's mission and areas of operation and the applicable recommendations of Slovenian Sovereign Holding (SSH).

In order to increase its recognition and thus expand the accessibility of its services to the Slovenian corporate sector, SID Bank together with two advertising agencies created a product-oriented and corporate video and in the second half of the year also successfully completed the first media campaign for increased recognition, which was broadcast simultaneously on TV, online and via external advertisements. During the year the Bank also ran four digital advertising campaigns, which via various web platforms focused on a selected segment of companies and entrepreneurs, bringing solid results for the Bank.

In the scope of the activities focused on increasing recognition, the Bank in collaboration with two advertising agencies recorded and aired two new videos. The first[11] was used in the aforementioned advertising campaign, which generated a number of positive reactions, while the second one[12], which is product-oriented, was used for online presentations and for the Bank's presentation at events.

[11] https://www.youtube.com/watch?v=uCHhg7jiPgA

[12]https://www.youtube.com/watch?v=uCHhg7jiPgA&ab_channel=SIDBankahttps://www.youtube.com/watch?v=FTYDCZyCBG0

Continuous and professional performance of activities focusing on public relations is needed for greater recognition. SID Bank regularly informed the general public of its activity in the media through press releases, interviews, PR articles and advertisements. The Bank continuously supports open, transparent and high-quality relations with the media, recognising their importance as a stakeholder, as accurate provision of information to the media helps the Bank to maintain a positive and, in particular, an accurate image of SID Bank. Communication must be comprehensible, concise and positive. The Bank's solid partnership with the media is reflected in the responses to 37 categories of questions from the media, which were answered by providing up-to-date, relevant and exhaustive information. The presence of the Bank in the media, measured through the number of articles referencing SID Bank was down by 29% in 2021 relative to 2020, and is again on the level it had been on prior to the COVID-19 pandemic. The decline can be attributed to the extraordinary year of 2020, when the Bank due to its counter-cyclical role received above-average media exposure.

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 is regularly updated and optimised, 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 work 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 social responsibility 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 2021:

- The Slovenian Corporate Governance Code issued by the Ljubljana Stock Exchange and the Slovenian Directors' Association on 27 October 2016 for the purpose of effective corporate governance. The full text of the code is available on the Ljubljana Stock Exchange's website (http://www.ljse.si/); and
- 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 March 2021), and the Recommendations and Expectations of Slovenian Sovereign Holding, which was issued by Slovenski državni holding d.d. in August 2020. 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).

Relations with shareholders

Recommendation 6	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).
Recommendations 8.1, 8.2, 8.4 in 8.10	The Republic of Slovenia is the sole shareholder in SID Bank (Article 4 of the ZSIRB).
Recommendation 8.9	A representative of the auditor is not invited to the general meeting. The sole shareholder (Slovenski državni holding - SSH) is regularly briefed on SID Bank's performance.

Supervisory board

Recommendations 9, 10 in 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 ministry responsible for finance and one based on the proposal of the ministry 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 and key function holders). SID Bank implements its corporate governance arrangements in accordance with the legislation applicable in Slovenia, taking into account its own bylaws (e.g. 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.

Supervisory board committees

Recommendation 18.1	In accordance with the ZBan-3, SID Bank has three supervisory board's committees: an audit committee, a risk committee and a nomination and remuneration committee.
Recommendations 18.2 in 18.3	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

Recommendations 27.3 in 29.3	The ZSIRB specifies the ownership of SID Bank, which is limited exclusively to the Republic of Slovenia (Article 4 of the ZSIRB).
Recommendation 28.2	It is applied *mutatis mutandis*.

Corporate governance code for companies with capital assets of the state

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.

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.

6. Supervisory board

Recommendations 6.5 in 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 6.6	In accordance with Article 51 of the ZBan-3, only members of the Bank's supervisory board may serve as members of the latter's committees, irrespective of the provisions of the ZGD-1 and ZSDU.
Recommendations 6.8 in 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*.
Recommendations 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. Disclosures under Part Eight (Articles 431 to 451 and Article 492) of the CRR are included in the financial report, in the format and with the content set out by the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013. 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.

9. Auditing and the system of internal controls

Recommendation 9.2	SID Bank's internal governance arrangements are governed by the ZBan-3 and the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, and include established internal control mechanisms (e.g. the risk management department, internal audit department, compliance department and information security department). The recommendation is applied *mutatis mutandis*.

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3. Sponsorship and donations

Recommendation 3.8	SID Bank has adopted a communications strategy, which has neither been approved by the supervisory board nor published on its website. A governance policy that regulates sponsorship and donations among other issues has been adopted by the Bank's management board and supervisory board. 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 not financed from public funds. For this reason, the restrictions referred to in section 3.11 do not apply to it.

4. Cost optimisation

Recommendation 4.4	Taking into account amendments to tax regulations, SID Bank paid annual leave allowance in 2021 in the amount of the average monthly wage in the Republic of Slovenia, and a 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 published the collective agreement for the banking sector on its website, but has not published its own collective agreement, which sets out in detail the conditions, criteria and metrics for promotions, and for the assessment of personal on-the-job performance and overall performance, and the amount of other personal remuneration of employees paid by SID Bank on the basis of the collective agreement for the banking sector. SID Bank's remuneration system is presented in detail in disclosures in the annual report.

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 department 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;
- 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 a risk committee, whose responsibilities primarily relate to supervision and the provision of advice on risk management.

Compliance

The compliance department is an independent and impartial organisational unit at the Bank that is functionally and organisationally separate from other organisational units, and is answerable directly to the management board. The head of the compliance department has direct access to the management board and supervisory board.

The compliance department has functioned at the Bank since 2009. A change occurred in 2021, when the area of information security was spun off from the compliance department to create the independent information security department. On the other hand, the spin-off of the area of information security has given the compliance department the additional task of providing legal support to organisational units and the data protection officer in the area of personal data protection.

The department had three employees at the end of 2021. At least one new employee is expected to be hired in the area of compliance in 2022.

The compliance department's primary tasks are to identify the compliance risks to which the Bank is or could be exposed in its operations due to the breach of valid regulations, valid agreements, prescribed best practices and ethical standards on the one hand, and the strengthening of corporate ethics and integrity on the other.

In accordance with the valid code of ethics and professional standards at the Bank, all its employees are responsible for ensuring compliance with regard to their role and level of responsibility. It is their right and obligation to undergo training in the area of compliance risk management. 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 operates in line with its annual work plan (covering the period from 1 March to 28 February) which, in addition to regular audits of compliance, includes the performance of an advisory function, in particular with respect to the introduction of new banking products, the prevention of money laundering and terrorist financing, 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. With the introduction of the ECHO+ training platform at the Bank, the compliance department transferred some of its training activities to the aforementioned platform with the aim of improving the user experience, while ensuring 24-hour access to relevant content by employees.

The department faced challenges in 2021 with regard to operating in changing conditions. It transitioned to a combined system that includes work from home. The department dedicated a great deal of attention to the potential use of artificial intelligence in the organisation of work. The internally developed *Ukrepi OSk* (Compliance Department Measures) application was launched. That application warns the Bank's account managers of the need for the compliance department's prior approval of cooperation with a client.

In terms of monitoring and implementing legislation, the introduction of a software tool was completed. That tool also includes a module for managing operational risks at the Bank and a module for bylaws, and provides the compliance department software-supported control (monitoring) for the timely transposition of changes to legislation and best practices to SID Bank's bylaws.

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 Bank turned to internal resources to address the departure of the AML/CFT officer during the year.

The compliance department is also working with the product development and EU programmes department to obtain a pillar assessment. Special attention is being given in the scope of that project to the issue of identifying the avoidance of tax payments. This is an area that SID Bank will strengthen further in 2022.

The compliance department also pays special attention to the implementation of received recommendations (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. As a separate department, it also reports to the management body regarding compliance with the code of ethics and professional standards. This 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 and complaints (whistleblowing) facilitates the anonymous reporting of suspected breaches and complaints. Detailed procedures are described on the website *https://www.sid.si/o-banki/druzbena-odgovornost-etika*. If increased compliance risk is identified, the head of the compliance department may propose an extraordinary review of compliance, which it did in 2021.

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 specific categories of employees, for whom the most significant risks of unethical conduct and conflicts of interest were identified. The compliance department briefs the management board on its findings in this area once a year. The department also assesses signs/elements of the criminal and civil liability of employees and the Bank's other stakeholders, as well as suspected cases of external and internal fraud, and informs the management board, internal audit department and risk management department accordingly.

In 2021, the compliance department worked with other organisational units in the identification of loss events and adoption of appropriate measures, in activities relating to the remuneration policy, and in the introduction of new products. It worked with the internal audit department in the performance of audits in the exchange of information and findings.

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 annual plan for 2021 envisaged ten primarily comprehensive and complex audits, of which nine, together with two extraordinary audits, were completed during 2021 or at the beginning of 2022. One extraordinary audit is still in progress, and another is being discussed by the management body, while a further two audits were brought forward to the annual plan for the 2022 financial year.

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 2021 the internal audit department also provided advice regarding the development of banking products in the scope of the Funds of Funds and financial engineering, 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 2021, one of whom was a part-time employee. All employees hold the requisite 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.

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 the 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.

There were no changes to the management board during 2021, while changes in the composition of the supervisory board are described in information regarding the composition of the supervisory body.

SID Bank's articles of association were amended in 2021, thus expanding Article 12 with provisions regarding an electronic general meeting of shareholders. SID Bank's amended articles of association were published on 8 July 2021 in the collection of documents on the AJPES website.

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 must comprise 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. With the appointment of Janez Tomšič, the qualifications of the Bank's supervisory board changed, ensuring that the Bank now has at least one legal advisor on its supervisory board. On 10 June 2021 Sašo Polanec resigned from his position as member of the supervisory board. In accordance with the articles of association, he requested his term of office as member of the supervisory board be terminated with immediate effect, with no notice period for termination. Since then the Bank has been operating with six of the legally prescribed seven supervisory board members.

Initially at the request of the Bank of Slovenia, then due to the resignation of Sašo Polanec, who performed the function of the chair of the nomination and remuneration committee, the composition of the Bank's supervisory board committees changed during the year. The management board's regular term of office expired as of 31 December 2021. The Bank's supervisory board adopted a decision to collaborate with a human resource agency, which will not only assess candidates but also persuade them to apply, in the process of selecting new management board members in order to acquire the highest possible number of applications from suitable candidates.

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 major changes in the composition of SID Bank's supervisory board in 2021. On 10 June 2021 Sašo Polanec resigned from his position of member, while Marko Tišma's term of office expired on 28 July 2021. However, the government opted for the reappointment of Mr Tišma to a new five-year term of office.

Composition of the supervisory board as at 31 December 2021:

First name and surname	Date of appointment	Duration of mandate	Change	Function
Marjan Divjak	18 May 2017	5 years	2022	Chair
Janez Tomšič	11 September 2020	5 years	2025	Deputy-chair
Zlatko Vili Hohnjec	18 May 2017	5 years	2022	Member
Leo Knez	22 February 2018	5 years	2023	Member
Igor Masten	11 September 2020	5 years	2025	Member
Marko Tišma	29 July 2021	5 years	2026	Member

The supervisory board met at eighteen regular and nine correspondence sessions in 2021.

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.

In 2021 the committee convened at nineteen sessions, which was primarily the result of the procedure to appointment of the management board to a four-year term of office (2022–2026).

As at 31 December 2021 the Supervisory board's nomination and remuneration committee comprised:

First name and surname	Function
Janez Tomšič	Chair
Zlatko Vili Hohnjec	Deputy-chair
Marjan Divjak	Member
Marko Tišma	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 committee held 12 ordinary sessions in 2021.

The audit committee comprised the following members as at 31 December 2021:

First 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 risk committee met at 10 ordinary sessions in 2021.

The supervisory board's risk committee comprised the following members as at 31 December 2021:

First name and surname	Function
Igor Masten	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 2021, as the process of selecting the third member of the management board concluded without selection.

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.

In 2021 the management board comprised Sibil Svilan as president and Goran Katušin as member. They both meet conditions with regard to knowledge, skills and experience and other criteria, while the management board as a whole meets the collective suitability condition, meaning that the two management board members satisfy all criteria for a positive suitability assessment, together and without the need for additional training. In the annual assessment of the management body, it was found that the two members of the management board are individually and collectively suitable for performing their functions. Both members' term of office expired on 31 December 2021, requiring the supervisory board to carry out the process of management board selection during 2021 for the term of office 2022–2026 in accordance with the policy on the selection of management board members. As of 1 January 2022 the management board commenced work in the composition of Damijan Dolinar as president and Stanka Šarc Majdič as member.

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 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 investments, 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 in the rest of the world, and regarding the use of the 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 investments, 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 investments (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.

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, and a third member who is an employee, namely the director of the compliance department, for whom the management board ensures the appropriate protection against potential retaliatory measures. A committee member’s cooperation agreement expired mid-December 2021, so procedures at the Bank are already underway to appoint a new committee member with knowledge and experience in recruitment, psychology and similar sciences.

The committee for the assessment of the suitability of members of the management body and the supervisory board’s nomination and remuneration committee carry out the fit and proper assessment process for the members of the management body.

Members of the management body are subject to assessment by the two committees before their appointment or the commencement of their function, and if new circumstances arise in connection with a particular member of the management body during their term of office.

The head of the compliance department is also authorised to draw up annual assessments of the management body. Assessments are then discussed by the supervisory board's nomination and remuneration committee, which formulates a position regarding those assessments.

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.

In 2021, during the procedure selecting the third member of the management board, the committee for the assessment of the suitability of members of the management body carried out four individual fit and proper assessments of candidates. The assessments were approved in full by the nomination and remuneration committee, while the procedure ended with non-selection. In 2021, due to the expiry of the regular term of office of both members of the management board on 31 December 2021, a process was started for the selection of candidates for management board members for the term of office lasting from 2022 to 2026. The committee completed 16 individual fit and proper assessments in this process, and a further three additions to individual fit and proper assessments and three collective assessments of the suitability of candidates for management board members. The nomination and remuneration committee approved the individual fit and proper assessments in full, and partially also the assessments of collective suitability. The supervisory board appointed three management board members, with two of them beginning their term on 1 January 2022. Furthermore, the committee due to changed circumstances on the part of the Bank's supervisory board members completed three partial individual assessments of the suitability of supervisory board members, of which one was approved in full by the nomination and remuneration committee, one partially and one was rejected.

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.

[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 international trade promotion commission regularly monitors the Bank's operations in areas regulated by the ZZFMGP, which includes the discussion of performance reports and the submission of an opinion to the Ministry of Finance regarding the Bank's report on the exercising of authorisations under the ZZFMGP.

The commission met at seven regular sessions in 2021; most of these were virtual sessions. It also made decisions at 24 correspondence sessions.

The most frequent topic of discussion at sessions in 2021 was the insurance and reinsurance business. The majority of proposals were for the reinsurance of short-term credits, the number of which was up significantly. The reason for the increase is derived from measures against the COVID-19 pandemic, as the European Commission declared all export credits as non-marketable already in 2020, regardless of borrower country or maturity, which was also the case in 2021. The primary insurers Coface PKZ and Zavarovalnica Triglav reported significantly more business for reinsurance than in the previous year.

Medium-term insurance transactions in connection with the financing of projects in Croatia, Ukraine, Belarus and Africa were also discussed at commission sessions. The commission also made decisions regarding other transactions in connection with the internationalisation of Slovenian exporters, in particular regarding export transactions realised by Slovenian exporters in relation to customers in Southeast Europe, Russia, Belarus and other EU countries. The decision-making particularly related to the insurance of guarantees required by ordering parties, as well as to the insurance of non-shareholder loans of Slovenian investors abroad.

At its sessions, the commission also discussed and approved revised insurance terms. It also adopted the revised insurance business policy and the sustainability insurance policy, which defined the relationship of the institution to the factors or the natural and social environment, and management factors.

The commission frequently discussed and approved measures relating to the insurance policy vis-a-vis Ukraine and vis-a-vis certain other countries (Belarus, Iran, Chile, etc.), verified the effectiveness of the policy of the Slovenian component revised in 2020 and the newly implemented qualitative elements in that scope. Given the dynamic trend of the economy, it also discussed multiple changes to already approved and business operations.

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 Economic Development and Technology, 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 2021 the commission comprised Franc Stanonik (chair), Matej Čepeljnik (deputy-chair), Iztok Pustatičnik, Slobodan Šešum, Stanislava Zadravec Caprirolo and Jernej Salecl (members). Iztok Pustatičnik and Jernej Salecl replaced Jože Renar and Jernej Tovšak in 2020, while Slobodan Šešum replaced Iztok Grmek in 2021.

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 the greatest diversity to the membership of the management body. The Bank plans to define the objectives and measures of the diversity policy in detail in 2022 in the scope of revising the governance policy.

The gender diversity criterion was not satisfied in full in 2021, irrespective of the definition of the criteria in the profile of members of the management body, as all of the members of the management board and supervisory board were male. Other criteria relating to professional experience, skills and competencies, and age were satisfied.

Ljubljana, 25 March 2022

Management board of SID Bank

Stanka Šarc Majdič	Damijan Dolinar
Member	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:

management board: Damijan Dolinar, President of the Management Board and Stanka Šarc Majdič, Member of the Management Board
on behalf of the supervisory board: Marjan Divjak (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. Within the Bank's organisational structure, 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 executive director who covers the organisational unit responsible for the assessment of credit risks of individual business entities and groups of connected clients, while the risk management function at the aggregate level of the Bank is directly accountable to the management board. This ensures the appropriate implementation of the risk management framework at the level of the Bank's daily activities and the regular notification of the management board 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 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, 25 March 2022

Management board of SID Bank

Supervisory board

Stanka Šarc Majdič
Member

Damijan Dolinar
President

Marjan Divjak
Chair

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

- The Bank's supervisory board decided to commence the process of selecting the third member of SID Bank's management board. To that end, a public call for applications for a new member of the management board was published on 21 January 2022. The supervisory board will complete the selection procedure in accordance with the published selection policy for management board members.
- In February 2022, the National Assembly of the Republic of Slovenia adopted the Act on the Mitigation and Allocation of Currency Risk Between Lenders and Borrowers in Swiss Francs (ZOPVTKK). The business model of SID Bank is based in part on the provision of affordable sources of funding to Slovenian commercial banks. As a result, SID Bank is exposed to certain banks that are in turn exposed to loans is Swiss francs. SID Bank closely monitors the development of events, including in accordance with the provisions of contracts concluded with participating banks. The Bank of Slovenia filed a request with the Constitutional Court for an assessment of the constitutionality of the aforementioned act. Prior to the Bank of Slovenia's request, banks and the BAS had already filed their own request for an assessment of the constitutionality of the act, with a motion to temporarily stay implementation. At the beginning of March 2022, the Constitutional Court issued a ruling to stay the implementation of the ZOPVTKK until it reached a final decision.

  SID Bank does not approve loans in Swiss francs, and the adopted act has no direct impact on it.
- The war in Ukraine and the associated sanctions imposed against the Russian Federation can affect the European economies and also have a global effect. Even before the ultimate deterioration of conditions in Ukraine the Bank conducted sensitivity analyses in terms of direct exposure and the potential negative effects on the quality of its credit portfolio, including an analysis of indirect exposure, where an in-depth review of exposure to companies that depend significantly on the Ukrainian and Russian markets was completed. SID Bank is diligently monitoring developments and doing additional analyses at the level of companies with the highest exposure, where there is also an active exchange of information with companies regarding potential adverse effects on their operations. SID Bank has low direct exposure against Ukraine and Belarus. SID Bank has no direct exposure against the Russian Federation. SID Bank has direct exposure to Ukraine and Belarus from loans to customers, and loans to banks that are secured by SID Bank's insurance policies issued for the account of the Republic of Slovenia to insure against commercial risks and non-commercial risks, also covering the risk of war. Therefore, it is not expecting a significant increase in credit loss allowances in this segment of the credit portfolio in the future. SID Bank has no direct exposure to issuers from Ukraine, Belarus or the Russian Federation in the portfolio of financial assets measured at fair value through other comprehensive income – debt securities. The further deterioration of conditions could have an adverse effect on different economic activities, which could lead to an adjustment to carrying amounts of certain financial assets measured at amortised cost (loans to customers), or to the creation of additional allowances and provisions for credit losses and a decrease in market value of debt securities in the coming period. On the basis of currently available data, SID Bank assesses that the effect on SID Bank's operations and capital adequacy will not be material, pointing out that it is difficult to provide a reliable assessment of negative effects at this time, as events change on a daily basis. The scope of effects will depend on the further development of events, as the dimensions of the situation and the corresponding negative effects will be reflected with a delay.

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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 2021. 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, 25 March 2022

Management board of SID Bank

Stanka Šarc Majdič
Member

Damijan Dolinar
President

Deloitte.

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company SID banka, d.d., Ljubljana (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2021, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and 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 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 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 2021. 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 2021 the Company presented loans to non-bank customers in the net amount of EUR 1,249 million and total expected credit loss in the amount of EUR 50 million.

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination 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, including the impact of the COVID-19 pandemic • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient 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, 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.

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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 customers, recognized in accordance with IFRS as a key audit matter in our audit of the financial statements for the year ended 31 December 2021. Management has provided further information about the impairment allowance on loans from customers in notes *2.3.8 Financial instruments: Classification and measurement of financial instruments in accordance with IFRS 9; Impairments of financial assets and provisions; 2.4.4 Financial assets measured at amortised cost; 2.5.13 Impairments; 3.1 Credit risk*	• 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, including the impact of COVID-19 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, including the impact of COVID-19. 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 affected by the COVID-19 iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period.

Emphasis of Matter

We draw attention to Note *2.6.4 Significant events after the end of the financial year* in the financial statements describing management's evaluation of the actual or potential impact of the effects of the military conflict between Ukraine and Russia on the entity. Our opinion is not modified in respect of this matter.

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Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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 Financial Statements

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

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

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

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.

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 July 2019. Our total uninterrupted engagement has lasted 7 years.

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Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 March 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

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

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, March 25, 2022

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

1 FINANCIAL STATEMENTS OF SID BANK

1.1 Statement of financial position

(EUR thousand)	Note	31 Dec 2021	31 Dec 2020
Cash, cash balances at central banks and other demand deposits at banks	2.4.1	218,126	120,187
Non-trading financial assets mandatorily at fair value through profit or loss	2.4.2	29,302	35,197
Financial assets measured at fair value through other comprehensive income	2.4.3	808,699	883,106
Financial assets measured at amortised cost	2.4.4	1,770,072	1,858,750
Loans and advances to banks		568,769	783,725
Loans and advances to customers		1,198,702	1,073,795
Other financial assets		2,601	1,230
Derivatives – hedge accounting	2.4.10	0	1,153
Investments in subsidiaries, associates and joint ventures	2.4.5	0	0
Tangible assets	2.4.6	4,002	4,336
Property, plant and equipment		4,002	4,336
Intangible assets	2.4.6	1,054	992
Tax assets	2.4.7	1,663	2,423
Current tax assets		0	2,423
Deferred tax assets		1,663	0
Other assets	2.4.8	1,114	1,214
TOTAL ASSETS		**2,834,032**	**2,907,358**
Financial liabilities measured at amortised cost	2.4.9	2,332,797	2,423,511
Deposits from banks and central banks		0	1,259
Loans from banks and central banks		667,859	908,711
Loans from customers		987,512	832,377
Debt securities		675,479	679,327
Other financial liabilities		1,947	1,837
Derivatives – hedge accounting	2.4.10	1,924	1,087
Provisions	2.4.11	2,647	4,635
Tax liabilities	2.4.7	3,494	702
Current tax liabilities		3,494	453
Deferred tax liabilities		0	249
Other liabilities	2.4.12	1,404	1,316
TOTAL LIABILITIES		2,342,266	2,431,251
Share capital		300,000	300,000
Share premium		1,139	1,139
Accumulated other comprehensive income		7,042	15,413
Profit reserves		173,495	156,846
Treasury shares		(1,324)	(1,324)
Retained earnings (including net profit for financial year)		11,414	4,033
TOTAL EQUITY	2.4.13	491,766	476,107
TOTAL EQUITY AND LIABILITIES		**2,834,032**	**2,907,358**

The notes are an integral part of the financial statements.

1.2 Income statement

(EUR thousand)	Note	2021	2020
Interest income		33,177	28,121
Interest expenses		(5,171)	(4,928)
Net interest income	2.5.1	**28,006**	**23,193**
Dividend income	2.5.2	446	316
Fee and commission income		2,033	742
Fee and commission expenses		(489)	(449)
Net fee and commission income	2.5.3	**1,544**	**293**
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	2.5.4	(11,628)	22,962
Net gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss	2.5.5	13,335	8,710
Changes in fair value in hedge accounting	2.5.6	(36)	126
Net foreign exchange gains/(losses)	2.5.7	(31)	17
Net gains/(losses) on derecognition of non-financial assets		5	0
Other net operating income/(expenses)	2.5.8	3,482	3,851
Administrative expenses	2.5.9	(19,577)	(17,342)
Depreciation and amortisation	2.5.10	(986)	(970)
Net modification gains/(losses)	2.5.11	(1,399)	(573)
Provisions	2.5.12	1,972	(2,282)
Impairments	2.5.13	14,353	(27,839)
Profit before tax from continuing operations		**29,486**	**10,462**
Corporate income tax on continuing operations	2.5.14	(5,456)	(1,972)
Profit after tax from continuing operations		**24,030**	**8,490**
Net profit for the financial year		**24,030**	**8,490**
Attributable to owners of bank		24,030	8,490
Basic earnings per share/diluted earnings per share (in EUR per share)	2.5.15	7.74	2.74

The notes are an integral part of the financial statements.

1.3 Statement of other comprehensive income

(EUR thousand)	Note	2021	2020
Profit for the financial year after tax		**24,030**	**8,490**
Other comprehensive income after tax		**(8,371)**	**3,757**
Items that will not be reclassified to profit or loss		1,298	(6)
Fair value changes of equity instruments measured at fair value through other comprehensive income	2.4.3	1,603	(7)
Income tax relating to items that will not be reclassified to profit or loss	2.4.7	(305)	1
Items that may be reclassified subsequently to profit or loss		(9,669)	3,763
Debt instruments measured at fair value through other comprehensive income		(11,937)	4,646
Valuation gains/(losses) taken to equity	2.4.3	(11,076)	6,705
Transferred to profit or loss		(861)	(2,059)
Income tax relating to items that may be reclassified subsequently to profit or loss	2.4.7	2,268	(883)
Total comprehensive income for the financial year after tax		**15,659**	**12,247**
Attributable to owners of bank		15,659	12,247

The notes are an integral part of the financial statements.

1.4 Statement of changes in equity

(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.

(EUR thousand)

2020	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 2020	300,000	1,139	11,656	135,327	17,062	(1,324)	463,860
Net profit for the financial year	0	0	0	0	8,490	0	8,490
Other comprehensive income	0	0	3,757	0	0	0	3,757
Total comprehensive income for financial year after tax	0	0	3,757	0	8,490	0	12,247
Allocation of net profit to profit reserves	0	0	0	21,519	(21,519)	0	0
CLOSING BALANCE as at 31 Dec 2020	**300,000**	**1,139**	**15,413**	**156,846**	**4,033**	**(1,324)**	**476,107**

The notes are an integral part of the financial statements.

1.5 Statement of cash flows

(EUR thousand)	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		29,486	10,462
Depreciation and amortisation		986	970
Impairments/(reversal of impairments) of investments in debt instruments measured at fair value through other comprehensive income		(409)	588
Impairments/(reversal of impairments) of loans and other financial assets measured at amortised cost	2.5.13	(13,944)	27,251
Net (gains)/losses from exchange differences		31	(17)
Net modification (gains)/losses		1,399	573
Net (gains)/losses from the sale of tangible assets		(5)	0
Other (gains)/losses from investing activities		(446)	(316)
Other adjustments to total profit or loss before tax	2.3.6, 2.5.4-2.5.6, 2.5.12	(2,787)	(27,453)
Cash flows from operating activities before changes in operating assets and liabilities		**14,311**	**12,058**
(Increases)/decreases in operating assets (excluding cash and cash equivalents)		**177,340**	**(467,518)**
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	2.4.2	19,230	(8,802)
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	2.4.3	66,610	(215,289)
Net (increase)/decrease in loans and other financial assets measured at amortised cost	2.4.4	91,415	(242,692)
Net (increase)/decrease in assets-derivatives – hedge accounting		(15)	15
Net (increase)/decrease in other assets		100	(750)
Increases/(decreases) in operating liabilities		**(103,565)**	**507,829**
Net increase/(decrease) in deposits and loans measured at amortised cost	2.4.9	(100,672)	158,700
Net increase/(decrease) in issued debt securities measured at amortised cost	2.4.9	(3,848)	349,048
Net increase/(decrease) in liability-derivatives – hedge accounting		(159)	3
Net increase/(decrease) in other liabilities		1,114	78
Cash flows from operating activities		**88,086**	**52,369**
(Paid)/refunded corporate income tax		**103**	**(4,558)**
Net cash flow from operating activities		**88,189**	**47,811**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		**456**	**316**
Receipts from the sale of tangible assets		10	0
Other receipts from investing activities		446	316
Cash payments on investing activities		**(714)**	**(700)**
(Cash payments to acquire tangible assets)		(296)	(346)
(Cash payments to acquire intangible assets)		(418)	(354)
Net cash flow from investing activities		**(258)**	**(384)**
Effects of change in exchange rates on cash and cash equivalents		8	31
Net increase/(decrease) in cash and cash equivalents		**87,931**	**47,427**
Opening balance of cash and cash equivalents		**130,187**	**82,729**
Closing balance of cash and cash equivalents		**218,126**	**130,187**

The notes are an integral part of the financial statements.

Cash equivalents

(EUR thousand)	31 Dec 2021	31 Dec 2020
Deposits at banks	0	10,000
Cash, cash balance in settlement account at central bank	217,868	119,303
Demand deposits at banks	258	884
Total	**218,126**	**130,187**

Cash flows from interest and dividends

(EUR thousand)	2021	2020
Cash flows from interest and dividends		
Interest received	37,413	37,928
Interest paid	(4,356)	(6,010)
Dividends received	446	316
Total	**33,503**	**32,234**

2 NOTES TO THE FINANCIAL STATEMENTS

Sections 1.1 to 1.5 of the financial report present the financial position as at 31 December 2021, profit or loss for the 2021 financial year, other comprehensive income for the 2021 financial year, changes in equity for the 2021 financial year and cash flows for the 2021 financial year. Figures for the position as at 31 December 2020 and for the 2020 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 2.3.30.

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

In compiling the financial statements for 2021 the Bank applied the same accounting policies as those used in compiling the financial statements for 2020, with the exception of the accounting standards and other changes effective as of 1 January 2021 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.

Due to the deterioration in the macroeconomic environment caused by the COVID-19 pandemic, the Bank re-assessed significant accounting policies and estimates in areas that could be adversely affected by the pandemic.

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.

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 2.3.27 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. The COVID-19 pandemic additionally increased uncertainty in the use of estimates and assumptions applied in the compilation of financial statements. SID Bank regularly assesses and adjusts the estimates and assumptions used, and recognises their effects during the period of the revision.

2.3.3 Consolidation

In addition to SID Bank, the SID Bank Group includes the Centre for International Cooperation and Development (associate) 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.

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 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 paragraphs in consolidation, as they are not subsidiaries and as the combined total assets of both companies amount to less than 1% of SID Bank's total assets.

SID Bank only compiled separate financial statements for 2021.

2.3.4 Functional and reporting currency

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

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

2.3.5 Translation of transactions and items in foreign currency

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

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

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

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

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

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 fund 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.

2.3.7 Cash equivalents

Cash equivalents in the statement of cash flows include balances in settlement accounts and business accounts at banks, deposits at and loans to banks, and securities measured at fair value through other comprehensive income with an original maturity of no more than three months. All cash equivalent items are short-term, highly liquid investments that are readily convertible into predetermined cash amounts.

2.3.8 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 and sell 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 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.

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 measured 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.

In essence, IFRS 9 distinguishes between the recognition of expected credit losses during a 12-month period, and lifetime expected credit losses. SID Bank classifies financial assets for which expected credit losses must be estimated in accordance with IFRS 9 into the following stages:

- financial instruments where there has not yet been a significant increase in credit risk, and for which impairments and/or provisions for credit losses are measured on the basis of expected credit losses over a 12-month period are classified as Stage 1. Interest income from these financial instruments is calculated on the basis of the gross carrying amount;
- financial instruments where there has been a significant increase in credit risk in the period between initial recognition and the date for which the Bank estimates expected credit losses are classified as Stage 2. Allowances and provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime of the financial instrument. Interest income from these financial instruments is calculated on the basis of the gross carrying amount; and
- financial instruments where there has been a default event on the part of the debtor are classified as Stage 3. Allowances and provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime of the financial instrument. 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.

	Annual GDP growth, %							
	Slovenia				Euro area			
	2021	2022	2023	2024	2021	2022	2023	2024
Baseline scenario	6.1	4.7	3.3	2.8	5.0	4.6	2.1	2.0
Favourable scenario	7.0	6.0	4.5	3.5	6.0	5.0	2.5	2.2
Adverse scenario	4.3	1.2	0.7	0.8	1.2	0.7	0.8	0.4

The table 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 2021. 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.

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 2021. A change in GDP under the baseline scenario in the period 2021 to 2024 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	-11.56	-118.66	-2,590
-100 basis points	12.84	120.16	2,928

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 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 uses 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. For consolidated financial statements, a goodwill impairment test is carried out at each reporting date for cash-generating units.

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 2021 and 2020:

(%)	
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 2021 and 2020, 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 (approved but unused loans and credit lines, and guarantees), and for termination benefits at retirement and jubilee benefits.

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

SID Bank recognises provisions for off-balance-sheet liabilities on the basis of the procedures cited in section 2.3.8 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 40% of the weighted average interest rate on government securities published by the Ministry of Finance for the purposes of pension insurance, the headcount on the final day of the year, and the average wage of employees in the final quarter. Provisions of this type are calculated every year.

2.3.16 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 (shares held in treasury) and net profit for the financial year.

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

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

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

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

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

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

2.3.18 Interest income and expenses

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

Interest income and expenses for interest on loans granted and received and other interest are recognised in profit or loss 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 non-trading financial assets mandatorily 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 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 and liabilities not measured at fair value through profit or loss include realised gains/losses from the purchase and disposal of financial assets and liabilities not measured at fair value through profit or loss, i.e. financial assets measured at fair value through other comprehensive income and financial assets and liabilities measured at amortised cost.

Here, the Bank also discloses gains/losses from the operations of loan funds that it created together with the MEDT and MI. 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 MI in loan fund risks by reducing the liabilities to the MEDT and MI, which the Bank discloses under financial liabilities measured at amortised cost.

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

Net gains/losses on financial assets and liabilities held for trading include realised and unrealised gains/losses on financial assets held for trading, including derivatives that were not concluded for hedging purposes, as well as net gains/losses from the purchase and sale of foreign currencies.

2.3.23 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, and loans and other financial assets that do not meet the conditions for measurement at amortised cost.

2.3.24 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.

2.3.25 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.

2.3.26 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 2021 and 2020.

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

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. Despite the uncertainties associated with the impact of the COVID-19 pandemic on external factors, the Bank recognised deferred tax assets for all deductible temporary differences.

2.3.28 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. Own shares held in treasury are not included in the calculation.

2.3.29 Contingent liabilities and financial commitments given

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

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

The risks related to contingent liabilities and financial commitments given are assessed on the basis of 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.

2.3.30 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.

2.3.31 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.

2.3.32 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 2021 and were issued by the IASB and adopted by the EU

- Amendment to IFRS 4 Insurance Contracts – Deferral of IFRS 9, adopted by the EU on 15 December 2020 and effective 1 January 2021. The amendments focus on the temporary accounting effects of the different effective dates of IFRS 9 and the future IFRS 17.
- Amendment to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases: Interest Rate Benchmark Reform – Phase 2, as adopted by the EU on 13 January 2021 and effective 1 January 2021. These amendments ensure special accounting treatment so that changes in the value of financial instruments or lease contracts, which arise due to the replacement of the interest rate benchmark, are distributed over time, which prevents a sudden effect on profit or loss, and prevents the termination of hedges due to the replacement of the interest rate benchmark.

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 2021

- Amendment to IFRS 3 Business Combinations – Reference to the Conceptual Framework, 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.
- Amendment to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021, as adopted by the EU on 30 August 2021 and effective 1 April 2021. The amendment extends the optional, temporary COVID-19-related operational rent concessions for lessees from leases and lease payments originally due on or before 30 June 2021 to leases and lease payments originally due on or before 30 June 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.

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

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

- Amendment and deferral of the effective date of amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current, effective 1 January 2023.
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies, effective 1 January 2023.
- Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, effective 1 January 2023.
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, effective 1 January 2023.
- Amendments to IFRS 17 Insurance Contracts – Initial Application of IFRS 17 and IFRS 9: Comparative Information, effective 1 January 2023.

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.

2.3.33 Interest rate reform

In connection with the interest rate benchmark reform, SID Bank set up an internal working group that regularly monitors current events related to changes in the area of interest rate benchmark reform and briefs the competent committees, as required.

The recommendations of the private sector working group on risk-free interest rates under the aegis of the ECB, and the best practices of domestic and foreign banks are monitored.

An adjustment was made in 2020 to the contractual provisions that set the EURIBOR reference interest rate in financing transactions. Adjusted contractual provisions are used in newly concluded contracts, while changes in existing contracts are being implemented gradually. In 2021, SID Bank began to apply various ISDA protocols that standardise the transition to replacement interest rate benchmarks in derivative transactions.

Given that the value of contracts in which the interest rate was replaced is immaterial (EUR 1.6 million), the Bank did not calculate the effects of the transition.

Summary of transition

	Maturity	Balance of principal 31 Dec 2021 (EUR thousand)	Interest rate 31 Dec 2020	Interest rate 31 Dec 2021	Status of transition
Contracts on variable coverage in derivatives transactions	2024	260	EONIA	€STR	transition to €STR complete
	2026	680	EONIA	EONIA	annex signed in December 2021, transition to €STR effective January 2022
	2027	660	EONIA	€STR	transition to €STR complete

2.3.34 Comparable data

In accordance with a change to implementing regulations that govern the keeping of books of account, the content of the annual report and reporting in 2021, SID Bank adjusted the presentation of comparable financial statements accordingly.

The aforementioned change affected the disclosure of liabilities for wages, wage compensation and contributions from wages, which are now disclosed in the statement of financial position under the item other liabilities. Prior to the change, they were disclosed in the item financial liabilities measured at amortised cost.

Interest income and expenses from derivatives held for hedging are classified to interest income or expenses based on the overall economic effect of interest from the hedged item.

	2020		
	Old presentation	Change	New presentation
Financial liabilities measured at amortised cost	2,424,553	(1,042)	2,423,511
Other financial liabilities	2,879	(1,042)	1,837
Other liabilities	274	1,042	1,316

	2020		
	Old presentation	Change	New presentation
Interest income	28,560	(439)	28,121
Interest expenses	(5,367)	439	(4,928)
Net interest income	23,193	0	23,193

2.4 Notes to the statement of financial position

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

	31 Dec 2021	31 Dec 2020
Cash balances and the reserve requirement (minimum reserves) at central bank	217,868	119,303
Demand deposits at banks	258	884
Total	**218,126**	**120,187**

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 2021	31 Dec 2020
Equity instruments	28,306	17,432
Shares (of independent undertakings)	2,653	2,500
Investment coupons	24,156	13,666
Equity holdings	1,497	1,266
Loans and advances	996	17,765
Loans and advances to customers	996	17,765
Total	**29,302**	**35,197**

The increase in equity instruments is 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.

Loans and advances to customers were down in 2021 due to the early repayment of loans.

Changes in non-trading financial assets mandatorily at fair value through profit or loss – equity instruments

	2021	2020
Equity instruments		
Balance as at 1 Jan	17,432	4,758
Increase	21,212	16,953
Acquisition	15,169	14,927
Changes in fair value	6,043	2,026
Decrease	(10,338)	(4,279)
Sale and redemption	(7,170)	(1,536)
Changes in fair value	(3,168)	(2,743)
Balance as at 31 Dec	**28,306**	**17,432**

Changes in non-trading financial assets mandatorily at fair value through profit or loss – loans and advances

	2021	2020
Loans and advances		
Balance as at 1 Jan	17,765	12,927
Increase	13,341	14,362
Calculated interest, fees and commissions	400	1,334
Changes in fair value	12,941	13,028
Decrease	(30,110)	(9,524)
Repayments	(29,457)	(5,063)
Changes in fair value	(653)	(4,461)
Balance as at 31 Dec	**996**	**17,765**

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 2021	31 Dec 2020
Debt securities	796,197	876,566
Bonds	795,205	840,119
Government	496,861	587,091
Slovenia	278,110	336,020
Other countries	218,751	251,071
Banks	162,167	134,024
Non-financial corporations	98,337	100,764
Financial institutions	37,840	18,240
Treasury bills and commercial paper	992	36,447
Equities	12,502	6,540
Shares	12,502	6,540
Total	**808,699**	**883,106**
Quoted	784,180	863,912
Unquoted	24,519	19,194
Total	**808,699**	**883,106**
Allowances for credit losses	(489)	(897)

The standard institutional sector classification of the bond issuer is taken into account in the breakdown of the bond portfolio by the issuer type in the table.

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 securities portfolio contains a large proportion of marketable government securities and other highly liquid debt securities.

The previous increase in the stock of debt securities measured at fair value through other comprehensive income in 2020 was followed by a decrease of 9.2% in 2021. The Bank uses funds to increase the scope of funding in existing programmes, and manages existing sources of funding primarily for the repayment of loans from the EIB with relatively short maturities.

The increase in equities is the result of the recapitalisation of the EIF and positive valuation.

The total carrying amount of pledged financial assets measured at fair value through other comprehensive income was EUR 435,752 thousand at the end of 2021 (as at 31 December 2020: EUR 461,810 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

	2021			2020	
	Stage 1	Stage 2	Total	Stage 1	Total
Balance as at 1 Jan	876,566	0	876,566	658,019	658,019
Recognition of new financial assets	250,390	0	250,390	434,386	434,386
Transfer from Stage 1 to Stage 2	(1,858)	1,858	0	0	0
Accrued interest	2,359	39	2,398	3,478	3,478
Interest paid	(11,832)	(52)	(11,884)	(13,415)	(13,415)
Net changes in fair value	(11,530)	0	(11,530)	4,057	4,057
Effect of change in fair value of hedged financial instruments	(463)	1	(462)	238	238
Derecognition of financial assets	(308,462)	(819)	(309,281)	(210,197)	(210,197)
Balance as at 31 Dec	**795,170**	**1,027**	**796,197**	**876,566**	**876,566**

Changes in loss allowances of financial assets measured at fair value through other comprehensive income – debt securities

	2021			2020	
	Stage 1	Stage 2	Total	Stage 1	Total
Balance as at 1 Jan	(897)	0	(897)	(309)	(309)
Transfer from Stage 1 to Stage 2	36	(36)	0	0	0
Increase of impairments	(274)	(111)	(385)	(838)	(838)
Decrease of impairments	674	119	793	250	250
Balance as at 31 Dec	**(461)**	**(28)**	**(489)**	**(897)**	**(897)**

Changes in financial assets measured at fair value through other comprehensive income – equities

	2021	2020
Balance as at 1 Jan	6,540	6,547
Recognition of new financial assets	4,359	0
Net changes in fair value	1,603	(7)
Balance as at 31 Dec	**12,502**	**6,540**

2.4.4 Financial assets measured at amortised cost

Breakdown by type of financial asset measured at amortised cost

	31 Dec 2021	31 Dec 2020
Loans and advances to banks	568,769	783,725
Loans and advances to customers	1,198,702	1,073,795
Other financial assets	2,601	1,230
Total	**1,770,072**	**1,858,750**

Loans and advances to banks

	31 Dec 2021	31 Dec 2020
Loans and advances	493,515	682,666
Deposits	76,453	103,804
Gross exposure	569,968	786,470
Loss allowances	(1,199)	(2,745)
Net exposure	**568,769**	**783,725**

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	
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**

	Gross exposure	
2020	Stage 1	Total
Balance as at 1 Jan	837,175	837,175
Increase due to new loan drawdowns	252,271	252,271
Decrease due to repayments	(303,293)	(303,293)
Other net changes	331	331
Foreign exchange differences	(14)	(14)
Balance as at 31 Dec	**786,470**	**786,470**

Changes in loans and advances to banks (loss allowances)

	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)**

	Loss allowances	
2020	Stage 1	Total
Balance as at 1 Jan	(1,405)	(1,405)
Increase due to new loan drawdowns	(482)	(482)
Decrease due to repayments	332	332
Net change due to change in credit risk	(1,190)	(1,190)
Net changes with effects on profit or loss	(1,340)	(1,340)
Balance as at 31 Dec	**(2,745)**	**(2,745)**

Loans and advances to customers

	31 Dec 2021	31 Dec 2020
Loans and advances	1,192,294	1,099,676
Government	123,101	126,235
Non-financial corporations	1,068,363	972,956
Financial institutions	830	485
Receivables from factoring	56,653	43,780
Gross exposure	1,248,947	1,143,456
Loss allowances	(50,245)	(69,661)
Net exposure	**1,198,702**	**1,073,795**

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 99,908 thousand as at 31 December 2021 (31 December 2020: EUR 95,404 thousand).

Changes in loans and advances to customers (gross exposure)

	Gross exposure				
2021	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**

	Gross exposure				
2020	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	714,272	93,627	24,654	13,317	845,870
Transfer from Stage 1 to Stage 2	(130,511)	130,511	0	0	0
Transfer from Stage 1 to Stage 3	(44)	0	44	0	0
Transfer from Stage 2 to Stage 3	0	(2,124)	2,124	0	0
Transfer from Stage 2 to Stage 1	19,798	(19,798)	0	0	0
Transfer from Stage 3 to Stage 2	0	3	(3)	0	0
Increase due to new loan drawdowns/recognitions	448,842	5,627	0	22,700	477,169
Decrease due to repayments/derecognition	(142,300)	(11,659)	(1,193)	(25,911)	(181,063)
Other net changes	952	235	6,284	1,330	8,801
Net changes due to modification of contractual cash flows (excluding derecognition)	(250)	(3)	(60)	(211)	(524)
Write-offs	0	0	(6,012)	0	(6,012)
Foreign exchange differences	(785)	0	0	0	(785)
Balance as at 31 Dec	**909,974**	**196,419**	**25,838**	**11,225**	**1,143,456**

Changes in loans and advances to customers (loss allowances)

	Loss allowances				
2021	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)**

	Loss allowances				
2020	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	(6,741)	(15,227)	(20,479)	200	(42,247)
Transfer from Stage 1 to Stage 2	2,607	(2,607)	0	0	0
Transfer from Stage 1 to Stage 3	1	0	(1)	0	0
Transfer from Stage 2 to Stage 3	0	507	(507)	0	0
Transfer from Stage 2 to Stage 1	(2,645)	2,645	0	0	0
Transfer from Stage 3 to Stage 2	0	(3)	3	0	0
Increase due to new loan drawdowns/recognitions	(4,513)	(518)	0	0	(5,031)
Decrease due to repayments/derecognition	513	1,226	604	(235)	2,108
Net change due to change in credit risk	(2,763)	(19,833)	(191)	(226)	(23,013)
Foreign exchange differences	28	0	0	0	28
Net changes with effects on profit or loss	(6,772)	(18,583)	(92)	(461)	(25,908)
Changes due to the derecognition or re-recognition of financial assets	0	0	347	(545)	(198)
Other changes without effects on profit or loss	0	(2)	(6,475)	(843)	(7,320)
Write-offs	0	0	6,012	0	6,012
Net changes without effects on profit or loss	0	(2)	(116)	(1,388)	(1,506)
Balance as at 31 Dec	**(13,513)**	**(33,812)**	**(20,687)**	**(1,649)**	**(69,661)**

Other financial assets

	31 Dec 2021	31 Dec 2020
Fee and commission receivables	18	47
Trade receivables	955	660
Receivables on other bases	1,637	532
Gross exposure	2,610	1,239
Loss allowances	(9)	(9)
Net exposure	**2,601**	**1,230**

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.

2.4.5 Investments in equity of joint ventures

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**

31 Dec 2020	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 2021	Voting rights, %	Current assets	Current liabilities	Equity of undertaking	Net profit	Total revenues
Prvi Faktor Group	50	6,016	1,071	4,945	869	292

31 Dec 2020	Voting rights, %	Current assets	Current liabilities	Equity of undertaking	Net profit	Total revenues
Prvi Faktor Group	50	7,175	2,487	4,688	(485)	587

2.4.6 Property, plant and equipment and intangible assets

Changes in property, plant and equipment and intangible assets

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**

2020	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	10,095	1,173	948	12,216	3,545
Increase	0	615	73	688	708
Decrease	(103)	(412)	(65)	(580)	(354)
Balance as at 31 Dec	9,992	1,376	956	12,324	3,899
Accumulated depreciation and amortisation					
Balance as at 1 Jan	(6,013)	(1,009)	(576)	(7,598)	(2,565)
Depreciation and amortisation	(340)	(222)	(66)	(628)	(342)
Decrease	103	106	29	238	0
Balance as at 31 Dec	(6,250)	(1,125)	(613)	(7,988)	(2,907)
Carrying amount as at 31 Dec	**3,742**	**251**	**343**	**4,336**	**992**

SID Bank had no pledged fixed assets or assets acquired on the basis of leases as at 31 December 2021.

2.4.7 Tax assets and liabilities

	31 Dec 2021	31 Dec 2020
Current tax assets	0	2,423
Deferred tax assets	1,663	0
Total tax assets	**1,663**	**2,423**
Current tax liabilities	3,494	453
Deferred tax liabilities	0	249
Total tax liabilities	**3,494**	**702**

Breakdown by type of deferred tax

	31 Dec 2021	31 Dec 2020
Deferred tax assets		
Impairment of equity investments	2,967	2,967
Provisions for pensions and jubilee benefits	159	148
Valuation of financial assets measured at fair value through other comprehensive income	25,703	18,076
Depreciation and amortisation	96	81
Total deferred tax assets	**28,925**	**21,272**
Deferred tax liabilities		
Valuation of financial assets measured at fair value through other comprehensive income	27,262	21,521
Total deferred tax liabilities	**27,262**	**21,521**
Net deferred tax assets/(liabilities)	**1,663**	**(249)**

	2021	2020
Financial assets measured at fair value through other comprehensive income	(78)	112
Provisions for pensions and jubilee benefits	11	57
Depreciation and amortisation	15	14
Included in income statement	**(52)**	**183**
Revaluation of financial assets measured at fair value through other comprehensive income	1,963	(882)
Included in statement of comprehensive income	**1,963**	**(882)**

SID Bank had no unrecognised deferred taxes as at 31 December 2021.

2.4.8 Other assets

	31 Dec 2021	31 Dec 2020
Tax assets	81	4
Receivables for advances	0	9
Prepayments	335	344
Accrued income	698	856
Other prepayments and accrued income	0	1
Gross exposure	1,114	1,214
Net exposure	**1,114**	**1,214**

2.4.9 Financial liabilities measured at amortised cost

	31 Dec 2021	31 Dec 2020
Deposits and loans from banks and central banks	667,859	909,970
Loans and advances	667,859	908,711
Deposits	0	1,259
Deposits and loans from customers	987,512	832,377
Loans and advances	987,512	832,377
Debt securities	675,479	679,327
Other financial liabilities	1,947	1,837
Total	**2,332,797**	**2,423,511**

There was a change in the structure of funding in 2021 in terms of deposits and loans from banks and central banks, and deposits and loans from customers. Deposits and loans from banks and central banks were down in 2021 relative to 2020, despite the additional drawdown of a long-term loan from primary issue. That decrease is primarily the result of the regular and early repayment of loans from customers and the transfer of liabilities from a bank to another financial organisation. In addition to the aforementioned transfer, the additional drawdown of funds from the Fund of Funds and payment by the MI into the loan fund to finance transporters led to an increase in loans and advances from customers.

2.4.10 Derivatives - hedge accounting

Derivatives – hedge accountng - assets

	31 Dec 2021	31 Dec 2020
Hedging of the fair value of issued bonds, measured at amortised cost	0	1,153
Fair value	0	1,168
Net interest receivables	0	(15)
Total	**0**	**1,153**

Derivatives – hedge accounting – liabilities

	31 Dec 2021	31 Dec 2020
Hedging of the fair value of issued bonds, measured at amortised cost	1,303	0
Fair value	1,464	0
Net interest receivables	(161)	0
Hedging of the fair value of bonds, measured at fair value through other comprehensive income	621	1,087
Fair value	524	992
Net interest liabilities	97	95
Total	**1,924**	**1,087**

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 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 contractual value of EUR 175,000 thousand. The Bank held no cash flow hedge instruments as at 31 December 2021.

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 highly effective in 2021. 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. Losses amounted to EUR 36 thousand in that regard.

2.4.11 Provisions

Breakdown by type of provision

	31 Dec 2021	31 Dec 2020
Provisions for commitments given	1,091	3,191
Guarantees	148	255
Undrawn loans	943	2,936
Provisions for employee benefits	1,556	1,444
Total	**2,647**	**4,635**

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		
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**

	Guarantees			Undrawn loans		
2020	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Balance as at 1 Jan	364	0	364	548	620	1,168
Transfer from Stage 1 to Stage 2	0	0	0	(429)	429	0
Transfer from Stage 2 to Stage 1	0	0	0	637	(637)	0
Increase due to additional commitments given	121	21	142	1,039	288	1,327
Decrease due to a reduction in commitments given	(108)	0	(108)	(1,468)	(516)	(1,984)
Net change due to change in credit risk	(143)	0	(143)	552	1,873	2,425
Balance as at 31 Dec	**234**	**21**	**255**	**879**	**2,057**	**2,936**

Changes in provisions for employee benefits

	2021	2020
Balance as at 1 Jan	1,444	842
Created	129	623
Used	(17)	(21)
Balance as at 31 Dec	**1,556**	**1,444**

SID Bank had provisions for termination benefits at retirement and jubilee benefits as at 31 December 2021 that were created based on an internal calculation. The Bank had 223 employees as at 31 December 2021 (31 December 2020: 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 1.0027 (31 December 2020: 1.0071).

2.4.12 Other liabilities

	31 Dec 2021	31 Dec 2020
Liabilities for wages, wage compensation and contributions from wages	1,280	1,042
Current deferred income	46	154
Tax liabilities	78	120
Total	**1,404**	**1,316**

2.4.13 Shareholder equity

	31 Dec 2021	31 Dec 2020
Share capital	300,000	300,000
Profit reserves	173,495	156,846
Regulatory reserves	15,646	14,445
Reserves for treasury shares	1,324	1,324
Reserves under the articles of association	80,779	69,364
Other profit reserves	75,746	71,713
Share premium	1,139	1,139
Accumulated other comprehensive income	7,042	15,413
Treasury shares	(1,324)	(1,324)
Net profit for financial year (including retained earnings)	11,414	4,033
Total	**491,766**	**476,107**

There were no changes to the treasury shares reserve in 2021. SID Bank held 18,445 own shares, ticker symbol SIDR, in the total amount of EUR 1,324 thousand as at 31 December 2021.

Under a general meeting resolution, the undistributed profit for 2020 in the amount of EUR 4,033 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 2021	31 Dec 2020
Financial assets measured at fair value through other comprehensive income – equity instruments	1,738	439
Revaluation	2,145	542
Deferred taxes	(407)	(103)
Financial assets measured at fair value through other comprehensive income – debt securities	5,304	14,974
Revaluation	6,548	18,486
Deferred taxes	(1,244)	(3,512)
Total	**7,042**	**15,413**

2.4.14 Distributable profit

	31 Dec 2021	31 Dec 2020
Net profit for the financial year	24,030	8,490
Increase in profit reserves		
Regulatory reserves	(1,202)	(424)
Reserves under the articles of association	(11,414)	(4,033)
Distributable profit	**11,414**	**4,033**

In accordance with the articles of association, the management board used SID Bank's net profit for 2021 in the amount of EUR 24,030 thousand (2020: EUR 8,490 thousand) to create regulatory reserves in the amount of EUR 1,202 thousand (2020: EUR 424 thousand) and reserves under the articles of association in the amount of EUR 11,414 thousand (2020: EUR 4,033 thousand). The distributable profit from 2020 in the amount of EUR 4,033 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 2021 financial year in the amount of EUR 11,414 thousand should be allocated to other profit reserves.

2.5 Notes to the income statement

2.5.1 Net interest income

	2021	2020
Interest income		
Income from financial assets/liabilities measured at amortised cost and fair value through other comprehensive income	30,663	27,821
Financial assets measured at fair value through other comprehensive income	2,974	3,667
Financial assets measured at amortised cost	24,000	21,910
Loans and advances to banks	4,536	6,394
Loans and advances to customers	19,464	15,516
Interest on financial liabilities carrying negative interest rate	3,689	2,244
Other interest income	2,514	300
Non-trading financial assets mandatorily at fair value through profit or loss	2,227	474
Derivatives – hedge accounting	287	(174)
Total interest income	33,177	28,121
Interest expenses		
Financial liabilities measured at amortised cost	(3,264)	(3,366)
Loans and deposits from banks	(297)	(642)
Loans and deposits from customers	(827)	(876)
Debt securities issued	(2,140)	(1,848)
Derivatives – hedge accounting	(136)	(15)
Interest on financial assets carrying negative interest rate	(1,771)	(1,547)
Total interest expenses	(5,171)	(4,928)
Net interest income	**28,006**	**23,193**

SID Bank generated net interest income of EUR 33,177 thousand in 2021, an increase of 18% relative to 2020. Contributing most to higher interest income was higher interest income from loans measured at amortised costs and those loans mandatorily measured at fair value through profit or loss. The increase in the latter was the result of the early repayment of non-performing loans for which the Bank takes a conservative approach to the recognition of interest income. That income is not recognised in the income statement until payment.

In accordance with changes to implementing regulations, the Bank classified interest income and expenses from derivatives held for hedging to the item interest income or expenses in 2021 based on the overall economic effect of interest from the hedged item. The comparable data have been adjusted accordingly.

2.5.2 Dividend income

	2021	2020
Non-trading financial assets mandatorily at fair value through profit or loss	446	316
Total	**446**	**316**

The Bank received dividends in the amount of EUR 446 thousand in 2021 (2020: EUR 316 thousand) from investments in the scope of the SEGIP.

2.5.3 Net fee and commission income

	2021	2020
Fee and commission income		
Fee and commission income from loan operations	1,783	496
Fee and commission income from guarantees given	250	246
Total fee and commission income	2,033	742
Fee and commission expenses		
Fees and commission for loan operations	(61)	(11)
Fees and commission for stock exchange transactions	(193)	(198)
Fees and commission for guarantees received	(5)	0
Fees and commission for other services	(230)	(240)
Total fee and commission expenses	(489)	(449)
Net fee and commission income	**1,544**	**293**

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. The increase in this item in 2021 relative to 2020 is primarily the result of fees received for early loan repayment.

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

	2021	2020
Financial assets measured at fair value through other comprehensive income	861	2,060
Gains	1.384	2,070
Losses	(523)	(10)
Financial assets measured at amortised cost	0	2
Gains	0	2
Financial liabilities measured at amortised cost	(12,489)	20,900
Gains	359	20,979
Losses	(12,848)	(79)
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	**(11,628)**	**22,962**

In May 2021, SID Bank added an additional loan fund set up by the MI to the four loan funds set up in conjunction with the MEDT that it manages in the scope of its business for its own account. The aforementioned loan fund was set up with the MI for the purpose of financing economic operators in the area of road transport.

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 on financial liabilities measured at amortised cost are recognised.

The volume of lending from the loan funds was up in 2021 relative to 2020. However, impairments were released due to more favourable macroeconomic forecasts, meaning the overall result of the funds was positive in the amount of EUR 12,521 thousand (negative in the amount of EUR 20,824 thousand in 2020) which, due to the agreed first loss clause, was reflected in recognised losses on financial liabilities measured at amortised cost.

In the same item the Bank also recognised gains from financial liabilities measured at amortised cost of EUR 32 thousand in 2021 (2020: EUR 76 thousand) 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 or loss

	2021	2020
Equities	2,875	(717)
Gains	6,043	2,026
Losses	(3,168)	(2,743)
Loans and advances	10,460	9,427
Gains	10,714	12,554
Losses	(254)	(3,127)
Net gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss	**13,335**	**8,710**

Net gains on non-trading financial assets mandatorily at fair value through profit or loss were higher primarily due to the positive changes in fair value of investments in the scope of the SEGIP.

2.5.6 Changes in fair value in hedge accounting

	2021	2020
Net gains/(losses) on derivatives held as fair value hedges	(2,164)	925
Net gains/(losses) on fair-value-hedged items relating to hedged risk	2,128	(799)
Total gains/(losses) from hedge accounting	**(36)**	**126**

All fair value hedges in 2021 were effective, so the Bank did not discontinue hedge accounting.

2.5.7 Net foreign exchange gains/losses

	2021	2020
Net foreign exchange gains	876	2,013
Net foreign exchange losses	(907)	(1,996)
Net foreign exchange gains/(losses)	**(31)**	**17**

The foreign exchange differences disclosed in the above table relate to financial liabilities and financial assets measured at amortised cost and current accounts at banks in the country in foreign currency.

2.5.8 Other net operating income/expenses

	2021	2020
Income	3,495	3,865
Income from activities under Republic of Slovenia authorisation	2,572	2,941
Other operating income	923	924
Expenses	(13)	(14)
Other operating expenses	(13)	(14)
Net operating income /(expenses)	**3,482**	**3,851**

The Bank realised income of EUR 2,572 thousand in 2021 (2020: EUR 2,941 thousand) from the provision of services under authorisation. It recorded income from the management of contingency reserve assets in the amount of EUR 1,740 thousand (2020: EUR 1,740 thousand), from the management and performance of funds in the amount of EUR 1,188 thousand (2020: EUR 778 thousand), from guarantee schemes in the amount of EUR 7 thousand (2020: EUR 9 thousand) and from other services under authorisation in the amount of EUR 24 thousand (2020: EUR 27 thousand).

The Bank did not recognise income in 2021 from guarantee schemes in accordance with the Act Determining Emergency Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy and the Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 Epidemic, which were adopted in April 2020 and under which the Slovenian government authorised SID Bank to execute all transactions in connection with those schemes in its name and on its behalf. Given that the contract with the Slovenian government under which the amount of the fee for the implementation of the schemes should be set has not yet been coordinated and signed, the Bank derecognised previously recognised income in 2021, and recognised the estimated value of the fee for the implementation of the schemes as a contingent receivable in off-balance-sheet items. That income will be recognised when it is paid or when the Bank receives the appropriate assurances that it will be paid.

2.5.9 Administrative expenses

	2021	2020
Labour costs	(14,567)	(13,389)
Gross salaries	(10,718)	(9,834)
Pension insurance costs	(946)	(846)
Social security costs	(787)	(746)
Other labour costs	(2,116)	(1,963)
General and administrative costs	(5,010)	(3,953)
Costs of materials	(177)	(165)
Cost of services	(4,438)	(3,460)
Taxes and membership fees	(395)	(328)
Total	**(19,577)**	**(17,342)**

Since 2021, the item other labour costs also includes costs in connection with the remuneration of supervisory board members. The comparable data have been adjusted accordingly.

The costs of services include expenses for short-term leases in the amount of EUR 250 thousand (2020: EUR 214 thousand).

Total amount spent on auditors

	2021	2020
Auditing of the annual report	66	47
Other auditing services	2	79
Other non-audit services	0	22
Total	**68**	**148**

2.5.10 Depreciation and amortisation

	2021	2020
Depreciation of property, plant and equipment	(630)	(628)
Amortisation of intangible assets	(356)	(342)
Total	**(986)**	**(970)**

2.5.11 Net modification gains/losses

	2021	2020
Gains on modification of financial assets measured at amortised cost	6	39
Losses on modification of financial assets measured at amortised cost	(1,405)	(612)
Net gains/(losses) on modification of financial assets	**(1,399)**	**(573)**

The nature and effect of the modification of contractual cash flows from financial assets that do not result in derecognition and the effect of that modification of the measurement of expected credit losses are presented in the section Modified financial assets in section 3.1 Credit risk.

2.5.12 Provisions

	2021	2020
Provisions for commitments given	2,101	(1,659)
Guarantees	107	109
Undrawn loans	1,994	(1,768)
Other provisions	(129)	(623)
Total	**1,972**	**(2,282)**

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 reduction in provisions for commitments given is primarily the result of more favourable macroeconomic forecasts, which affected the estimates of individual parameters for the calculation of expected credit losses in 2021. For more information, see 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. Costs in connection with the creation of other provisions were down in 2021 relative to the previous year because the Bank changed the basis for the calculation of provisions for termination benefits at retirement in 2020, when it included in that calculation three employee wages, while only two wages were included in previous years. That calculation method was unchanged in 2021.

2.5.13 Impairments

	2021	2020
Impairments of financial assets measured at fair value through other comprehensive income	409	(587)
Impairments of financial assets measured at amortised cost	13,944	(27,252)
Loans and advances to banks	1,546	(1,340)
Loans and advances to customers	12,398	(25,903)
Other financial assets	0	(9)
Total	**14,353**	**(27,839)**

The reduction in impairments of financial assets measured at amortised cost is primarily the result of more favourable macroeconomic forecasts, which affected the estimates of individual parameters for the calculation of expected credit losses in 2021. For more information, see 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

	2021	2020
Current income tax	(5,404)	(2,155)
Deferred taxes	(52)	183
Total	**(5,456)**	**(1,972)**

The corporate income tax rate in Slovenia was 19% in 2021 (2020: 19%). Current income tax differs from tax calculated using the prescribed tax rate, and is disclosed in the table below. An analysis of deferred taxes disclosed in profit or loss is given in section 2.4.7.

	2021	2020
Pre-tax profit	29,486	10,462
Tax calculated at prescribed rate of 19%	(5,602)	(1,988)
Non-taxable income	268	48
Non-deductible expenses	(265)	(359)
Reduction in tax base for expenses that were not recognised for tax purposes in the past	2	3
Increase in tax base	(5)	0
Tax reliefs	141	141
Tax repaid from previous year	57	0
Net created/(used) deferred taxes	(52)	183
Total	**(5,456)**	**(1,972)**

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, and from the revaluation of debt investments measured at fair value through other comprehensive income.

SID Bank's effective tax base (calculated as the ratio of expenses for corporate income tax to profit before tax) for the 2021 financial year was 18.5% (2020: 20.6%).

2.5.15 Basic and diluted earnings per share

	2021	2020
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)	24,030	8,490
Basic earnings per share (in EUR per share)	**7.74**	**2.74**

Diluted earnings per share equals basic earnings per share.

2.6 Other notes to the financial statements

2.6.1 Contingent liabilities and commitments given

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

	31 Dec 2021	31 Dec 2020
Commitments given		
Guarantees	80,218	71,363
Undrawn loans	90,336	172,343
Uncalled unpaid capital	50,867	26,934
Total	**221,421**	**270,640**
Provisions for commitments given		
Guarantees	(148)	(255)
Undrawn loans	(943)	(2,936)
Total	**(1,091)**	**(3,191)**

The value of guarantees given increased in 2021 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 84,714 thousand as at 31 December 2021 (2020: EUR 155,801 thousand), while the amount of loans approved for banks stood at EUR 5,622 thousand (2020: EUR 16,542 thousand).

The increase in uncalled unpaid capital in 2021 was the result of SID Bank's commitment for an additional contribution to the EIF and SEGIP.

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

2021	Guarantees Stage 1	Guarantees Stage 2	Guarantees Total	Undrawn loans Stage 1	Undrawn loans Stage 2	Undrawn loans 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**

2020	Guarantees Stage 1	Guarantees Stage 2	Guarantees Total	Undrawn loans Stage 1	Undrawn loans Stage 2	Undrawn loans Stage 3	Undrawn loans Total	Uncalled unpaid capital
Balance as at 1 Jan	63,824	0	63,824	171,664	12,202	0	183,866	12,000
Transfer from Stage 1 to Stage 2	(1,500)	1,500	0	(25,996)	25,996	0	0	0
Transfer from Stage 2 to Stage 1	0	0	0	11,649	(11,649)	0	0	0
Increase in commitments given	14,775	0	14,775	538,143	0	10,000	548,143	23,000
Decrease in commitments given	(7,236)	0	(7,236)	(544,039)	(5,627)	(10,000)	(559,666)	(8,066)
Balance as at 31 Dec	**69,863**	**1,500**	**71,363**	**151,421**	**20,922**	**0**	**172,343**	**26,934**

Contractual value of derivatives

	31 Dec 2021	31 Dec 2020
Derivatives – hedge accounting		
Interest rate swaps	190,000	190,000
Total	**190,000**	**190,000**

The contractual value of hedging derivatives amounted to 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 2021. The fair values and economic effects are disclosed in sections 2.4.10 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 2021	31 Dec 2020
Receivables		
Loans and advances	298	484
Gross exposure	298	484
Allowances for credit losses	(40)	(135)
Net exposure	**258**	**349**

	2021	2020
Interest income	259	5
Interest expenses	0	(56)
Impairments	200	(13)
Total	**459**	**(64)**

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:	2021	2020
Bank of Slovenia		
Balance as at 31 Dec		
ASSETS		
Cash, cash balances at central banks and other demand deposits at banks	217,868	119,303
LIABILITIES		
Loans from banks and central banks	364,856	342,846
Other financial liabilities	426	234
For period		
Interest expenses	(4,523)	(3,262)
Fee and commission expenses	(41)	(37)
Republic of Slovenia		
Balance as at 31 Dec		
ASSETS		
Financial assets measured at fair value through other comprehensive income	278,110	360,983
Loans and advances to customers	179,199	162,304
Other financial assets	937	639
Current tax assets	1,663	2,423
Other assets	339	420
LIABILITIES		
Loans from customers	251,864	185,759
Other financial liabilities	32	58
Provisions	8	2
Tax liabilities	3,494	702
Other liabilities	684	536
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	4,324	29,764
For period		
Interest income	4,878	8,314
Interest expenses	(41)	0
Fee and commission income	9	2
Fee and commission expenses	0	(1)
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	(11,381)	21,849
Changes in fair value in hedge accounting	(463)	238
Other net operating income/(expenses)	1,450	2,159
Administrative expenses	(80)	(260)
Net modification gains/(losses)	(172)	2
Impairments and provisions	(2)	18

Exposure to:	2021	2020
Government-owned undertakings		
Balance as at 31 Dec		
ASSETS		
Cash, cash balances at central banks and other demand deposits at banks	202	699
Financial assets measured at fair value through other comprehensive income	12,782	24,248
Loans and advances to banks	69,930	125,797
Loans and advances to customers	285,305	271,584
Other financial assets	16	0
Other assets	25	27
LIABILITIES		
Other financial liabilities	70	78
Provisions	25	33
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	15,744	22,087
For period		
Interest income	5,230	4,632
Fee and commission income	1,214	144
Fee and commission expenses	(92)	0
Other net operating income/(expenses)	0	1,235
Administrative expenses	(414)	(350)
Net modification gains/(losses)	(3)	(197)
Impairments and provisions	4,780	(505)

2.6.3 Remuneration

	2021	2020
Members of the management board	658	465
Other employees on individual contracts	1,150	826
Members of the supervisory board	220	187
Total	**2,028**	**1,478**

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 (excluding 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. 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.

Higher remuneration in 2021 relative to 2020 was the result of the Bank of Slovenia's Regulation on the macroprudential restriction of profit distributions by banks that in 2020 restricted the payment of the variable component of wages, which was paid by the Bank in 2021 following a change in that regulation.

2.6.4 Significant events after the end of the financial year

In February 2022, the National Assembly of the Republic of Slovenia adopted the Act on the Mitigation and Allocation of Currency Risk Between Lenders and Borrowers in Swiss Francs (ZOPVTKK). The business model of SID Bank is based in part on the provision of affordable sources of funding to Slovenian commercial banks. As a result, SID Bank is exposed to certain banks that are in turn exposed to loans in Swiss francs. SID Bank closely monitors the development of events, including in accordance with the provisions of contracts concluded with participating banks. The Bank of Slovenia filed a request with the Constitutional Court for an assessment of the constitutionality of the aforementioned act. Prior to the Bank of Slovenia's request, banks and the BAS had already filed their own request for an assessment of the constitutionality of the act, with a motion to temporarily stay implementation. At the beginning of March 2022, the Constitutional Court issued a ruling to stay the implementation of the ZOPVTKK until it reached a final decision.

SID Bank does not approve loans in Swiss francs, and the adopted act has no direct impact on it.

The impact of the war in Ukraine and the associated sanctions against the Russian Federation on the operations and capital adequacy of SID Bank is presented in the business report on page 109.

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 process, 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 process 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:

- internal definitions of specific types of risk;
- risk absorption 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 absorption and risk appetite, as presented below as part of the management body's concise statement on SID Bank's approach to the realisation of risk appetite.

Risk absorption capacity means the largest overall risk level that SID Bank is able to take up, taking into account its available capital, liquidity, risk management measures and control environment, stress test results and other restrictions on the take-up of risks.

When assessing its risk absorption capacity, SID Bank takes into account:

- the assessment of the risk profile of SID Bank in the context of which the overall level of risk and the individual types of material risk are comprehensively identified at least once a year;
- the result of the internal capital adequacy assessment process (ICAAP), including the internal assessment of capital requirements and the internal assessment of capital to cover losses in the event of the realisation of risks taken up, which covers both SID Bank's ordinary operations and extraordinary events affecting SID Bank's operations;
- The Bank of Slovenia's expectations after each completed supervisory review and evaluation process (SREP) in terms of maintaining the total capital ratio and the proportion of Common Equity Tier 1 capital to cover the recognised assessment of internal capital requirements, both of which are prescribed by the Bank of Slovenia in the scope of the SREP;
- the leverage ratio;
- the result of the internal liquidity adequacy assessment process (ILAAP) or liquidity of the Bank with regard to its risk profile;
- the risk management action plan, which sets out the measures available for the management of identified and measured and assessed risks; and
- other restrictions, including any restrictions arising from SID Bank's bylaws, from regulations and standards, and from the requirements of the Bank of Slovenia and other competent or supervisory authorities.

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

In accordance with its business strategy, business objectives, risk absorption capacity and risk management strategy, SID Bank takes 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. Risk appetite is defined in SID Bank's valid development strategy, its annual operational plan and through internally defined limits. SID Bank's risk appetite, taking into account its risk absorption capacity, is assessed by 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. The regular risk reports contain information regarding SID Bank's exposure to credit risk at the level of the entire credit portfolio, including a detailed analysis of the individual and sectoral concentration of the credit portfolio, the structure of the credit portfolio by geographical area, credit rating, exposure to currency risk, liquidity risk, interest rate risk, operational risk and an assessment of any other risks. In addition to risk management in normal operating conditions, SID Bank also performs regular stress tests. SID Bank updated its stress testing programme in 2021. That programme comprises two bylaws: stress-testing rules and methodological notes to those rules. 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. An update includes 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:

- stress tests in the scope of the ICAAP (internal stress tests);
- stress tests in the scope of the ILAAP (internal stress tests);
- 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 actively 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 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 documents integral to comprehensive credit risk management at SID Bank include all the applicable regulations and bylaws that define in detail the credit risk management methodologies, procedures and tools used by SID Bank for the approval and collateralisation of investment operations, the monitoring and management of the credit portfolio, the determination of a debtor's rating grade, the classification of exposures, the calculation of interest and the management of non-performing exposures. The Credit Risk Management Policy also incorporates the main substantive points of the valid bylaws 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. Risk appetite is approved on an annual basis by the management body during the adoption of SID Bank's annual operational plan and risk management strategy.

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.

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 soft information regarding a client at the Bank's disposal. 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 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 twice 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. SID Bank also obtains a reassessment from a certified appraiser whenever the information at the Bank's disposal indicates that the value of the real estate may have materially declined relative to the general level of market prices. 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 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 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, where internally defined thresholds are taken into account in the selection of the valuation approach. 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 connected clients 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 surety 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 does not take into account a reduction in risk-weighted assets as a result of the effects of collateral, except if an exposure is 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. The amount of collateral that the Bank takes into account in the reduction of risk-weighted assets is low and thus indicates a low level of concentration in terms of the credit risk mitigation (CRM) technique.

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 and in-depth monitoring of credit risk. Regular monitoring includes the continuous monitoring of the appropriateness of a debtor's rating grade, the monitoring of the fulfilment of financial and other contractual commitments, verification of the adequacy and amount of collateral, and the monitoring and updating of groups of connected clients. SID Bank carries out in-depth monitoring when it 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.

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 and exposure or the recovery process is initiated based on the results of that segmentation.

SID Bank has in place a special bylaw in the form of the Strategy for managing and reducing non-performing exposures, which includes time-based definitions of quantitative targets (increased repayments, reduced losses, reduced stock of non-performing exposures, etc.), supported by an appropriate comprehensive operational plan to meet these targets. As a rule, that bylaw is updated once a year.

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 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 limiting leveraged transactions;
- by taking into account the limits of exposure to individual debtors, groups of connected clients and shadow banking entities;
- by establishing collateral;
- by identifying the risk posed by a specific debtor and creating impairments and provisions for on-balance-sheet assets or off-balance-sheet liabilities; and
- by ensuring sufficient capital to cover unexpected credit risk losses.

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. During the simplified procedure of processing low-value deposits, 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 issuer's credit rating, the issuer's registered office, the type of 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). 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 uses solely for the purpose of hedging open foreign-exchange and interest-rate positions. SID Bank determines its credit exposure from derivatives using the original exposure method in accordance with Article 282 of the CRR.

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;

- groups of customers and sectors that were hit hardest by the COVID-19 pandemic, and where SID Bank has been implementing intervention and countercyclical measures for the last two years;
- 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 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**

31 Dec 2020	Maximum credit risk	Collateral in the form of property	Other credit enhancements	Overall reduction in credit risk
Gross on-balance-sheet exposures	**2,947,733**	**754,783**	**132,326**	**887,109**
Cash, cash balances at central banks and other demand deposits at banks	120,187	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	17,765	0	37	37
Loans and advances to customers	17,765	0	37	37
Financial assets measured at fair value through other comprehensive income	877,463	0	14,979	14,979
Debt securities	877,463	0	14,979	14,979
Financial assets measured at amortised cost	1,931,165	754,783	117,310	872,093
Loans and advances to banks	786,470	0	30,774	30,774
Loans and advances to customers	1,143,456	754,783	86,536	841,319
Other financial assets	1,239	0	0	0
Derivatives – hedge accounting	1,153	0	0	0
Gross off-balance-sheet exposures	**270,640**	**25,242**	**30,495**	**55,737**
Guarantees	71,363	8,891	30,495	39,386
Assets: undrawn loans	172,343	16,351	0	16,351
Uncalled unpaid capital	26,934	0	0	0
Total gross credit risk exposure	**3,218,373**	**780,025**	**162,821**	**942,846**

The table shows that SID Bank's largest exposure to credit risk as at 31 December 2021 arose from balances at the central bank and demand deposits at banks, non-trading 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 2021, SID Bank's exposure to credit risk was down by EUR 159,619 thousand relative to 31 December 2020. Exposure from loans and other financial assets measured at amortised cost was down by EUR 109,640 thousand, while exposure from financial assets measured at fair value through other comprehensive income was down by EUR 80,777 thousand, exposure from off-balance-sheet liabilities was down by EUR 49,219 thousand, exposure from loans mandatorily at fair value through profit or loss was down by EUR 16,769 thousand, and exposure from derivatives held for hedging was down by EUR 1,153 thousand. Exposure from balances at the central bank and demand deposits at banks was up by EUR 97,939 thousand.

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.

As at 31 December 2021, SID Bank applied the collateral assessment methodology when calculating expected credit losses for 33 exposures (in the total amount of EUR 18,287 thousand) of the total of 58 exposures classified as Stage 3, and for three POCI items in the amount of EUR 1,172 thousand of the total of six non-performing POCI items.

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.

As at 31 December 2021, the value of the collateral amounted to EUR 1,052,545 thousand for exposures classified as Stage 1, to EUR 254,570 thousand for exposures classified as Stage 2, to EUR 17,004 thousand for exposures classified as Stage 3, and to EUR 9,573 thousand for POCI items. The value of collateral for non-trading financial assets mandatorily at fair value through profit or loss amounted to EUR 7,573 thousand as at 31 December 2021.

Types of credit protection

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**

31 Dec 2020	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	**51,367**	**80,959**	**428,423**	**15,044**	**72,549**	**0**	**215,023**	**23,744**	**887,109**
Non-trading financial assets mandatorily at fair value through profit or loss	37	0	0	0	0	0	0	0	37
Loans and advances to customers	37	0	0	0	0	0	0	0	37
Financial assets measured at fair value through other comprehensive income	213	14,766	0	0	0	0	0	0	14,979
Debt securities	213	14,766	0	0	0	0	0	0	14,979
Financial assets measured at amortised cost	51,117	66,193	428,423	15,044	72,549	0	215,023	23,744	872,093
Loans and advances to banks	30,774	0	0	0	0	0	0	0	30,774
Loans and advances to customers	20,343	66,193	428,423	15,044	72,549	0	215,023	23,744	841,319
Off-balance-sheet liabilities	**0**	**30,495**	**3,159**	**0**	**0**	**8,891**	**13,192**	**0**	**55,737**
Guarantees	0	30,495	0	0	0	8,891	0	0	39,386
Assets: undrawn loans	0	0	3,159	0	0	0	13,192	0	16,351
Total	**51,367**	**111,454**	**431,582**	**15,044**	**72,549**	**8,891**	**228,215**	**23,744**	**942,846**

The total value of SID Bank's collateral amounted to EUR 1,341,265 thousand as at 31 December 2021, an increase of EUR 398,419 thousand relative to 31 December 2020. 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), shares and participating interests, irrevocable Slovenian government guarantees, loans, collateral in the form of residential real estate and other loan collateral.

In terms of collateral in the form of irrevocable Slovenian government guarantees, collateral in the form of SID Bank insurance policies issued for the account of Slovenia to insure against commercial and non-commercial risks accounts for the highest proportion in terms of volume. This is followed by Slovenian government guarantees (ZIUZEOP) for loan moratoria in accordance with the ZIUOPOK.

In terms of collateral in the form of financial guarantees that are not irrevocable Slovenian government guarantees, collateral in the form of a sovereign limited conditional subsidiary guarantee accounts for the highest proportion in terms of volume, followed by bank guarantees, ECB, government and central bank guarantees that are assigned a risk rating of 0 or 1 under the minimum export insurance premiums (MEIP) listing, corporate guarantees of companies with a rating higher than BBB– based on the internal credit quality assessment methodology, and guarantees from the Pan-European Guarantee Fund.

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.

In terms of other forms of loan collateral, collateral in the form of the assignment of claims that are secured accounts for the highest proportion in terms of volume, followed by collateral in the form of the assignment of claims that are not secured.

Securing of loans and claims

	Fully secured and over-secured loans		Unsecured and under-secured loans	
31 Dec 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		Unsecured and under-secured loans	
31 Dec 2020	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	783,725	30,774
Loans and advances to customers	341,966	747,490	731,829	93,829
Other financial assets	0	0	1,230	0
Total	**341,966**	**747,490**	**1,516,784**	**124,603**

Fully secured and over-secured loans are loans and other financial assets measured at amortised cost, where the fair value of the collateral is higher than or equal to the gross carrying amount of the loan or other financial asset. Unsecured and under-secured loans are loans and other financial assets measured at amortised cost, where the fair value of the collateral is lower than the gross carrying amount of the loan or other financial asset.

A portion of SID Bank's portfolio of loans and other financial assets measured at amortised cost comprises loans to banks established in Slovenia, which transfer funds obtained as such to the final beneficiaries in accordance with the ZSIRB. The above loans are generally unsecured. As at 31 December 2021, secured loans to banks comprised loans to foreign banks secured by SID Bank insurance policies issued for the account of the

Republic of Slovenia to insure against commercial risks and non-commercial risks.

Analysis of credit quality – financial assets measured at amortised cost and off-balance-sheet liabilities

	31 Dec 2021		31 Dec 2020	
Gross carrying amount of loans and off-balance-sheet liabilities	**2,042,946**	**100.0%**	**2,201,805**	**100.0%**
A	1,011,255	49.5%	1,274,936	57.9%
B	929,152	45.5%	803,556	36.5%
C	64,338	3.1%	86,242	3.9%
D	24,886	1.2%	18,532	0.8%
E	13,315	0.7%	18,539	0.8%
Allowances for credit losses and provisions	**(52,544)**	**100.0%**	**(75,606)**	**100.0%**
A	(1,181)	2.2%	(3,267)	4.3%
B	(18,928)	36.0%	(30,044)	39.7%
C	(6,199)	11.8%	(19,950)	26.4%
D	(14,951)	28.5%	(4,712)	6.2%
E	(11,285)	21.5%	(17,633)	23.3%
Net carrying amount of loans and off-balance-sheet liabilities	**1,990,402**		**2,126,199**	

As at 31 December 2021, SID Bank disclosed gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities in the amount of EUR 2,042,946 thousand. This was a decrease of EUR 158,859 thousand relative to 31 December 2020. Affecting that change was a decrease in loans and advances to banks and off-balance sheet liabilities, while gross exposure from loans and advances to customers and from other financial assets was up.

As at 31 December 2021, 95% of financial assets measured at amortised cost and off-balance-sheet liabilities had been assigned rating grades of A and B. This was an increase of 0.6 percentage points relative to the situation as at 31 December 2020.

The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of A was down to stand at 49.5% as at 31 December 2021 (2020: 57.9%). The main reasons for that decrease were the repayment of loans to banks and the reclassification of loans and advances to customers to rating grade B. The proportion of financial assets assigned a rating grade of B was up due to the approval of new transactions for B-rated customers and the reclassification of loans and advances to customers from rating grades A and C. The proportion of financial assets assigned a rating grade of C was down due to the repayment of loans and advances to customers, the reclassification of loans and advances to customers to rating grades B and D, and fewer shifts for POCI items that reduce the gross carrying amount of financial assets.

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 2021, 1.9% of financial assets measured at amortised cost and off-balance-sheet liabilities were assigned rating grades of D and E (31 December 2020: 1.6%). Gross exposure from financial assets assigned a rating grade of D amounted to EUR 24,886 thousand as at 31 December 2021, an increase of EUR 6,354 thousand relative to 31 December 2020. Contributing to that change were new default events and the resulting reclassification of performing exposures to non-performing exposures, while the decrease in gross exposure was the result of the reclassification of exposures to rating grades C and E, and payments received from the liquidation of collateral. Gross exposure from financial assets assigned a rating grade of E amounted to EUR 13,315 thousand as at 31 December 2021, a decrease of EUR 5,224 thousand relative to 31 December 2020, primarily due to write-offs of financial assets.

SID Bank created allowances for credit losses and provisions in the amount of EUR 52,544 thousand as at 31 December 2021. Allowances for credit losses on loans granted and other financial assets measured at amortised cost were down by EUR 20,962 thousand relative to 31 December 2020 to stand at EUR 51,453 thousand. Provisions for off-balance-sheet liabilities were down by EUR 2,100 thousand to stand at EUR 1,091 thousand.

Contributing most to the decrease in allowances for credit losses and provisions were more favourable macroeconomic forecasts. The inclusion of forward-looking information in the assessment of expected credit losses represents a requirement of IFRS 9. Macroeconomic scenarios thus affect estimated credit parameters used in the calculation of expected credit losses. Sudden and pronounced adverse changes in the macroeconomic environment, as witnessed at the outbreak of the COVID-19 pandemic, increase allowances for credit losses and provisions, while a reverse in the economic cycle causes them to decline. The sharp decline in GDP was not reflected in a deterioration in the quality of SID Bank's portfolio in the expected scope due to extensive government support measures adopted to mitigate the negative effects of the COVID-19 pandemic. The proportion of new non-performing exposures did not rise significantly, while the proportion of exposures classified as Stage 2, where allowances for credit losses and provisions are measured on the basis of lifetime expected credit losses, was down. The volume of additional bilateral moratoria on the payment of liabilities and new non-performing exposures in this segment of the credit portfolio did not increase significantly after the expiry of moratoria approved in accordance with the government's emergency legislation. SID Bank reclassified a portion of exposures that were reclassified from Stage 1 to Stage 2 at the end of 2020 due to deteriorating expectations in food services, tourism, the automotive industry and road transport back to Stage 1. Contributing significantly to the decrease in allowance for credit losses on loans measured at amortised cost was the early repayment of loans and advances to banks and customers, which was affected by high liquidity in the Slovenian banking system, an increase in the lending activity of commercial banks and an environment of low interest rates.

Allowances for credit losses on loans and other financial assets measured at amortised cost and classified as Stage 3 (non-performing financial assets), where impairments for credit losses are measured on the basis of the lifetime expected credit losses on a financial instrument, were up by EUR 4,683 thousand in 2021. Contributing to that change were new debtor default events and the resulting reclassification from performing exposures to non-performing exposures, while write-offs of financial assets and repayments received in the recovery of non-performing exposures resulted in a decrease in allowances for credit losses.

As at 31 December 2021, SID Bank held eight POCI items, including two performing exposures. SID Bank derecognised four POCI items in 2021 including two performing POCI items. Allowances for credit losses from POCI items were positive and amounted to EUR 2,770 thousand as at 31 December 2021 (allowances for credit losses were negative in the amount of EUR 1,649 thousand as at 31 December 2020). Contributing to the change in allowances for credit losses from POCI items were the reclassification of two POCI items to performing exposures, and the partial early repayment of one POCI item.

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 2021		31 Dec 2020	
Gross carrying amount	**4,155**	**100.0%**	**33,211**	**100.0%**
D	3,238	77.9%	31,987	96.3%
E	917	22.1%	1,224	3.7%
Accumulated fair value changes owing to credit risk	**(3,159)**	**100.0%**	**(15,446)**	**100.0%**
D	(2,242)	71.0%	(14,222)	92.1%
E	(917)	29.0%	(1,224)	7.9%
Net carrying amount	**996**		**17,765**	

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 non-trading 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 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**	

31 Dec 2020	Stage 1	Total	
Gross carrying amount	**877,463**	**877,463**	**100.0%**
A	848,559	848,559	96.7%
B	28,904	28,904	3.3%
Allowances for credit losses	**(897)**	**(897)**	**100.0%**
A	(347)	(347)	38.7%
B	(550)	(550)	61.3%
Net carrying amount	**876,566**	**876,566**	

As at 31 December 2021, SID Bank disclosed gross exposure from financial assets (debt securities) measured at fair value through other comprehensive income in the amount of EUR 796,686 thousand.

Under IFRS 9, the Bank is obliged to estimate expected credit losses on financial assets measured at fair value through other comprehensive income.

A total of EUR 795,631 thousand in financial assets measured at fair value through other comprehensive income and the associated impairments for credit losses in the amount of EUR 461 thousand were classified as Stage 1 (no significant increase in credit risk since initial recognition), where impairments for credit losses are measured on the basis of 12-month expected credit losses.

A total of EUR 1,055 thousand in financial assets measured at fair value through other comprehensive income and the associated impairments for credit losses in the amount of EUR 28 thousand were classified as Stage 2 (significant increase in credit risk since initial recognition), where impairments for credit losses are measured on the basis of lifetime expected credit losses on a financial instrument.

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

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**	

31 Dec 2020	Stage 1	Total	
Gross carrying amount	**786,470**	**786,470**	**100.0%**
A	524,912	524,912	66.7%
B	261,558	261,558	33.3%
Allowances for credit losses	**(2,745)**	**(2,745)**	**100.0%**
A	(1,260)	(1,260)	45.9%
B	(1,485)	(1,485)	54.1%
Net carrying amount	**783,725**	**783,725**	

As at 31 December 2021, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to banks) in the amount of EUR 569,968 thousand.

As at 31 December 2021, all loans and advances to banks 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 and amounted to EUR 1,199 thousand.

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

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**	**100.0%**
A	519,396	701	0	0	520,097	41.6%
B	524,667	101,668	0	0	626,335	50.1%
C	9,292	49,125	0	5,906	64,323	5.2%
D	0	0	23,766	1,120	24,886	2.0%
E	0	0	12,290	1,016	13,306	1.1%
Allowances for credit losses	**(8,380)**	**(19,265)**	**(25,370)**	**2,770**	**(50,245)**	**100.0%**
A	(731)	(17)	0	0	(748)	1.5%
B	(6,738)	(10,334)	0	0	(17,072)	34.0%
C	(911)	(8,914)	0	3,627	(6,198)	12.3%
D	0	0	(15,110)	159	(14,951)	29.8%
E	0	0	(10,260)	(1,016)	(11,276)	22.4%
Net carrying amount	**1,044,975**	**132,229**	**10,686**	**10,812**	**1,198,702**	

31 Dec 2020	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**909,974**	**196,419**	**25,838**	**11,225**	**1,143,456**	**100.0%**
A	547,596	1,264	0	0	548,860	48.0%
B	352,870	118,429	0	0	471,299	41.2%
C	9,508	76,726	0	0	86,234	7.5%
D	0	0	7,299	11,225	18,524	1.6%
E	0	0	18,539	0	18,539	1.6%
Allowances for credit losses	**(13,513)**	**(33,812)**	**(20,687)**	**(1,649)**	**(69,661)**	**100.0%**
A	(1,523)	(67)	0	0	(1,590)	2.3%
B	(10,083)	(15,705)	0	0	(25,788)	37.0%
C	(1,907)	(18,040)	0	0	(19,947)	28.6%
D	0	0	(3,054)	(1,649)	(4,703)	6.8%
E	0	0	(17,633)	0	(17,633)	25.3%
Net carrying amount	**896,461**	**162,607**	**5,151**	**9,576**	**1,073,795**	

As at 31 December 2021, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to customers) in the amount of EUR 1,248,947 thousand.

A total of EUR 1,053,355 thousand in loans and advances to customers and the associated allowances for credited losses in the amount of EUR 8,380 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 9,292 thousand in loans and advances to customers was classified as Stage 1.

A total of EUR 151,494 thousand in loans and advances to customers and the associated allowances for credit losses in the amount of EUR 19,265 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 36,056 thousand in loans and advances to customers and the associated allowances for credit losses in the amount of EUR 25,370 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 8,042 thousand as at 31 December 2021. Allowances for credit losses from POCI items were positive and amounted to EUR 2,770 thousand.

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

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**	

31 Dec 2020	Stage 1	Stage 3	Total	
Gross carrying amount	**1,230**	**9**	**1,239**	**100.0%**
A	1,230	0	1,230	99.3%
D	0	9	9	0.7%
Allowances for credit losses	**0**	**(9)**	**(9)**	**100.0%**
A	0	0	0	0.0%
D	0	(9)	(9)	100.0%
Net carrying amount	**1,230**	**0**	**1,230**	

SID Bank disclosed exposure from financial assets measured at amortised cost (other financial assets) in the amount of EUR 2,610 thousand as at 31 December 2021.

A total of EUR 2,601 thousand in financial assets measured at amortised cost (other financial assets) and the associated allowances for credit losses in the amount of EUR 0.03 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.

A total of EUR 9 thousand in financial assets measured at amortised cost (other financial assets) and the associated allowances for credit losses in the amount of EUR 9 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 2021	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**1,625,924**	**151,494**	**36,065**	**8,042**	**1,821,525**	**100.0%**
A	877,399	701	0	0	878,100	48.2%
B	739,233	101,668	0	0	840,901	46.2%
C	9,292	49,125	0	5,906	64,323	3.5%
D	0	0	23,766	1,120	24,886	1.4%
E	0	0	12,299	1,016	13,315	0.7%
Allowances for credit losses	**(9,579)**	**(19,265)**	**(25,379)**	**2,770**	**(51,453)**	**100.0%**
A	(1,040)	(17)	0	0	(1,057)	2.1%
B	(7,628)	(10,334)	0	0	(17,962)	34.9%
C	(911)	(8,914)	0	3,627	(6,198)	12.0%
D	0	0	(15,110)	159	(14,951)	29.1%
E	0	0	(10,269)	(1,016)	(11,285)	21.9%
Net carrying amount	**1,616,345**	**132,229**	**10,686**	**10,812**	**1,770,072**	

31 Dec 2020	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**1,697,674**	**196,419**	**25,847**	**11,225**	**1,931,165**	**100.0%**
A	1,073,738	1,264	0	0	1,075,002	55.7%
B	614,428	118,429	0	0	732,857	37.9%
C	9,508	76,726	0	0	86,234	4.5%
D	0	0	7,308	11,225	18,533	1.0%
E	0	0	18,539	0	18,539	1.0%
Allowances for credit losses	**(16,258)**	**(33,812)**	**(20,696)**	**(1,649)**	**(72,415)**	**100.0%**
A	(2,783)	(67)	0	0	(2,850)	3.9%
B	(11,568)	(15,705)	0	0	(27,273)	37.7%
C	(1,907)	(18,040)	0	0	(19,947)	27.5%
D	0	0	(3,063)	(1,649)	(4,712)	6.5%
E	0	0	(17,633)	0	(17,633)	24.3%
Net carrying amount	**1,681,416**	**162,607**	**5,151**	**9,576**	**1,858,750**	

Analysis of credit quality – off-balance-sheet items

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**	

31 Dec 2020	Stage 1	Stage 2	Total	
Gross carrying amount	**248,218**	**22,422**	**270,640**	**100.0%**
A	199,832	100	199,932	73.9%
B	48,386	22,313	70,699	26.1%
C	0	9	9	0.0%
Provisions	**(1,113)**	**(2,078)**	**(3,191)**	**100.0%**
A	(410)	(7)	(417)	13.1%
B	(703)	(2,069)	(2,772)	86.9%
C	0	(2)	(2)	0.0%
Net carrying amount	**247,105**	**20,344**	**267,449**	

SID Bank disclosed exposure from off-balance-sheet liabilities in the amount of EUR 221,421 thousand as at 31 December 2021.

A total of EUR 214,920 thousand in off-balance-sheet liabilities and the associated provisions for credit losses in the amount of EUR 614 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 6,501 thousand in off-balance-sheet liabilities and the associated provisions in the amount of EUR 477 thousand were classified as Stage 2 (significant increase in credit risk since the initial recognition), where provisions for credit losses are measured on basis of the lifetime expected credit losses on a financial instrument.

Maturity of financial assets

	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)**

31 Dec 2020	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Allowances for credit losses Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks										
Non-past-due	786,470	0	0	0	786,470	(2,745)	0	0	0	(2,745)
Total loans and advances to banks	**786,470**	**0**	**0**	**0**	**786,470**	**(2,745)**	**0**	**0**	**0**	**(2,745)**
Loans and advances to customers										
Non-past-due	909,974	195,705	6,583	10,232	1,122,494	(13,513)	(33,758)	(2,667)	(656)	(50,594)
Up to 29 days past due	0	667	305	0	972	0	(47)	(148)	0	(195)
30 to 89 days past due	0	47	208	993	1,248	0	(7)	(111)	(993)	(1,111)
90 to 180 days past due	0	0	20	0	20	0	0	(18)	0	(18)
More than 180 days past due	0	0	18,722	0	18,722	0	0	(17,743)	0	(17,743)
Total loans and advances to customers	**909,974**	**196,419**	**25,838**	**11,225**	**1,143,456**	**(13,513)**	**(33,812)**	**(20,687)**	**(1,649)**	**(69,661)**
Other financial assets										
Non-past-due	1,230	0	9	0	1,239	0	0	(9)	0	(9)
Total other financial assets	**1,230**	**0**	**9**	**0**	**1,239**	**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 21,179 thousand at the end of 2021 (31 December 2020: EUR 20,962 thousand), which represents 1.2% of all gross exposure resulting from loans and other financial assets measured at amortised cost. All past due claims from loans and other financial assets measured at amortised cost 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.

Non-past-due loans and other financial assets account for 98.8% of all gross exposure resulting from loans and other financial assets measured at amortised cost. The high proportion of non-past-due loans is connected with the provision of loans to banks established in Slovenia, which transfer funds obtained as such to the final beneficiaries.

Past-due claims from loans are secured by other funded credit protection in the amount of EUR 6,888 thousand, commercial real estate in the amount of EUR 2,986 thousand, other forms of loan collateral in the amount of EUR 510 thousand, residential real estate in the amount of EUR 89 thousand, and irrevocable Slovenian government guarantees in the amount of EUR 22 thousand.

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

	31 Dec 2021	31 Dec 2020
AA– to AA+	59,387	77,506
A– to A+	562,993	658,759
BBB+ to BBB–	156,734	111,947
Lower than BBB–	17,083	28,354
Total	**796,197**	**876,566**

The table shows the fair value of debt securities measured at fair value through other comprehensive income, classified in terms of the issuer's rating grade in accordance with SID Bank's methodology.

Credit risk from debt securities measured at fair value through other comprehensive income arises from the portfolio managed by SID Bank for the purpose of ensuring liquidity and asset and liability management.

SID Bank manages the credit risk from debt securities measured at fair value through other comprehensive income primarily by means of limits on exposure with regard to rating grade, registered office, type of issuer and type of instrument. It also regularly monitors changes in the market values of debt securities in connection with position limits (stop loss). SID Bank limited purchases of debt securities of issuers whose core activity is in the fossil fuels segment in 2021 in order to reduce exposure to environmental risk.

SID Bank's portfolio of debt securities measured at fair value through other comprehensive income was down by 9.2% relative to the end of 2020 to stand at EUR 796,197 thousand at the end of 2021 (end of 2020: EUR 876,566 thousand). As at 31 December 2021, the highest proportion of the entire portfolio or 62.4% (31 December 2020: 70.7%) was accounted for by debt securities issued by EU Member States (central government) and classed as investment-grade (BBB– or higher). Slovenian government debt securities account for 34.9% (end of 2020: 41.2%) of the portfolio of debt securities measured at fair value through other comprehensive income. Changes to the overall structure of SID Bank's debt securities portfolio in 2021 in terms of credit rating relative to 2020, were primarily the result of a decrease in exposure to EU Member States with a rating of A– or higher, and an increase in exposure to banks with a credit rating of between BBB+ and BBB. The reduction in exposures in lower rating grades (lower than BBB–) is the result of the maturing securities of domestic issuers.

A detailed breakdown of financial assets measured at fair value through other comprehensive income is given under section 2.4.3 Financial assets measured at fair value through other comprehensive income.

Breakdown of exposure to credit risk by geographical region

The tables illustrate the breakdown of net exposure to credit risk by geographical region as defined by the debtor's registered office.

31 Dec 2021	Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets	**2,139,324**	**584,166**	**50,009**	**11,892**	**2,785,391**
Cash, cash balances at central banks and other demand deposits at banks	218,126	0	0	0	218,126
Non-trading financial assets mandatorily at fair value through profit or loss	996	0	0	0	996
Loans and advances to customers	996	0	0	0	996
Financial assets measured at fair value through other comprehensive income	295,434	497,674	3,089	0	796,197
Debt securities	295,434	497,674	3,089	0	796,197
Financial assets measured at amortised cost	1,624,768	86,492	46,920	11,892	1,770,072
Loans and advances to banks	449,268	84,771	34,730	0	568,769
Loans and advances to customers	1,174,509	112	12,189	11,892	1,198,702
Other financial assets	991	1,609	1	0	2,601
Off-balance-sheet liabilities	**170,470**	**41,334**	**6,237**	**2,289**	**220,330**
Guarantees	80,070	0	0	0	80,070
Gross exposure	80,218	0	0	0	80,218
Provisions	(148)	0	0	0	(148)
Other off-balance-sheet liabilities	90,400	41,334	6,237	2,289	140,260
Gross exposure	91,276	41,338	6,246	2,343	141,203
Provisions	(876)	(4)	(9)	(54)	(943)
Total	**2,309,794**	**625,500**	**56,246**	**14,181**	**3,005,721**

31 Dec 2020	Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets	2,217,783	605,248	45,226	6,164	2,874,421
Off-balance-sheet liabilities	221,861	26,934	7,209	11,445	267,449
Total	**2,439,644**	**632,182**	**52,435**	**17,609**	**3,141,870**

At the end of 2021, SID Bank's exposure to Slovenia accounted for 76.8% (end of 2020: 77.6%) of total exposure from financial assets and off-balance-sheet liabilities, and decreased by EUR 129,850 thousand relative to the end of 2020 due to a decrease in financial assets, most notably in loans and advances to banks and securities, and a decrease in off-balance-sheet liabilities. Exposure from balances at the central bank and demand deposits at banks, and from loans and advances to customers was up relative to 2020.

At the end of 2021, exposure to other EU Member States accounted for most of the credit portfolio's exposure to the rest of the world, and amounted to 20.8% (end of 2020: 20.1%) of the total exposure from financial assets and off-balance-sheet liabilities. Exposure to other EU Member States was down relative to the end of 2020, primarily due to a decrease in deposits at foreign banks and loans and advances to customers. Financial assets in the item debt securities and off-balance-sheet liabilities were up relative to the end of 2020. At the end of 2021, credit risk exposure to countries from the rest of Europe (Europe without EU Member States) accounted for 1.9% (end of 2020: 1.7%) of total exposure, while exposure to other countries accounted for 0.5% (end of 2020: 0.6%) of total exposure.

SID Bank uses internal exposure limits to apply a maximum allowable exposure to individual geographical regions. A detailed presentation of the greater credit risk exposure by individual country is given in separate tables.

Changes in the structure of SID Bank's exposures to specific countries as at 31 December 2021 were primarily due to a decrease in the stock of loans and advances to domestic and foreign banks, an increase in loans and advances to domestic customers, an increase in balances at the central bank and demand deposits at domestic banks, and changes in exposure by country in terms of debt securities, where the balance of the portfolio of domestic debt securities was down and the balance of the portfolio of foreign debt securities was up.

	31 Dec 2021			31 Dec 2020		
	Financial assets	Off-balance-sheet liabilities	Total exposure	Financial assets	Off-balance-sheet liabilities	Total exposure
Slovenia	2,139,323	170,471	2,309,794	2,217,783	221,861	2,439,644
France	97,228	0	97,228	109,423	0	109,423
Italy	84,084	0	84,084	59,404	0	59,404
Spain	67,179	0	67,179	71,159	0	71,159
Germany	57,430	3,497	60,927	65,297	0	65,297
Austria	48,438	0	48,438	48,266	0	48,266
Poland	37,966	0	37,966	50,595	0	50,595
Hungary	36,850	0	36,850	40,361	0	40,361
Belarus	34,730	2,119	36,849	31,882	6,537	38,419
Netherlands	34,499	47	34,546	43,587	0	43,587
Slovakia	30,188	0	30,188	10,359	0	10,359
Czech Republic	27,160	0	27,160	30,873	0	30,873
Lithuania	20,314	0	20,314	28,480	0	28,480
Other	70,002	44,196	114,198	66,952	39,051	106,003
Total	**2,785,391**	**220,330**	**3,005,721**	**2,874,421**	**267,449**	**3,141,870**

Breakdown of credit risk exposure by sector

31 Dec 2021	Financial and insurance activities	Manufac-turing	Public administra-tion and defence	Wholesale and retail trade (mainte-nance and repair of motor vehicles)	Transpor-tation and storage	Professio-nal, scientific and technical activities	Electricity, gas, steam and air conditio-ning supply	Other	Total
Financial assets	**979,764**	**412,048**	**667,887**	**160,742**	**130,587**	**55,515**	**145,994**	**232,854**	**2,785,391**
Cash, cash balances at central banks and other demand deposits at banks	218,126	0	0	0	0	0	0	0	218,126
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	0	0	0	0	996	996
Loans and advances to customers	0	0	0	0	0	0	0	996	996
Financial assets measured at fair value through other comprehensive income	182,550	33,791	498,961	17,369	242	13,491	28,234	21,559	796,197
Debt securities	182,550	33,791	498,961	17,369	242	13,491	28,234	21,559	796,197
Financial assets measured at amortised cost	579,088	378,257	168,926	143,373	130,345	42,024	117,760	210,299	1,770,072
Loans and advances to banks	568,769	0	0	0	0	0	0	0	568,769
Loans and advances to customers	8,689	378,256	167,989	143,373	130,328	42,009	117,760	210,298	1,198,702
Other financial assets	1,630	1	937	0	17	15	0	1	2,601
Off-balance-sheet liabilities	**77,541**	**32,052**	**3,625**	**579**	**57,598**	**6,061**	**21,203**	**21,671**	**220,330**
Guarantees	20,510	2,160	0	0	57,400	0	0	0	80,070
Gross exposure	20,548	2,167	0	0	57,503	0	0	0	80,218
Provisions	(38)	(7)	0	0	(103)	0	0	0	(148)
Other off-balance-sheet liabilities	57,031	29,892	3,625	579	198	6,061	21,203	21,671	140,260
Gross exposure	57,042	30,056	3,625	580	200	6,171	21,261	22,268	141,203
Provisions	(11)	(164)	0	(1)	(2)	(110)	(58)	(597)	(943)
Total	**1,057,305**	**444,100**	**671,512**	**161,321**	**188,185**	**61,576**	**167,197**	**254,525**	**3,005,721**

31 Dec 2020	Financial and insurance activities	Manufac-turing	Public administra-tion and defence	Wholesale and retail trade (mainte-nance and repair of motor vehicles)	Transpor-tation and storage	Professio-nal, scientific and technical activities	Electricity, gas, steam and air conditio-ning supply	Other	Total
Financial assets	1,069,831	385,212	776,625	157,960	114,074	59,582	136,210	174,927	2,874,421
Off-balance-sheet liabilities	56,796	56,776	29,762	159	61,859	959	38,952	22,186	267,449
Total	**1,126,627**	**441,988**	**806,387**	**158,119**	**175,933**	**60,541**	**175,162**	**197,113**	**3,141,870**

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

At the end of 2021, SID Bank was again most heavily exposed to financial and insurance activities, as a large part 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 2021, the proportion of exposure to financial and insurance activities declined and accounted for 35.2% (end of 2020: 35.9%) of the total exposure from financial assets and off-balance-sheet liabilities.

The decrease in that proportion relative to the end of 2020 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 22.3% at the end of 2021 (end of 2020: 25.7%). That decrease was the result of a decrease in exposure from debt securities and the repayment of loans and advances to customers.

The increase in exposure to manufacturing, wholesale and retail trade (maintenance and the repair of motor vehicles), transportation and storage, and other activities was the result of new loans to customers. Also contributing to the change in wholesale and retail trade (maintenance and the repair of motor vehicles) was the repayment of loans to customers measured at fair value. Contributing most to the increase in exposure to professional, scientific and technical activities was an increase in off-balance-sheet liabilities. Exposure was down in the electricity, gas, steam and air conditioning supply sector primarily as the result of the repayment of loans to customers.

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 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 a financial asset decreased in 2021, as the majority of modifications to contractual cash flows in 2020 were due to the emergency measure introducing statutory moratoria on the payment of liabilities as a result of the COVID-19 pandemic.

A loss was recognised in profit or loss in the total amount of EUR 1,405 thousand in response to the modification to contractual cash flows in the case of 52 financial assets, while gains in the total amount of EUR 6 thousand were recognised in the case of 18 financial assets.

Financial assets modified in the period

	2021	2020
Gross carrying amount before the modification	22,398	115,388
Loss allowances for credit losses before the modification	(6,228)	(28,157)
Net amortised cost before the modification	16,170	87,231
Net gain/(loss) from the modification	(130)	(302)
Net amortised cost after the modification	16,040	86,929

The table shows the effects of modifications to the contractual cash flows of financial assets in 2021, 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 2021	31 Dec 2020
Gross carrying amount of financial assets for which loss allowances for credit losses were changed in the period from the lifetime to the 12-month ECLs	458	1,793

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, loss 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. Modifications to contractual cash flows did not result in the derecognition of financial assets.

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 2021.

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 2021.

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 absorption capacity and its risk appetite and the risk management strategy, with the primary objective of ensuring the prudent and secure operations of the Bank. Liquidity management includes the prudent management of assets and liabilities (on-balance-sheet and off-balance-sheet) and a balanced borrowing strategy so that the Bank is capable of meeting its due liabilities (liquidity) at any given moment and in due time, and is capable of meeting all its liabilities (solvency) on a continuous basis.

The process of the 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 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 absorption capacity and the risk management strategy.

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 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.

The liquidity risk management policy also envisages procedures and the responsibilities of the competent committees and relevant organisational units in the area of liquidity risk management, and the range of possible measures to be implemented if operational or structural liquidity deteriorates and/or the internally set limits are exceeded.

The Bank presents the key responsibilities of the competent bodies in the area of risk management, 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 context of the adopted policy of taking up and managing liquidity risk, established authorisations and the decisions of the competent bodies. The aforementioned organisational units are also actively involved in the process of assessing the internal liquidity adequacy of the Bank.

Liquidity risk management at SID Bank comprises:

- the daily management of liquidity;
- the establishment of limits for liquidity risk management;

- the measurement and monitoring of the liquidity position, and the regular verification of compliance with regulatory liquidity ratios;
- the regular verification of the appropriateness of liquidity reserves, assuming a static balance sheet in internally defined stress scenarios;
- the regular planning and monitoring of future liquidity flows; and
- 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 liquidity coverage ratio taking into account the financial plan and information from the business plan for future periods in the baseline scenario and internally defined liquidity scenarios.

The Bank ensures liquidity risk management through the management of assets, in particular liquidity reserves, and/or through access to additional sources. 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 its long-term liquidity position.

As a rule, SID Bank does not accept deposits from uninformed investors 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 deposits. This fact and the specific role of the Bank also affect the structure of 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 investor type, geography 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 related 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 SID Bank's asset-side transactions. Adequacy is assessed with regard to maturity, currency, interest-rate type, costs of borrowing and any other characteristics. SID Bank borrows for the purposes set out in the ZSIRB.

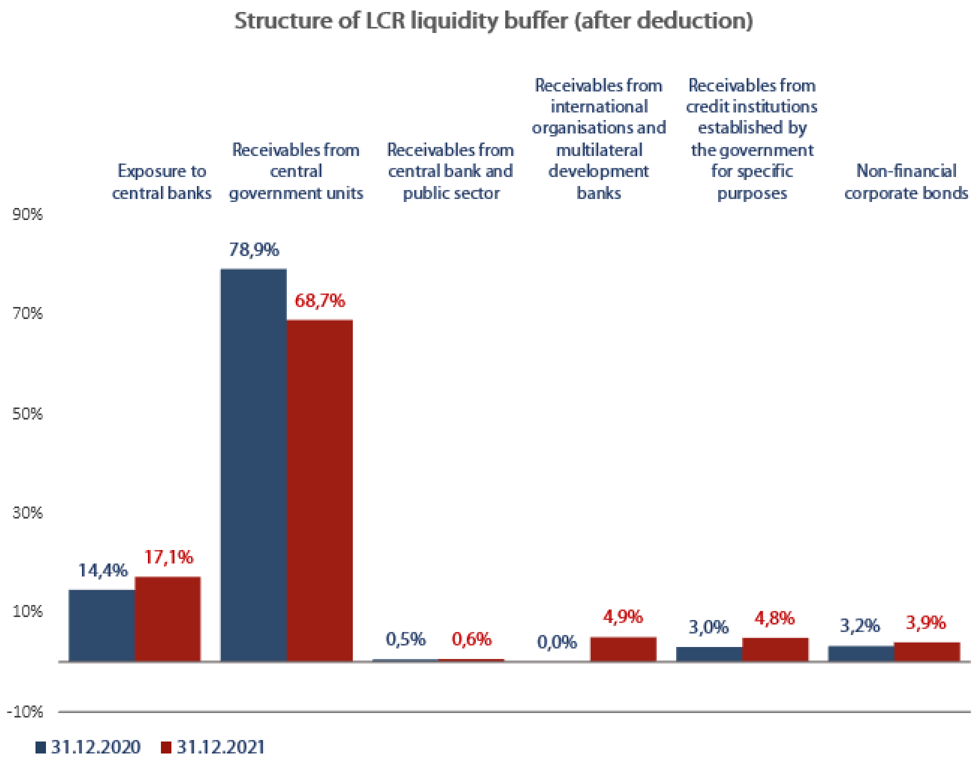
Liquidity coverage ratio

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.

SID Bank calculates the value of the LCR on a monthly basis. The value of calculated ratios, 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 Bank has in place an internal limit for maintaining the LCR and liquidity buffer that is more stringent than the regulatory requirement (100%).

The LCR amounted to 2,334% at the end of 2021 (end of 2020: 6,313%). The average value of the LCR was 3,618% in 2021 (2020: 2,706%), which is evident from the quantitative disclosures in the section Disclosures under Part Eight of the CRR.

SID Bank actively monitors and maintains an adequate buffer of unencumbered, high-quality liquid assets to be held as a contingency against adverse liquidity conditions.



As at 31 December 2021, the liquid assets eligible for inclusion in the LCR calculation amounted to EUR 353,567 thousand, after haircuts had been taken into account (31 December 2020: EUR 424,164 thousand), with the liquid assets of central government units accounting for 68.7% (31 December 2020: 78.9%) of all eligible liquid assets after haircuts had been taken into account. The proportion of Level 1 high-quality liquid assets (HQLA) amounted to 96.1% at the end of 2021 (31 December 2020: 96.8%).

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 plan 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.

SID Bank calculates the NSFR quarterly. The value of the calculated 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.

The NSFR was 142% at the end of 2021 (end of 2020: 132%). The Bank has in place an internal limit for maintaining the NSFR that is more stringent than the regulatory requirement (100%). The mandatory, regulatorily defined fulfilment of the ratio has been in force since 30 June 2021.

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; and

- simulations of liquidity flows, liquidity reserves and LCR taking into account market conditions (baseline and stress market scenario), the annual financial plan and information from the business plan.

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

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 taking into account the financial plan and information from the business plan for the coming period in the baseline scenario and in internally defined liquidity scenarios.

By regularly monitoring the liquidity position, ratios and indicators, and by verifying liquidity risk management in internally defined scenarios, the Bank is able to identify adverse liquidity conditions in a timely manner and take appropriate measures to overcome any liquidity difficulties.

Internal liquidity adequacy assessment process (ILAAP)

Through 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.

Once a year, the Bank carries out, in a comprehensive and structured manner in the ILAAP report, a review and assessment of the Bank's liquidity profile in terms of the following key elements: risk management in respect of the Bank's liquidity profile and liquidity risk appetite, the effectiveness of the organisational structure and the adequacy of the liquidity buffer, including in relation to internally defined scenarios and the valid contingency plan. The ILAAP report also serves as a basis for supervisory reviews and the evaluation of the Bank's liquidity risk.

Exposure to liquidity risk

31 Dec 2021	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**259,096**	**96,046**	**268,798**	**1,302,734**	**967,912**	**2,894,586**
Cash, cash balances at central banks and other demand deposits at banks	218,126	0	0	0	0	218,126
Non-trading financial assets mandatorily at fair value through profit or loss	0	18	50	261	786	1,115
Loans and advances to customers	0	18	50	261	786	1,115
Financial assets measured at fair value through other comprehensive income	77	48,363	73,174	409,133	267,841	798,588
Debt securities	77	48,363	73,174	409,133	267,841	798,588
Financial assets measured at amortised cost	40,893	47,665	195,574	893,340	699,285	1,876,757
Loans and advances to banks	22,064	29,794	105,597	321,873	99,447	578,775
Loans and advances to customers	17,854	17,871	89,977	571,450	598,229	1,295,381
Other financial assets	975	0	0	17	1,609	2,601
Financial liabilities	**23,631**	**8,166**	**29,427**	**1,312,011**	**996,273**	**2,369,508**
Financial liabilities measured at amortised cost	24,090	8,042	29,258	1,309,998	996,205	2,367,593
Loans from banks and central banks	22,263	6,960	23,044	499,566	111,939	663,772
Loans from customers	0	1,042	2,816	130,059	884,201	1,018,118
Debt securities	0	0	3,398	680,358	0	683,756
Other financial liabilities	1,827	40	0	15	65	1,947
Derivatives – hedge accounting	(459)	124	169	2,013	68	1,915
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**

31 Dec 2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Liquidity gap	**236,266**	**50,696**	**228,088**	**15,918**	**(24,747)**	**506,221**

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.

SID Bank disclosed a positive cumulative liquidity gap in the time bucket of up to five years as at 31 December 2021. Changes in the structure of liquidity gaps in terms of maturity buckets are also associated with early repayments, in particular of loans to and from banks, and repayments received in connection with non-performing loans.

SID Bank manages liquidity risk 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.

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 2021, the reserve requirement was EUR 0.

3.3 Interest rate risk

Interest rate risk is the risk of a change in the interest rates of interest-sensitive asset and liability items that could have an adverse impact on profit or loss and 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 measured at fair value through other comprehensive income, loans given, and the balance in the settlement account and in commercial accounts. On the liability side, it is exposed to interest rate risk from loans received and debt securities issued. The 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 current interest rate risk management policy, which is based on the Basel standards for managing interest rate risk in the banking book and the EBA Guidelines on the management of interest rate risk arising from non-trading book activities. The Bank's interest rate risk management policy defines the methods and assumptions for identifying, 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 interest rate risk management policy. The interest rate risk management policy also defines the responsibilities of individual organisational units in the area of interest rate risk management, and procedures in the event that internally set 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 risk appetite and the established interest rate risk management policy. 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 absorption capacity, and legal and regulatory limits. The legal limit on a potential loss in the economic value of equity is 20% of regulatory capital in the stress scenarios of a +/-200 basis point parallel shift in the curve of market interest rates. That 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 (regulatory 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 negative impact (loss) on a change in the economic value of equity and on a change in net interest income. Those limits are more stringent that 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 2021, the proportion of interest-sensitive assets accounted for by interest-sensitive assets in foreign currencies is less than 1% (around 0.01%). The Bank does not have interest-sensitive liabilities in foreign currencies.

SID Bank does not use models to classify interest-sensitive items without a contractual maturity because it does not have such items. The 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.). When assessing exposure to interest rate risk as at 31 December 2021, the Bank did not include behavioural options from early repayments, as it has a relatively low proportion of loans with a fixed interest rate, where the risk of early repayment has a greater impact. Moreover, the Bank has not identified a material (in terms of volume) level of early repayments of loans with a fixed interest rate, which has a significant impact on the possibility of establishing 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. The Bank has in place an internal methodology, which is based on the Basel standards and EBA guidelines, for assessing the sensitivity of the economic value of equity (ΔEVE) and the sensitivity of net interest income (ΔNII) in prescribed (regulatory) 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 a contractually embedded interest rate floor 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 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 prescribed (regulatory) scenarios and internally defined scenarios that include parallel shifts in interest rates of +/- 100 basis points, and two scenarios with different intensities of the incline in the market interest rate curve. Every set of interest rate scenarios for the purpose of internal stress testing is approved by the asset-liability and liquidity management committee. Internal stress testing process is defined in the Rules on internal stress testing and the Methodological notes to the Rules on internal stress testing.

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 through the coordination of interest-sensitive assets and interest-sensitive liabilities in accordance with their maturity and the level and method of setting interest rates, and through the use of derivatives to hedge against interest rate risk.

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 the hedged item and the hedging instrument, the purpose of risk management, the valuation method and the hedging strategy. The Bank also has documented assessments of the effectiveness of hedging relationships compiled upon the conclusion of transactions, and regularly conducts assessments of the effectiveness of hedging relationships.

As at 31 December 2021, SID Bank held two interest rate swaps as fair value hedges of assets with a total contractual value of EUR 15,000 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 2021.

Sensitivity analysis

For the purpose of the regular management of interest rate risk and the calculation of 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 (regulatory) interest rate scenarios. In this way, the Bank regularly determines whether a potential loss in the economic value of equity is within internally defined limits and if a potential loss in any of the prescribed interest rate scenarios exceeds 15% of Common Equity Tier 1 capital. The Bank also determines if the negative impact on net interest income in any of the six prescribed interest rate scenarios exceeds the internally defined limit.

The Bank uses six prescribed (regulatory) 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);
- the scenario of an increase in short-term interest rates; and
- the 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. A change in the economic value of equity is measured in an individual interest rate scenario with respect 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) 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;
- the calculation of net present value is carried out at the level of an individual position taking into account precise revaluation dates; and
- the basis for the setting of discount rates is the risk-free market interest rate curve and 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 net interest income 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 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 from interest are not discounted;
- forward interest rate benchmarks are defined using the euro market interest rate swap curve based on the 6-month EURIBOR in an individual interest rate scenario; 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 (regulatory) interest rate scenarios	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Upward parallel shift of 200 basis points	(18,434)	(24,087)	2,402	(1,799)
Downward parallel shift of 200 basis points	6,611	2,980	224	(45)
Scenario of a steeper interest rate yield curve (decrease in short-term and increase in long-term interest rates)	4,698	(108)	716	
Scenario of a flatter interest rate yield curve (increase in short-term and decrease in long-term interest rates)	(9,794)	(10,098)	178	
Scenario of an increase in short-term interest rates	(13,522)	(15,110)	1,246	
Scenario of a decrease in short-term interest rates	8,646	2,755	439	
Most significant negative impact (potential loss of EVE)	(18,434)	(24,087)		
Common Equity Tier 1 capital	465,841	457,114		

Exposure to interest rate risk in the banking book derives primarily from the portfolio of long-term debt securities and loans granted with a fixed interest rate on the asset side, and issued securities and loans received with a fixed interest rate on the liability side. Also impacting exposure to interest rate risk are included off-balance-sheet items with a fixed interest rate (agreed loans granted and received), hedging derivatives and the revaluation of automatic options.

The results of an analysis of the sensitivity of the economic value of equity according to data from the end of 2021 indicate that the Bank would incur the most severe potential decrease (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 18,434 thousand, which is equal to 4.0% of Common Equity Tier 1 capital, i.e. capital for the purpose of capital adequacy. If market interest rates fell by 200 basis points (taking into account the prescribed interest rate floor), the Bank's economic value of equity would increase by EUR 6,611 thousand according to data from the end of 2021.

If market interest rates rose by 200 basis points, SID Bank's net interest income would increase by EUR 2,402 thousand in one year according to data from the end of 2021. If market interest rates fell by 200 basis points, SID Bank's net interest income would increase by EUR 224 thousand in one year according to data from the end of 2021. 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 were disproportionate, as downward interest rate shocks using the prescribed interest rate floor, which depends on maturity, were limited and unlike upward shocks.

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 2021	Up to 1 month	1 to 3 months	3 to 1 months	1 to 5 years	More than 5 years	Total remunerated items	Non-remunerated items	Total
Financial assets	**480,351**	**414,119**	**954,646**	**429,157**	**504,517**	**2,782,790**	**43,409**	**2,826,199**
Cash, cash balances at central banks and other demand deposits at banks	218,126	0	0	0	0	218,126	0	218,126
Non-trading financial assets mandatorily at fair value through profit or loss	996	0	0	0	0	996	28,306	29,302
Financial assets measured at fair value through other comprehensive income	29,864	49,844	36,736	400,424	279,329	796,197	12,502	808,699
Financial assets measured at amortised cost	231,365	364,275	917,910	28,733	225,188	1,767,471	2,601	1,770,072
Loans and advances to banks	49,763	111,363	374,719	6,184	26,740	568,769	0	568,769
Loans and advances to customers	181,602	252,912	543,191	22,549	198,448	1,198,702	0	1,198,702
Other financial assets	0	0	0	0	0	0	2,601	2,601
Financial liabilities	**553,383**	**233,491**	**730,264**	**675,479**	**138,233**	**2,330,850**	**1,947**	**2,332,797**
Financial liabilities measured at amortised cost	553,383	233,491	730,264	675,479	138,233	2,330,850	1,947	2,332,797
Loans from banks and central banks	389,760	47,804	198,230	0	32,065	667,859	0	667,859
Loans from customers	163,623	185,687	532,034	0	106,168	987,512	0	987,512
Debt securities	0	0	0	675,479	0	675,479	0	675,479
Other financial liabilities	0	0	0	0	0	0	1,947	1,947
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**

31 Dec 2020	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	484,039	366,678	1,085,206	328,941	607,174	2,872,038	25,202	2,897,240
Financial liabilities	567,430	252,678	824,652	479,975	296,939	2,421,674	1,837	2,423,511
Effect of hedging derivatives	(175,000)	15.000	0	170,000	(10,000)	0	0	0
Interest rate sensitivity gap	**(258,391)**	**129,000**	**260,554**	**18,966**	**300,235**	**450,364**	**23,365**	**473,729**

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 2021 was low and within internally set limits, which is evident from the table below.

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 below 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 2021	EUR	USD	Other currencies	Total
Financial assets	**2,826,010**	**187**	**2**	**2,826,199**
Cash, cash balances at central banks and other demand deposits at banks	217,937	187	2	218,126
Non-trading financial assets mandatorily at fair value through profit or loss	29,302	0	0	29,302
Financial assets measured at fair value through other comprehensive income	808,699	0	0	808,699
Financial assets measured at amortised cost	1,770,072	0	0	1,770,072
Loans and advances to banks	568,769	0	0	568,769
Loans and advances to customers	1,198,702	0	0	1,198,702
Other financial assets	2,601	0	0	2,601
Financial liabilities	**2,334,712**	**9**	**0**	**2,334,721**
Financial liabilities measured at amortised cost	2,332,788	9	0	2,332,797
Loans from banks and central banks	667,859	0	0	667,859
Loans from customers	987,512	0	0	987,512
Debt securities	675,479	0	0	675,479
Other financial liabilities	1,938	9	0	1,947
Derivatives – hedge accounting	1,924	0	0	1,924
Net on-balance-sheet position	**491,298**	**178**	**2**	**491,478**
Irrevocable commitments given (net amount)	**220,330**	**0**	**0**	**220,330**

31 Dec 2020	EUR	USD	Other currencies	Total
Financial assets	2,891,565	6,826	2	2,898,393
Financial liabilities	2,416,590	7,983	25	2,424,598
Net on-balance-sheet position	**474,975**	**(1,157)**	**(23)**	**473,795**
Irrevocable commitments given (net amount)	**267,449**	**0**	**0**	**267,449**

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. It does not include strategic risk and reputation risk. An element of legal risk is compliance risk, which is the risk of legal or regulatory sanctions, significant financial losses or a loss of reputation as a result of the Bank's operations failing to comply with the main regulations and standards of good practice.

Operational risk depends on internal organisation, the management of business processes, the functioning of internal controls, the effectiveness of internal and external auditing, etc. Operational risk factors include personnel, business processes, information technology and other infrastructure, organisational arrangements and external events.

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). In 2021, the Bank upgraded the model risk management framework with clearly defined content regarding the management of the aforementioned risk and the creation of a catalogue of models. 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 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;
- damages 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 2021 were execution, delivery and process management (47% of all loss events), followed by external fraud (16%), business disruptions and system failures (13%), damage to movable property and real estate (13%), clients, products and negative business practices (9%), negative employee practices that are facilitated by the employment relationship and occupational safety (1%), and internal fraud (1%).

There were no significant loss events in 2021.

SID Bank combined databases of loss events and identified suspicions of fraud in 2021. For this reason, SID Bank recorded increased growth in identified and investigated suspicions of fraud in

2021, including external and internal fraud. Some 75% of all suspicions were reported and recorded prior to 2021. Identified suspicions of fraud have been confirmed (in such cases, SID Bank, which has a policy of zero tolerance for fraud, has initiated criminal proceedings against the perpetrators) or are still being investigated.

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. For the purpose of assessing operational risk in connection with business processes, SID Bank identifies the following subcategories of operational risk: internal and external fraud, employment and occupational safety practices, clients, products and business practices, damage to moveable property and real estate, business disruptions and system failures, and execution, delivery and process management. 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 of all areas, business activities, processes and functions of SID Bank in line with the Bank's risk profile and the annual internal audit work plan.

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, incident-management security systems, staff training, etc.). 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.

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 or 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.

In accordance with the Guidelines on outsourcing arrangements (EBA/GL/2019/02), SID Bank completely overhauled the process of managing outsourcing risks, adopted new bylaws and increased the standardisation of the process in 2019. Activities in this area included the upgrading of the register of external contractors and standard questionnaires that assist employees in the analysis of outsourced functions and the assessment of risks of external contractors. With regard to the management of outsourcing risks, SID Bank also updated its assessment of risks in the areas of compliance and information security. SID Bank ensured compliance with the Guidelines on outsourcing arrangements by the end of the transitional period, i.e. by 31 December 2021.

Outsourcing was carried out in line with expectations in 2021. Despite the COVID-19 pandemic, SID Bank did not record any major disruptions in outsourced functions.

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. 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. 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*').

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 2021, SID Bank completed the investigation of two cases of suspected fraud that were identified in 2020, and began investigating an additional seven cases of suspected external and internal 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. The fulfilment of capital requirements and requirements relating to buffers and the leverage ratio is based on the provisions of the CRR and 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 2021, 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 2021 amounted to EUR 24,030 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 2021	31 Dec 2020
Total equity	**491,766**	**476,107**
Total adjustments to Common Equity Tier 1 capital	**(25,925)**	**(18,993)**
Of which:		
Net profit for the financial year and retained earnings	(24,030)	(8,490)
Intangible assets	(1,054)	(992)
Adjustments for assets and liabilities at fair value	(840)	(921)
Deduction for specific credit risk adjustments	0	(8,590)
Common Equity Tier 1 capital (CET1)	**465,841**	**457,114**
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital (T1)	465,841	457,114
Tier 2 capital (T2)	0	0
Capital for capital adequacy purposes	**465,841**	**457,114**
Risk-weighted exposure amounts for credit risk and counterparty credit risk	1,522,134	1,475,052
Central governments and central banks	9,910	7,435
Regional governments or local authorities	20,486	21,133
Public sector entities	4,976	3,997
Multilateral development banks	4,000	2,400
Institutions	176,926	215,049
Corporates	1,210,797	1,153,647
Defaulted exposures	14,348	33,168
Regulatory high-risk exposures	0	26,148
Collective investment undertakings (CIUs)	63,154	0
Equity instruments	12,502	6,540
Other	5,036	5,537
Exposure to market risk	0	0
Exposure to operational risk	90,330	87,713
Exposure to credit valuation adjustment risk	5,265	6,925
Total risk exposure amount (RWA)	**1,617,730**	**1,569,690**
Surplus of Common Equity Tier 1 capital (CET1)	393,044	386,478
Surplus of Tier 1 capital (T1)	368,778	362,933
Total surplus capital	336,423	331,539
Common Equity Tier 1 capital ratio (CET1)	28.80%	29.12%
Tier 1 capital ratio (T1)	28.80%	29.12%
Total capital ratio	**28.80%**	**29.12%**

Breakdown of capital requirements by type of risk and structure

	31 Dec 2021	Structure, %	31 December 2020	Structure, %
Capital requirements				
For credit risk	121,771	94.1	118,004	94.0
For operational risk	7,226	5.6	7,017	5.6
For credit valuation adjustment risk	421	0.3	554	0.4
Total	**129,418**	**100.0**	**125,575**	**100.0**

Capital requirements for credit risk

	31 Dec 2021	31 Dec 2020
Exposure class		
Central governments and central banks	793	595
Regional governments or local authorities	1,639	1,690
Public sector entities	398	320
Multilateral development banks	320	192
Institutions	14,154	17,204
Corporates	96,864	92,292
Defaulted exposures	1,148	2,653
Regulatory high-risk exposures	0	2,092
Collective investment undertakings (CIUs)	5,052	0
Equity instruments	1,000	523
Other	403	443
Total	**121,771**	**118,004**

Assessment of internal capital requirement

SID Bank annually assesses its risk profile, which comprises a documented and categorised collection of quantitative and qualitative assessments of the risks that the Bank takes up within the framework of its operations and the control environment with which it manages these risks. Checks are made at least every three years, upon material changes in the risks to which the Bank is exposed (e.g. upon new product launches) and upon substantial changes to the organisational structure and the functioning of the system of internal controls, to ensure that the assumptions of the methodology for assessing the risk profile of SID Bank are appropriate.

The risk profile serves as the basis for the 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 results of the risk profile assessment for 2021 indicate a decrease in SID Bank's risk assessment. The overall assessment of residual risk for SID Bank was lower than in 2020, and shows that SID Bank is exposed to risks at an acceptable level. Contributing most to the decrease in the risk profile assessment was the assessment in the area of operational risk, which is primarily the result of a new assessment method.

SID Bank includes in the overall assessment of internal capital requirements all material risks to which it is exposed: credit risk, market risk, operational risk, interest rate risk in the banking book, credit spread risk, profitability risk, strategic risk and reputation risk. At the end of 2021, SID Bank upgraded the methodology for calculating internal capital requirements for credit risk. That calculation is carried out according to the Internal Ratings-Based (IRB) approach and includes material subcategories of credit risk to which the Bank is exposed: default risk, concentration risk, migration risk and residual risk. It assesses capital requirements for market and operational risks in the amount of the minimum capital requirements, as explained in the section on capital for capital adequacy purposes. The Bank uses an internal capital requirements assessment methodology for interest rate risk in the banking book, credit spread risk in the banking book (CSRBB), profitability risk, strategic risk and reputation risk. The overall assessment of internal capital requirements also includes an assessment from an integrated stress test that takes into account the fact that the latter represents additional capital requirements for the purpose of mitigating losses due to a significant deterioration in the economic environment. The Bank also included ESG risks 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 2021, the Bank of

Slovenia assessed the risks to which SID Bank is exposed and found that the capital risk at the Bank was moderately low. As at 31 December 2021, 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 2021, 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 2021 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%. 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 2021, the level of SID Bank's institution-specific countercyclical capital buffer stood at 0.02% of total risk exposure, which arises from the relevant credit exposure to Luxembourg, whose countercyclical capital buffer rate is set at 0.5%, and the Czech Republic, whose countercyclical capital buffer rate is set at 0.5%, and to Norway, whose countercyclical capital buffer rate is set at 1%. 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 15.5% as at 31 December 2021 (end of 2020: 14.7%), and is well above the regulatory value and the adopted limit value in the framework of the risk appetite indicators. With respect to the structure of the statement of financial position and the level of the leverage ratio, the Bank concludes that the risk of excessive leverage is low. Detailed disclosures of the leverage ratio are given in the section on Disclosure under Part Eight of the CRR.

3.7 Fair value of financial assets and liabilities

Fair value of financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid when transferring a liability in a standard transaction between market participants at the measurement date under current market terms, regardless of whether the price can be directly observed or estimated using another valuation technique.

The fair value of financial assets and financial liabilities traded on an active market is based on 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 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**

	31 Dec 2020			
	Level 1	Level 2	Level 3	Total
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	35,197	35,197
Equity instruments	0	0	17,432	17,432
Loans and advances	0	0	17,765	17,765
Financial assets measured at fair value through other comprehensive income	22,529	809,625	50,952	883,106
Debt instruments	22,529	809,625	44,412	876,566
Equity instruments	0	0	6,540	6,540
Derivatives – hedge accounting	0	1,153	0	1,153
Total financial assets measured at fair value	**22,529**	**810,778**	**86,149**	**919,456**
Derivatives – hedge accounting	0	1,087	0	1,087
Total financial liabilities measured at fair value	**0**	**1,087**	**0**	**1,087**

Financial instruments not measured at fair value

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

	31 Dec 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**

	31 Dec 2020			
	Level 2	Level 3	Fair value	Carrying amount
Cash balances at the central bank and demand deposits at banks	120,187	0	120,187	120,187
Financial assets measured at amortised cost	814,439	1,222,878	2,037,317	1,858,750
Loans and advances to banks	813,209	0	813,209	783,725
Loans and advances to customers	0	1,222,878	1,222,878	1,073,795
Other financial assets	1,230	0	1,230	1,230
Total financial assets	**934,626**	**1,222,878**	**2,157,504**	**1,978,937**
Financial liabilities measured at amortised cost	912,119	1,511,788	2,423,907	2,423,511
Deposits from banks	1,259	0	1,259	1,259
Loans from banks and central banks	909,023	0	909,023	908,711
Loans from customers	0	832,461	832,461	832,377
Debt securities	0	679,327	679,327	679,327
Other financial liabilities	1,837	0	1,837	1,837
Total financial liabilities	**912,119**	**1,511,788**	**2,423,907**	**2,423,511**

SID Bank recognises and measures issued debt securities and loans 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.

Table of transfers between levels

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

The transfer from Level 3 to Level 1 is the consequence of a change to the valuation method for a bond, which is valued according to the Ljubljana Stock Exchange price. However, the bond price was older than nine months as at 31 December 2020. For this reason, the Bank valued the bond as a non-marketable security and classified it to Level 3. As at 31 December 2021, the price of the aforementioned bond was less than nine months old. The Bank therefore reclassified the bond to Level 1.

2020	Transfers from Level 1 to Level 3
Financial assets measured at fair value	
Financial assets measured at fair value through other comprehensive income	2,063
Debt instruments	2,063

The transfer from level 1 to level 3 is the consequence of a change to the valuation method for a bond, which is valued according to the Ljubljana Stock Exchange price. However, the bond price was older than nine months as at 31 December 2020. In this case, the Bank values the bond as a non-marketable security and classifies it to Level 3.

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 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 absorption 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 3.6 Capital management. The management body also approves the internal liquidity adequacy assessment process (ILAAP) once a year, in which the Bank carries out a comprehensive assessment of the established systems for the management of liquidity risk, including an assessment of liquidity risk in connection with the Bank's risk profile and business strategy.

   When assessing its risk absorption capacity, which represents the maximum overall level of risk, SID Bank takes into account:

   - its risk profile assessment;
   - the result of the ICAAP, covering both the ordinary and extraordinary operations of SID Bank;
   - the Bank of Slovenia's expectations after each completed supervisory review and evaluation process in terms of maintaining the total capital ratio and the proportion of Common Equity Tier 1 capital for covering the recognised assessment of internal capital requirements, which are both prescribed by the Bank of Slovenia;
   - the leverage ratio;
   - the result of the ILAAP and SID Bank's liquidity with regard to its risk profile;
   - the risk management action plan, which sets out the measures available for the management of identified and measured and assessed risks; and
   - other restrictions that derive from SID Bank's bylaws, from regulations and standards, and from the requirements of the Bank of Slovenia and other competent or supervisory authorities.

2. SID Bank's risk appetite, taking into account its risk absorption capacity, is assessed by SID Bank at least once a year, or more frequently in the event of significant changes in risk exposure. The management body defines the risk appetite at least once a year, in parallel with the process of adopting the annual operational plan, 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 indicators approved by the management body, including threshold values set with regard to the Bank's planned activities, and also the limits set in the policies for the take-up and management of individual risks and other bylaws of SID Bank. Where risk appetite indicators have prescribed regulatory values, SID Bank has set significantly more stringent target values. In accordance with the disclosures under the CRR, the selected risk appetite indicators for SID Bank are presented below. The major financial data and performance indicators of SID Bank are disclosed in the introductory section of the annual report, in the section entitled Major financial data and performance indicators. The selected risk appetite indicators recorded at the end of 2021 are cited below, together with the adopted target values for the risk appetite:

- total capital ratio: 28.8% (target value: ≥ 20%),
- leverage ratio: 15.5% (target value: > 5%);
- liquidity coverage ratio (LCR): 2,334% (target value: > 130%);
- net stable funding ratio (NSFR): 142% (target value: > 110%);
- operational risk assessment (risk profile): 1.8 (target value: ≤ 3).

In addition, the Bank has identified risk appetite indicators for the purpose of directing the business and mitigating individual types of risks, in particular:

- profitability and risks for the purpose of directing the business: ratio of risk-weighted assets to total assets, gross earnings before impairments and provisions, taxes (excluding the performance of loan funds) relative to average risk-weighted assets, interest margin, interest margin on new loans adjusted for credit risk; and
- supervision of individual types of risks: limits on and determination of an adequate NPE coverage ratio, limits on the change in the economic value of equity under the adverse interest rate scenario, limits on overall net position in foreign currencies and net overall position in individual currencies relative to capital.

The risk appetite framework is approved annually by the management board and supervisory board, and is monitored regularly and reported at a session of SID Bank's management board that is also attended by executive directors. Regular reporting of the achieved risk appetite indicator values is also provided to the supervisory board's risk committee.

The scope of risk take-up is complemented by the set of internal policies for the management of individual types of risk, via which SID Bank transfers limits regarding risk appetite into operational restrictions for the appropriate direction of the business. Risk management policies and internal rules set out the limits for the management of credit risk, market risk and liquidity risk, including the procedures for dealing with 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. In credit operations, limits are not predetermined or determined in general; rather, creditworthiness is determined when an individual investment operation is reviewed with reference to a company's calculated borrowing capacity, which includes an assessment of long-term sustainable annual cash flow, less the normalised volume of replacement investments, normalised taxes, long-term expected dividends and gains, and current and envisaged financial debt. Bylaws are used for the entire portfolio to set out the method of identifying and measuring concentration risk, on an individual basis, by economic sector, by country and by rating. However, limits were not exceeded on account of additional exposures to the sectors most affected by the pandemic, or increased concentration was consciously accepted. 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 negative changes in net interest income and negative changes (loss) in the economic value of the Bank's equity are set for interest rate risk in the banking book. The limits are significantly more stringent than those prescribed by banking regulations. Position limits (stop loss) are set for the management of position risk. A limit on net exposure in a particular foreign currency and on net exposure in all foreign currencies relative to the Bank's capital is set for currency risk.

Quantitative limits are also set for the management of liquidity risk, and are more stringent than those prescribed in regulations. The Bank 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 other material risks, among which it highlights strategic risk, reputation risk and profitability risk, and 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 and reputation risk 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, which were further strengthened due to the COVID-19 pandemic (e.g. increased cyber risk due to work from home and other operational risks). Notwithstanding the above, other material risks and risks that are difficult to measure are subject to qualitative measurement within the process of formulating a risk profile and are quantified in accordance with predetermined criteria. Where necessary or depending on the assessment of residual risk, internal capital requirements and the appropriate coverage by capital are also determined in the case of risks that are difficult to measure.

4. As a development bank in accordance with the Slovene Export and Development Bank Act (ZSIRB), SID Bank is required to fully comply with the act governing banking, with the exception of parts that are explicitly excluded. This relates to 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, 25 March 2022

Management board of SID Bank

Supervisory board

Stanka Šarc Majdič
Member

Damijan Dolinar
President

Marjan Divjak
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.

	31 Dec 2021	31 Dec 2020
Assets		
Customer funds in current accounts	24	78
Financial assets measured at fair value through other comprehensive income	161,124	142,449
Loans and advances	13,542	27,508
Loans and advances to banks	13,542	27,508
Equity investments	2,820	2,820
Other assets	373	389
Total assets	**177,883**	**173,244**
Liabilities		
Contingency reserves	173,010	166,257
Accumulated other comprehensive income	1,676	3,773
Other financial liabilities	4	5
Other liabilities	3,193	3,209
Total liabilities	**177,883**	**173,244**
Memorandum account for brokerage	**892,930**	**927,812**

The memorandum account for insurance brokerage on behalf of and for the account of the Republic of Slovenia represents the exposure from valid insurance policies and commitments.

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

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 2021	31 Dec 2020
Assets		
Funds in settlement account	2,097	3,700
Non-trading financial assets mandatorily at fair value through profit or loss	167,382	104,265
Other assets	40	22
Total assets	**169,519**	**107,987**
Liabilities		
Financial liabilities	169,474	107,788
Loans from customers	183,101	122,062
Revaluation of loans from customers	(14,077)	(14,688)
Other financial liabilities	450	414
Provisions	45	176
Other liabilities	0	23
Total liabilities	**169,519**	**107,987**
Memorandum account for brokerage	**125,116**	**232,790**
Off-balance-sheet receivables	63,250	126,500
Loans received: east	23,225	46,450
Loans received: west	33,775	67,550
Loans received: unclassified	6,250	12,500
Off-balance-sheet liabilities	61,866	106,290
Loans granted: east	19,572	36,513
Loans granted: west	32,282	55,453
Loans granted: unclassified	10,012	14,324

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 2021	31 Dec 2020
Assets		
Funds in settlement account	1,529	15,511
Non-trading financial assets mandatorily at fair value through profit or loss	45,909	12,986
Other assets	22	1
Total assets	**47,460**	**28,498**
Liabilities		
Financial liabilities	47,460	28,426
Loans from customers	64,495	32,490
Revaluation of loans from customers	(17,328)	(4,098)
Other financial liabilities	293	34
Provisions	0	72
Total liabilities	**47,460**	**28,498**
Memorandum account for brokerage	**0**	**68,250**
Off-balance-sheet receivables	0	32,501
Loans received: east	0	14,658
Loans received: west	0	17,843
Off-balance-sheet liabilities	0	35,749
Loans granted: east	0	16,123
Loans granted: west	0	19,626

6 DISCLOSURES ON THE BASIS OF PART EIGHT OF THE CRR

The basis for disclosures under the third pillar of the Basel standards as at 31 December 2021 are 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 (hereinafter: the 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 2020, the EBA issued the Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07). In accordance with those guidelines, the bank discloses additionally required data in Chapter 7.

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, SID 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 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 8.

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. SID Bank has put in place the appropriate internal policies, procedures and controls that ensure the data in the disclosures are correct. 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.

6.1 Disclosure of key metrics and overview of risk-weighted exposure amounts

6.1.1 Template EU KM1 – Key metrics template

(Article 447(a) to (g) and article 438(b) of the CRR)

		a	b	c	d	e
		31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2020
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	465,841	468,230	465,472	466,377	457,114
2	Tier 1 capital	465,841	468,230	465,472	466,377	457,114
3	Total capital	465,841	468,230	465,472	466,377	457,114
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,617,730	1,627,880	1,643,620	1,644,704	1,569,690
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	28.80%	28.76%	28.32%	28.36%	29.12%
6	Tier 1 ratio (%)	28.80%	28.76%	28.32%	28.36%	29.12%
7	Total capital ratio (%)	28.80%	28.76%	28.32%	28.36%	29.12%
	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 (%)	2.00%	2.00%	2.00%	2.00%	2.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.13%	1.13%	1.13%	1.13%	1.13%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.50%	1.50%	1.50%	1.50%	1.50%
EU 7d	Total SREP own funds requirements (%)	10.00%	10.00%	10.00%	10.00%	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%	0.02%	0.02%	0.01%
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%	0.50%
11	Combined buffer requirement (%)	2.77%	2.77%	2.77%	2.77%	3.01%
EU 11a	Overall capital requirements (%)	12.77%	12.77%	12.77%	12.77%	13.01%
12	CET1 available after meeting the total SREP own funds requirements (%)	393,044	394,976	391,509	392,365	386,478

		a	b	c	d	e
		31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2020
	Leverage ratio					
13	Total exposure measure	3,012,186	3,108,740	3,147,723	3,138,968	3,101,475
14	Leverage ratio (%)	15.47%	15.06%	14.79%	14.86%	14.74%
	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%	-	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	-	-
EU 14c	Total SREP leverage ratio requirements (%)	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%	-	-
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	-	-
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	353,567	349,588	407,251	359,109	424,164
EU 16a	Cash outflows - Total weighted value	39,626	48,839	32,083	25,493	26,877
EU 16b	Cash inflows - Total weighted value	24,481	63,603	9,533	33,290	63,925
16	Total net cash outflows (adjusted value)	15,146	8,140	22,550	6,373	6,719
17	Liquidity coverage ratio (%)	2334%	4295%	1806%	5635%	6313%
	Net Stable Funding Ratio					
18	Total available stable funding	2,767,431	2,838,242	2,838,011	2,814,260	2,781,327
19	Total required stable funding	1,948,436	1,986,843	2,077,592	2,100,441	2,115,008
20	NSFR ratio (%)	142.03%	142.85%	136.60%	133.98%	131.50%

The Bank's total capital ratio was 28.80% as at 31 December 2021 (31 December 2020: 29.12%) and is still well above the overall capital requirement (OCR), which is 12.77%. In addition, the Bank must fulfil the capital requirement from Pillar 2 guidance (P2G) in the amount of 2.00%. The overall capital requirement stood at 14.77% as at 31 December 2021.

The leverage ratio was 15.47% as at 31 December 2021, and was considerably higher than the regulatory requirement of 3%.

6.1.2 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 December 2021	**30 September 2021**	**31 December 2021**
1	Credit risk (excluding CCR)	1,520,641	1,534,104	121,651
2	Of which the standardised approach	1,520,641	1,534,104	121,651
6	Counterparty credit risk - CCR	6,758	6,062	541
EU 8b	Of which credit valuation adjustment - CVA	5,265	4,781	421
9	Of which other CCR	1,493	1,281	119
23	Operational risk	90,330	87,713	7,226
EU 23a	Of which basic indicator approach	90,330	87,713	7,226
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	4,157	2,876	333
29	**Total**	**1,617,730**	**1,627,880**	**129,418**

6.2 Disclosure of risk management policies and objectives

6.2.1 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 2021

	Name of other person	Function
Management board		
Sibil Svilan	European Association of Public Banks (EAPB)	member of board of directors
	Three Seas Initiative investment fund	member of the supervisory board
	Bank Association of Slovenia	member of the supervisory board
Goran Katušin	Three Seas Initiative investment fund	member of the management board
	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
	Istrabenz Turizem d.d.	member of the supervisory board
	AIRPOD SLO d.o.o. (in bankruptcy)	official receiver
	F CITY, d.o.o. (in bankruptcy)	official receiver
	URON 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
	G Gradnje d.o.o. (in bankruptcy)	official receiver
	Turist d.o.o. (company erased on 28 September 2020)	official receiver
	SGP Gorica d.d. (in bankruptcy)	official receiver
Dr Igor Masten	Econlab, Igor Masten s.p.	executive director
Marko Tišma	Istrabenz Turizem d.d.	president of the management board

6.3 Disclosure of the scope of application

6.3.1 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 as reported in published financial statements	Carrying values of items		
			Subject to the credit risk framework	Subject to the CCR framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by asset classes according to the balance sheet in the published financial statements				
1	Cash, cash balances at central bank and demand deposits at banks	218,126	218,126	0	0
2	Non-trading financial assets mandatorily at fair value through profit or loss	29,302	29,302	0	0
3	Financial assets measured at fair value through other comprehensive income	808,699	808,699	0	0
4	Loans and receivables	1,770,072	1,770,072	0	0
5	Derivatives – Hedge accounting	0	0	0	0
6	Property, plant and equipment	4,002	4,002	0	0
7	Intangible assets	1,054	0	0	1,054
8	Other assets	2,777	2,777	0	0
9	**Total assets**	**2,834,032**	**2,832,977**	**0**	**1,054**
	Breakdown by liability classes according to the balance sheet in the published financial statements				
1	Financial liabilities measured at amortised cost	2,332,797	0	0	2,332,797
2	Derivatives – Hedge accounting	1,924	0	1,924	0
3	Provisions	2,647	1,091	0	1,556
4	Other liabilities	4,898	0	0	4,898
5	**Total liabilities**	**2,342,266**	**1,091**	**1,924**	**2,339,251**

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).

6.3.2 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
		Total	Items subject to	
			Credit risk framework	CCR framework
1	**Assets carrying value amount under the scope of prudential consolidation (as per template LI1)**	**2,832,977**	**2,832,977**	**0**
2	**Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)**	**3,015**	**1,091**	**1,924**
3	**Total net amount under the scope of prudential consolidation**	**2,829,962**	**2,831,887**	**(1,924)**
4	**Off-balance-sheet amounts**	**220,330**	**220,330**	**0**
7	*Differences due to consideration of provisions*	1,091	1,091	0
9	*Differences due to credit conversion factors*	(46,425)	(46,425)	0
11	*Other differences*	9,391	0	9,391
12	**Exposure amounts considered for regulatory purposes**	**3,014,350**	**3,006,883**	**7,467**

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 derivatives for regulatory purposes is disclosed under Other differences.

6.4 Disclosure of own funds

6.4.1 Template EU CC1 – Composition of regulatory own funds

(Article 437(a), (d), (e) and (f) of the CRR)

		(a)	(b)
		Amounts	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)	167,921	EU CC2: Shareholders' Equity, rows 3, 5
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**469,060**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(840)	
8	Intangible assets (net of related tax liability) (negative amount)	(1,054)	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)**	**(3,219)**	
29	**Common Equity Tier 1 (CET1) capital**	**465,841**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
45	**Tier 1 capital (T1 = CET1 + AT1)**	**465,841**	
Tier 2 (T2) capital: regulatory adjustments			
59	**Total capital (TC = T1 + T2)**	**465,841**	
60	**Total Risk exposure amount**	**1,617,730**	
Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital	28.80%	
62	Tier 1 capital	28.80%	
63	Total capital	28.80%	
64	Institution CET1 overall capital requirements	8.39%	
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	1.13%	
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**24.30%**	
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)	12,502	
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)	1,663	

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 instruments.

Deductions from capital include deductions arising from intangible assets and from adjustments to the value of assets 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 2021 in the amount of EUR 24,030 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 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 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. It is thus not required to formulate capital requirements for that purpose.

Data that are relevant for the bank are disclosed in the template rows.

6.4.2 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 2021	
Assets - *Breakdown by asset classes according to the balance sheet in the published financial statements*			
1	Cash, cash balances at central bank and demand deposits at banks	218,126	
2	Non-trading financial assets mandatorily at fair value through profit or loss	29,302	
3	Financial assets measured at fair value through other comprehensive income	808,699	
4	Loans and receivables	1,770,072	
5	Derivatives – Hedge accounting	0	
6	Property, plant and equipment	4,002	
7	Intangible assets	1,054	EU CC1: row 8
8	Other assets	2,777	
9	**Total assets**	**2,834,032**	
Liabilities - *Breakdown by liability classes according to the balance sheet in the published financial statements*			
1	Financial liabilities measured at amortised cost	2,332,797	
2	Derivatives – Hedge accounting	1,924	
3	Provisions	2,647	
4	Other liabilities	4,897	
5	**Total liabilities**	**2,342,266**	
Shareholders' Equity			
1	Capital	300,000	EU CC1: row 1
2	Share premium	1,139	EU CC1: row 1
3	Accumulated other comprehensive income	7,042	EU CC1: row 3
4	Retained earnings	0	
5	Other reserves	160,879	EU CC1: row 3
6	(-) Treasury shares	(1,324)	EU CC1: row 16
7	Profit or loss attributable to owners of the bank	24,030	
8	**Total shareholders' equity**	**491,766**	

SID Bank is obligated to fulfil regulatory requirements on an individual basis. The data in the above template therefore relate to the individual statement of financial position of the bank as at 31 December 2021, which also represents a financial statement for regulatory purposes.

6.4.3 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 (eg 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 Capital
5	Post-transitional CRR rules	Common Equity Tier 1 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	N/A
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 in accordance with the ZSIRB. 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.

6.5 Disclosure of countercyclical capital buffers

6.5.1 Template EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical bufferr

(Article 440(a) of the CRR)

		a	f	g	j	k	l	m
		General credit exposures	Total exposure value	Own fund requirements		Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
		Exposure value under the standardised approach		Relevant credit risk exposures - Credit risk	Total			
010	**Breakdown by country:**							
	Slovenia	1,127,882	1,127,882	90,746	90,746	1,134,321	86.87%	0.00%
	Luxembourg	29,157	29,157	2,139	2,139	26,737	2.05%	0.50%
	Netherlands	27,728	27,728	2,326	2,326	29,078	2.23%	0.00%
	France	26,214	26,214	2,097	2,097	26,214	2.01%	0.00%
	Germany	18,228	18,228	1,458	1,458	18,228	1.40%	0.00%
	Other countries*	12,942	12,942	1,035	1,035	12,942	0.99%	0.00%
	Ukraine	12,820	12,820	1,026	1,026	12,820	0.98%	0.00%
	Ghana	11,890	11,890	951	951	11,890	0.91%	0.00%
	Czech Republic	9,144	9,144	731	731	9,144	0.70%	0.50%
	Austria	9,028	9,028	722	722	9,028	0.69%	0.00%
	Italy	6,285	6,285	503	503	6,285	0.48%	0.00%
	Belgium	3,395	3,395	272	272	3,395	0.26%	0.00%
	Norway	3,089	3,089	247	247	3,089	0.24%	1.00%
	Serbia	1,428	1,428	114	114	1,428	0.11%	0.00%
	Rwanda	1,147	1,147	92	92	1,147	0.09%	0.00%
	United Kingdom	44	44	3	3	44	0.00%	0.00%
	United States	35	35	3	3	35	0.00%	0.00%
	Switzerland	8	8	1	1	8	0.00%	0.00%
	Ireland	5	5	0	0	5	0.00%	0.00%
	North Macedonia	1	1	0	0	1	0.00%	0.00%
020	**Total**	**1,300,469**	**1,300,469**	**104,467**	**104,467**	**1,305,836**	**100.00%**	

* exposures to supranational organizations

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.

Due to their irrelevance, certain template columns have been omitted, as the Bank only uses the standardised approach to calculate exposure values, and has no exposures included in the trading book or in securitisation positions.

6.5.2 Template EU CCyB2 – Amount of institution-specific countercyclical capital bufferr

(Article 440(b) of the CRR)

		a
1	Total risk exposure amount	1,617,730
2	Institution specific countercyclical capital buffer rate	0.0161%
3	Institution specific countercyclical capital buffer requirement	261

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 0.0161% as at 31 December 2021.

6.6 Disclosure of the leverage ratio

6.6.1 Template EU LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

(Article 451(1)(a), (b), (c) and article 451(2), (3) of the CRR)

		a
		Applicable amount
1	Total assets as per published financial statements	2,834,032
8	Adjustment for derivative financial instruments	7,467
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	173,906
12	Other adjustments	(3,219)
13	**Total exposure measure**	**3,012,186**

6.6.2 Template EU LR2 – LRCom: Leverage ratio common disclosure

(Article 451(1)(a), (b), (c) and article 451(2), (3) of the CRR)

		CRR leverage ratio exposures	
		a	b
		31 December 2021	30 June 2021
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	2,834,032	2,928,511
6	(Asset amounts deducted in determining Tier 1 capital)	(3,219)	(3,173)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**2,830,813**	**2,925,338**
Derivative exposures			
EU-9b	Exposure determined under Original Exposure Method	7,467	6,755
13	**Total derivatives exposures**	**7,467**	**6,755**
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	221,421	303,078
20	(Adjustments for conversion to credit equivalent amounts)	(47,515)	(87,449)
22	**Off-balance sheet exposures**	**173,906**	**215,629**
Capital and total exposure measure			
23	**Tier 1 capital**	465,841	465,472
24	**Total exposure measure**	**3,012,186**	**3,147,723**
Leverage ratio			
25	Leverage ratio (%)	15.47%	14.79%

		CRR leverage ratio exposures	
		a	b
		31 December 2021	30 June 2021
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	15.47%	14.79%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	15.47%	14.79%
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%

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.

6.6.3 Template EU LR3 – LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

(Article 451(1)(a), (b), (c) and article 451(2), (3) of the CRR)

		a
		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**2,832,977**
EU-3	Banking book exposures, of which:	2,832,977
EU-5	Exposures treated as sovereigns	804,591
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	125,151
EU-7	Institutions	731,195
EU-10	Corporates	1,113,235
EU-11	Exposures in default	12,961
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	45,844

6.7 Disclosure of liquidity requirements

6.7.1 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 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2021	30 September 2021	30 June 2021	31 March 2021
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)					373,193	400,249	440,776	427,969
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	15,829	4,920	4,725	6,566	15,829	4,920	4,725	6,566
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)*	15,554	4,637	4,442	6,319	15,554	4,637	4,442	6,319
8	*Unsecured debt*	275	283	283	247	275	283	283	247
9	*Secured wholesale funding*					0	0	0	0
10	Additional requirements	148,039	163,589	170,856	175,230	25,731	27,862	27,955	28,335
11	*Outflows related to derivative exposures and other collateral requirements*	64	64	63	15	64	64	63	15
12	*Outflows related to loss of funding on debt products*	0	0	0	0	0	0	0	0
13	*Credit and liquidity facilities*	147,975	163,525	170,793	175,216	25,668	27,798	27,892	28,320
14	Other contractual funding obligations	1,913	1,575	3,210	3,620	581	251	333	396
15	Other contingent funding obligations	77,550	73,606	69,056	65,403	3,958	3,737	3,490	3,289
16	TOTAL CASH OUTFLOWS					46,099	36,768	36,504	38,586

		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on	**31 December 2021**	**30 September 2021**	**30 June 2021**	**31 March 2021**	**31 December 2021**	**30 September 2021**	**30 June 2021**	**31 March 2021**
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	39,219	42,298	34,494	31,859	34,524	36,471	29,479	27,582
19	Other cash inflows	2,548	2,630	2,640	4,044	2,548	2,630	2,640	3,895
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	41,767	44,928	37,134	35,903	37,071	39,101	32,119	31,477
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*	41,767	44,928	37,134	35,903	37,071	39,101	32,119	31,477
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					373,193	400,249	440,776	427,969
22	TOTAL NET CASH OUTFLOWS					16,751	13,418	17,288	19,255
23	LIQUIDITY COVERAGE RATIO					3618%	4002%	3319%	2813%

6.7.2 Table EU LIQB on qualitative information on LCR, which complements template EU LIQ1

(Article 451a(2) of the CRR)

<table>
<tr><th>Row number</th><th colspan="2">Qualitative information - Free format</th></tr>
<tr><td>(a)</td><td>Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time</td><td rowspan="4">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. SID Bank obtains funding primarily on international financial markets and at related financial institutions. As a result, the Bank does not have a high stock of 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 liquid assets and highly liquid assets.</td></tr>
<tr><td>(b)</td><td>Explanations on the changes in the LCR over time</td></tr>
<tr><td>(c)</td><td>Explanations on the actual concentration of funding sources</td></tr>
<tr><td>(d)</td><td>High-level description of the composition of the institution`s liquidity buffer.</td></tr>
<tr><td>(e)</td><td>Derivative exposures and potential collateral calls</td><td>Exposures from derivatives are disclosed in point 6.11.</td></tr>
<tr><td>(f)</td><td>Currency mismatch in the LCR</td><td>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.</td></tr>
<tr><td>(g)</td><td>Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile</td><td>-</td></tr>
</table>

6.7.3 Template EU LIQ2: Net Stable Funding Ratio

(Article 451a(3) of the CRR)

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	465,841	0	0	0	465,841
2	*Own funds*	465,841	0	0	0	465,841
7	Wholesale funding:		40,089	16,249	2,274,511	2,301,590
9	*Other wholesale funding*		40,089	16,249	2,274,511	2,301,590
11	Other liabilities:	0	9,482	0	0	0
12	*NSFR derivative liabilities*	0				
13	*All other liabilities and capital instruments not included in the above categories*		9,482	0	0	0
14	**Total available stable funding (ASF)**					**2,767,431**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					267,778
17	Performing loans and securities:		187,764	132,445	1,684,999	1,643,861
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		103,904	51,684	411,838	448,070
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		45,438	54,249	1,056,605	988,663
22	*Performing residential mortgages*		5,954	1,134	24,454	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*		32,468	25,379	192,101	207,128
26	Other assets:	0	3,838	671	17,260	21,769
27	*Physical traded commodities*				0	0
31	*All other assets not included in the above categories*		3,838	671	17,260	21,769
32	Off-balance sheet items		0	2,167	219,255	15,028
33	**Total RSF**					**1,948,436**
34	**Net Stable Funding Ratio (%)**					**142.03%**

6.8 Disclosure of credit risk quality

6.8.1 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	Collateral 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**	**218,126**	**218,126**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
010	**Loans and advances**	**1,783,324**	**1,625,924**	**151,494**	**42,356**	**0**	**36,065**	**(25,218)**	**(9,579)**	**(19,265)**	**(29,395)**	**0**	**(25,379)**	**0**	**663,416**	**7,277**
030	*General governments*	180,185	180,185	0	0	0	0	(49)	(49)	0	0	0	0	0	0	0
040	*Credit institutions*	571,577	571,577	0	0	0	0	(1,199)	(1,199)	0	0	0	0	0	33,445	0
050	*Other financial corporations*	553	553	0	298	0	298	(5)	(5)	0	(40)	0	(40)	0	528	0
060	*Non-financial corporations*	1,026,111	869,871	150,334	42,059	0	35,768	(23,831)	(8,288)	(19,170)	(29,355)	0	(28,498)	0	626,349	7,277
070	*Of which SMEs*	459,943	361,934	98,009	25,808	0	23,157	(20,142)	(5,782)	(14,360)	(16,609)	0	(14,608)	0	316,647	4,190
080	*Households*	4,898	3,738	1,160	0	0	0	(132)	(37)	(95)	0	0	0	0	3,094	0
090	**Debt securities**	**796,686**	**795,631**	**1,055**	**0**	**0**	**0**	**(489)**	**(461)**	**(28)**	**0**	**0**	**0**	**0**	**0**	**0**
110	*General governments*	516,439	516,439	0	0	0	0	(20)	(20)	0	0	0	0	0	0	0
120	*Credit institutions*	162,248	162,248	0	0	0	0	(81)	(81)	0	0	0	0	0	0	0

		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	Collateral 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			
130	*Other financial corporations*	20,410	20,410	0	0	0	0	(28)	(28)	0	0	0	0	0	0	0
140	*Non-financial corporations*	97,588	96,533	1,055	0	0	0	(360)	(332)	(28)	0	0	0	0	0	0
150	**Off-balance-sheet exposures**	**221,421**	**214,920**	**6,502**	**0**	**0**	**0**	**(1,091)**	**(613)**	**(477)**	**0**	**0**	**0**		**65,237**	**0**
170	*General governments*	4,324	4,324	0	0	0	0	(8)	(8)	0	0	0	0		0	0
180	*Credit institutions*	46,170	46,170	0	0	0	0	(43)	(43)	0	0	0	0		20,511	0
190	*Other financial corporations*	31,420	31,420	0	0	0	0	(5)	(5)	0	0	0	0		547	0
200	*Non-financial corporations*	139,034	132,532	6,502	0	0	0	(1,032)	(555)	(477)	0	0	0		43,911	0
210	*Households*	473	473	0	0	0	0	(2)	(2)	0	0	0	0		269	0
220	**Total**	4,324	4,324	0	0	0	0	(8)	(8)	0	0	0	0	0	0	0

Debt securities are measured at fair value through other comprehensive income. SID Bank's non-performing exposures are amongst loans (EUR 42,347 thousand) and other financial assets (EUR 9 thousand).

The non-performing loans and other financial assets ratio was 2.32% as at 31 December 2021 (31 December 2020: 3.58%).

6.8.2 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	2,022	99,062	354,811	1,315,172	0	1,771,067
2	Debt securities	0	113,428	403,441	279,329	0	796,197
3	**Total**	**2,022**	**212,490**	**758,252**	**1,594,501**	**0**	**2,567,264**

6.8.3 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**	**70,283**
020	Inflows to non-performing portfolios	18,980
030	Outflows from non-performing portfolios	(46,907)
040	Outflows due to write-offs	(8,283)
050	Outflow due to other situations	(38,624)
060	**Final stock of non-performing loans and advances**	**42,356**

Disclosed in the template are changes in non-performing loans and other financial assets in 2021. The stock of non-performing loans and other financial assets was EUR 42,356 thousand as at 31 December 2021 (31 December 2020: EUR 70,283 thousand). The lower amount of NPLs as at 31 December 2021 is primarily the result of the repayment of non-performing claims.

6.8.4 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	7,125	20,615	20,615	16,460	3,486	(13,634)	14,799	4,870
050	*Other financial corporations*	0	298	298	298	0	(40)	0	0
060	*Non-financial corporations*	7,125	20,317	20,317	16,162	3,486	(13,594)	14,799	4,870
100	**Total**	**7,125**	**20,615**	**20,615**	**16,460**	**3,486**	**(13,634)**	**14,799**	**4,870**

6.8.5 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	218,126	218,126	0	0	0	0	0	0	0	0	0	0
010	Loans and advances	1,783,324	1,783,324	0	42,356	32,411	23	703	0	4,048	1,617	3,554	42,356
030	*Central banks*	180,185	180,185	0	0	0	0	0	0	0	0	0	0
040	*General governments*	571,577	571,577	0	0	0	0	0	0	0	0	0	0
050	*Credit institutions*	553	553	0	298	298	0	0	0	0	0	0	298
060	*Other financial corporations*	1,026,111	1,026,111	0	42,059	32,114	23	703	0	4,048	1,617	3,554	42,059
070	*Non-financial corporations*	459,943	459,943	0	25,808	21,675	23	703	0	1,920	1,487	0	25,808
080	*Of which SMEs*	4,898	4,898	0	0	0	0	0	0	0	0	0	0
090	*Households*	796,686	796,686	0	0	0	0	0	0	0	0	0	0
110	*General governments*	516,439	516,439	0	0	0	0	0	0	0	0	0	0
120	*Credit institutions*	162,248	162,248	0	0	0	0	0	0	0	0	0	0
130	*Other financial corporations*	20,410	20,410	0	0	0	0	0	0	0	0	0	0
140	*Non-financial corporations*	97,588	97,588	0	0	0	0	0	0	0	0	0	0
150	Off-balance-sheet exposures	221,421			0								0
170	*General governments*	4,324			0								0
180	*Credit institutions*	46,170			0								0
190	*Other financial corporations*	31,420			0								0
200	*Non-financial corporations*	139,034			0								0
210	*Households*	473			0								0
220	**Total**	**3,019,556**	**2,798,135**	**0**	**42,356**	**32,411**	**23**	**703**	**0**	**4,048**	**1,617**	**3,554**	**42,356**

6.8.6 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/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**	**2,622,366**	**42,356**	**42,356**	**2,618,209**	**(51,942)**		**(3,159)**
020	*Slovenia*	1,975,829	42,356	42,356	1,971,673	(51,472)		(3,159)
030	*France*	97,267	0	0	97,267	(39)		0
040	*Italy*	84,149	0	0	84,149	(66)		0
050	*Spain*	67,185	0	0	67,185	(7)		0
060	*Germany*	57,512	0	0	57,512	(82)		0
070	*Other countries*	340,423	0	0	340,423	(277)		0
080	**Off-balance-sheet exposures**	**221,421**	**0**	**0**			**(1,091)**	
090	*Slovenia*	171,494	0	0			(1,024)	
100	*Luxembourg*	17,789	0	0			0	
110	*Ukraine*	4,125	0	0			(7)	
120	*Germany*	3,501	0	0			(4)	
130	*Rwanda*	2,343	0	0			(54)	
140	*Other countries*	22,169	0	0			2	
150	**Total**	**2,843,787**	**42,356**	**42,356**	**2,618,209**	**(51,942)**	**(1,091)**	**(3,159)**

Disclosed in the template are exposures and impairments by individual country with respect to a counterparty's head office. Presented are exposures to five countries with the highest on- and off-balance-sheet exposure. Exposures to supranational organisations are disclosed amongst other countries. On-balance-sheet exposures in the template include the stock of loans and other financial assets, and debt securities.

6.8.7 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	1,441	0	0	1,441	(4)	0
030	Manufacturing	398,074	17,478	17,478	398,074	(21,150)	0
040	Electricity, gas, steam and air conditioning supply	118,132	0	0	118,132	(372)	0
050	Water supply	14,668	467	467	14,668	(526)	0
060	Construction	24,302	1,611	1,611	23,385	(1,510)	(917)
070	Wholesale and retail trade	150,172	7,132	7,132	150,172	(7,091)	0
080	Transport and storage	128,497	268	268	128,497	1,125	0
090	Accommodation and food service activities	122,956	9,644	9,644	119,718	(15,652)	(2,242)
100	Information and communication	37,498	20	20	37,498	(453)	0
110	Financial and insurance activities	0	0	0	0	0	0
120	Real estate activities	6,456	0	0	6,456	(250)	0
130	Professional, scientific and technical activities	45,163	5,435	5,435	45,163	(3,139)	0
140	Administrative and support service activities	14,206	4	4	14,206	(871)	0
150	Public administration and defence, compulsory social security	0	0	0	0	0	0
160	Education	97	0	0	97	(1)	0
170	Human health services and social work activities	5,833	0	0	5,833	(116)	0
180	Arts, entertainment and recreation	180	0	0	180	(11)	0
190	Other services	496	0	0	496	(5)	0
200	**Total**	**1,068,170**	**42,059**	**42,059**	**1,064,015**	**(50,027)**	**(3,159)**

6.9 Disclosure of the use of credit risk mitigation techniques

6.9.1 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	1,154,987	670,693	539,670	131,023	0
2	Debt securities	796,686	0	0	0	
3	Total	1,951,673	670,693	539,670	131,023	0
4	*Of which non-performing exposures*	35,079	7,277	6,792	486	0
EU-5	*Of which defaulted*	35,079	7,277			

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.

6.10 Disclosure of the use of the standardised approach

6.10.1 Template EU CR4 – Standardised approach – Credit risk exposure and CRM effects

(Article 453(g), (h), (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	773,558	0	773,558	20,511	9,910	1.25%
2	Regional government or local authorities	100,619	3,624	100,619	1,812	20,486	20.00%
3	Public sector entities	24,532	693	24,532	346	4,976	20.00%
4	Multilateral development banks	1,609	20,000	13,575	20,000	4,000	11.91%
5	International organisations	17,458	0	17,458	0	0	0.00%
6	Institutions	731,195	26,127	731,195	2,808	175,432	23.90%
7	Corporates	1,125,202	139,020	1,113,235	97,562	1,210,797	100.00%
10	Exposures in default	12,961	0	12,961	0	14,348	110.70%
14	Collective investment undertakings	28,306	30,867	28,306	30,867	63,154	106.73%
15	Equity	12,502	0	12,502	0	12,502	100.00%
16	Other items	5,036	0	5,036	0	5,036	100.00%
17	**TOTAL**	**2,832,977**	**220,330**	**2,832,977**	**173,906**	**1,520,641**	**50.57%**

Only classes to which SID Bank is exposed and the associated RWAs from credit risk are disclosed in template rows. Disclosed is the value of RWAs for on-balance-sheet and off-balance-sheet exposures, without taking into account CCR.

6.10.2 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	763,639	28,767	0	0	1,663	0	**794,068**	794,068
2	Regional government or local authorities	0	102,431	0	0	0	0	**102,431**	102,431
3	Public sector entities	0	24,878	0	0	0	0	**24,878**	24,878
4	Multilateral development banks	13,575	20,000	0	0	0	0	**33,575**	33,575
5	International organisations	17,458	0	0	0	0	0	**17,458**	17,458
6	Institutions	0	698,214	35,790	0	0	0	**734,003**	734,003
7	Corporates	0	0	1,210,797	0	0	0	**1,210,797**	1,210,797
10	Exposures in default	0	0	10,188	2,773	0	0	**12,961**	12,961
14	Collective investment undertakings	0	0	0	28,306	0	30,867	**59,173**	59,173
15	Equity	0	0	12,502	0	0	0	**12,502**	12,502
16	Other items	0	0	5,036	0	0	0	**5,036**	5,036
17	**TOTAL**	**794,672**	**874,290**	**1,274,312**	**31,079**	**1,663**	**30,867**	**3,006,883**	3,006,883

Classes to which SID Bank is exposed and the associated RWAs are disclosed in template rows. The risk weights used by the Bank to calculate RWA for credit risk are disclosed in individual columns.

Disclosed is the value of on- and off-balance-sheet exposures, without taking into account exposure to derivatives, for which counterparty credit risk is calculated and disclosed in point 6.11.

6.11 Disclosure of exposures to counterparty credit risk

6.11.1 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)	1,924	3,409		1.4	7,467	7,467	7,467	1,493
6	**Total**					**7,467**	**7,467**	**7,467**	**1,493**

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.

6.11.2 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	7,467	5,265
5	**Total transactions subject to own funds requirements for CVA risk**	**7,467**	**5,265**

The Bank calculates the capital requirement for CVA according to a standardised method in accordance with Article 384 of the CRR.

6.11.3 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	7,467	7,467
11	**Total exposure value**	**7,467**	**7,467**

Only classes to which SID Bank is exposed and the calculation of counterparty credit risk are disclosed in template rows. Only the risk weight under which the RWA for counterparty credit risk (CCR) is calculated is disclosed.

6.11.4 Template EU CCR5 – Composition of collateral for CCR exposures

(Article 439(e) of the CRR)

		a	b	c	d
		Collateral used in derivative transactions			
	Collateral type	Fair value of collateral received		Fair value of posted collateral	
		Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	0	0	0	2,129
9	**Total**	**0**	**0**	**0**	**2,129**

The Bank has not concluded transactions for financing using securities. The Bank's derivative transactions only include collateral in the form of funds in the domestic currency.

6.12 Disclosure of use of standardized approach and internal model for market risk

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.

6.13 Disclosure of operational risk

6.13.1 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
		2019	2020	2021		
1	Banking activities subject to basic indicator approach (BIA)	52,856	57,410	34,262	7,226	90,330

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.

6.14 Disclosure of remuneration policy

SID Bank's remuneration policy systematically governs the establishment and implementation of the remuneration system at the Bank, which 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 its capacity to take up risks.

The implementation of the Bank's remuneration policy 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 Bank did not hire any external advisors in the area of implementing the remuneration policy in 2021.

SID Bank's remuneration policy is only used for the Bank and is not implemented in subsidiary companies, exclusively in Slovenia.

In accordance with the second paragraph of Article 189 of the ZBan-3 and Regulation (EU) No 604/2014, in 2021 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 604/2014 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; and
  (c) internal auditing: director of the internal audit 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 risk management department, compliance department, internal audit department, treasury department, corporate banking 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 and information security specialist.
- employee heads the function responsible for:
  (a) legal affairs: director of legal and claims department;
  (b) finances, including taxation and drafting of the budget: director of accounting department;
  (c) human resources: general secretary;
  (d) information technology: director of IT department, director of technology department;
  (e) economic analysis: director of research and strategy 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 604/2014, it was not repeated if any further criterion of the quantitative or qualitative criteria was met, but was only listed once.

Remuneration policy and practices were 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 to promote the proper management of risks also in the future.

When determining the remuneration policy, the Bank complied with the second paragraph of Article 148 of the ZBan-3 regarding internal governance arrangements being comprehensive and commensurate with the nature, scale and complexity of the risks inherent in the Bank's business model and the activities that it pursues, and the Bank of Slovenia's guidelines of 22 November 2016. 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 and may not pay the variable component of remuneration in the form of shares. This means that in cases where the total variable remuneration of an employee whose professional activities have a material impact on the Bank's risk profile exceeds EUR 50,000 gross in a single year, 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. If the total variable remuneration of an employee whose professional activities have a material impact on the Bank's risk profile exceeds the gross amount of EUR 50,000 in a given year, the amount above that figure is indexed to the growth in the book value of SID Bank's shares until the payment date, notwithstanding any transactions with the owner (e.g. capital increase/decrease, pooling/splitting of shares).

The role of relevant stakeholders and powers in the decision-making process regarding the implementation of the remuneration policy in 2021 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 retain 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 this policy and is not paid out in a manner or in the form of instruments that are in contravention of this policy. 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; hereinafter: CD) 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 any deferred component, 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), rules on the conclusion of employment contracts for management board 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 nomination and remuneration committee is responsible for the assessment of the Bank's performance for the requirements of this policy, taking into account the financial and non-financial criteria on the basis of the annual report and the implementation of the annual operational plan and strategy, including the fulfilment of risk indicators.

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; and
(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 rules for the conclusion of employment contracts by management board members.

The provisions of the ZPPOGD also apply to the performance criteria for members of the Bank's management board.

The Bank's supervisory board discussed and approved the amendments to the remuneration policy in April 2021. The policy was amended due to regulatory requirements and the criteria and standards for determining variable remuneration.

The remuneration of employees in independent control functions is determined in such a way that their independence and objectivity in the performance of duties are not compromised. Employees who perform independent control functions are independent from the organisational units on which they conduct controls, and have the appropriate powers and receive remuneration with respect to the achievement of objectives linked to their functions, regardless of the performance of the business areas on which they conduct controls. Employees who perform independent control functions receive performance bonuses irrespective of the policy in accordance with the company-level collective agreement.

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.

The nomination and remuneration committee is responsible for the assessment of the Bank's performance for the requirements of this policy, taking into account the financial and non-financial criteria on the basis of the annual report and the implementation of the annual operational plan and strategy. When assessing performance as the basis for the aggregate of variable remuneration, the committee must take into account in advance alignments with all types of risk to which the Bank 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, and the costs of capital and necessary liquidity for that purpose.

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 (through an assessment of knowledge, expertise and other skills that enable successful and efficient work in a specific position) 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 has established criteria and threshold values for key risks in the scope of its risk management strategy, which cannot be exceeded at any time during the year. The remuneration policy is implemented consistently, also taking into account this information, in particular and also for the level of employees who in their work have a material impact on the Bank's risk profile.

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 majority of an employee's total remuneration comprises the fixed component of remuneration, or the variable component of remuneration does not exceed 33.3% of the fixed component of remuneration.

Fixed remuneration is above all an appropriate reflection of a person's professional experience and responsibilities at the Bank, as defined in the description of the employee's work tasks as part of the terms and conditions of employment.

Variable remuneration reflects sustainable and risk-adjusted performance, and performance that exceeds the expected performance as defined in the description of the employee's work tasks as part of the terms and conditions of employment.

The fixed component of remuneration for all categories of employees therefore accounts for at least 75% of the remuneration for an employee to allow the Bank to implement a fully flexible policy on the variable component of remuneration, and the possibility to pay no variable component does not put the financial positions of any of the employees at risk.

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), rules on the conclusion of employment contracts for management board 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 Bank ensures that the variable component of remuneration, including any deferred component, 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.

To that end, the Bank includes in the employment contracts of employees who in the scope of their powers or work duties and activities can have a material impact on the Bank's risk profile, or in other contracts provisions that facilitate a decrease or return of the variable component of an employee's remuneration (clawback) intended for the payment of the deferred components of remuneration from previous periods.

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 50,000.00:

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)
President of the Management Board* Member of the Management Board*	50% 50%	3**	5***	3 3
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%	3		3

*Notwithstanding the application of the proportionality principle and lower threshold, the provisions of the ZPPOGD are applied in connection with the payment of the variable component of remuneration. **If the total variable components of remuneration do not exceed EUR 50,000.00 gross over a single year, the provisions of the ZPPOGD and a three-year deferral period apply. ***If the total variable components over a single year exceed EUR 50,000.00 gross, a five-year deferral period only applies for the difference above EUR 50,000.00 gross.

The deferred remuneration indicated in the table shall be due for payment according to the proportionality principle. The length of the deferral period shall be determined by the Bank in accordance with the business cycle, the nature of its operations, the accompanying risks, and the activities of the employee in question.

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.

The variable component of remuneration for the purpose of the remuneration policy includes the following forms of payment and benefits, while the basis and criteria for these payments and benefits are set out in the Bank's company-level collective agreement and corresponding bylaws:

- 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 comprises an element of the standard employment package for a specific category of employees.

When determining the proposed variable part of remuneration for members of the management board, the nomination and remuneration committee takes into account the fulfilment of strategic and the economic and financial objectives that the SDH defines for a company in the scope of the system of corporate governance of state-owned companies.

6.14.1 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	7.00	2.00	5.00	33.41
2		Total fixed remuneration	220,301	471,321	601,393	2,330,356
3		Of which: cash-based	217,977	468,267	585,926	2,289,556
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	0	0	0	0
5		Of which: share-linked instruments or equivalent non-cash instruments	0	0	0	0
EU-5x		Of which: other instruments	0	0	0	0
6		(Not applicable in the EU)				
7		Of which: other forms	2,324	3,054	15,467	40,800
8		(Not applicable in the EU)				
9	Variable remuneration	Number of identified staff	7.00	2.00	5.00	33.41
10		Total variable remuneration	0	111,324	144,531	322.022
11		Of which: cash-based	0	111,324	144,531	322.022
12		Of which: deferred	0	55,662	0	0
EU-13a		Of which: shares or equivalent ownership interests	0	0	0	0
EU-14a		Of which: deferred	0	0	0	0
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	0	0	0	0
EU-14b		Of which: deferred	0	0	0	0
EU-14x		Of which: other instruments	0	0	0	0
EU-14y		Of which: deferred	0	0	0	0
15		Of which: other forms	0	0	0	0
16		Of which: deferred	0	0	0	0
17	Total remuneration (2 + 10)		220,301	582,645	745,924	2,652,378

The figures in the template are presented in euros.

6.14.2 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 2021 to employees whose professional activities have a material impact on the institution's risk profile.

6.14.3 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 amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	0	0	0	0	0	0	0	0
2	Cash-based	0	0	0	0	0	0	0	0
3	Shares or equivalent ownership interests	0	0	0	0	0	0	0	0
4	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
5	Other instruments	0	0	0	0	0	0	0	0
6	Other forms	0	0	0	0	0	0	0	0
7	MB Management function	321,631	154,363	167,268	0	0	0	154,363	0
8	Cash-based	321,631	154,363	167,268	0	0	0	154,363	0
9	Shares or equivalent ownership interests	0	0	0	0	0	0	0	0
10	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
11	Other instruments	0	0	0	0	0	0	0	0
12	Other forms	0	0	0	0	0	0	0	0
13	Other senior management	120,961	120,961	0	0	0	0	120,961	0
14	Cash-based	120,961	120,961	0	0	0	0	120,961	0
15	Shares or equivalent ownership interests	0	0	0	0	0	0	0	0
16	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
17	Other instruments	0	0	0	0	0	0	0	0
18	Other forms	0	0	0	0	0	0	0	0
19	Other identified staff	20,213	20,213	0	0	0	0	20,213	0
20	Cash-based	20,213	20,213	0	0	0	0	20,213	0
21	Shares or equivalent ownership interests	0	0	0	0	0	0	0	0
22	Share-linked instruments or equivalent non-cash instruments	0	0	0	0	0	0	0	0
23	Other instruments	0	0	0	0	0	0	0	0
24	Other forms	0	0	0	0	0	0	0	0
25	Total amount	462,805	295,537	167,268	0	0	0	295,537	0

The figures in the template are presented in euros.

6.14.4 Template EU REM4 - Remuneration of 1 million EUR or more per year

The Bank identified no employees in 2021, whose professional activities had a material impact on the institution’s risk profile and that are high earners as set out in Article 450(i) of the CRR. No employee received remuneration of more than EUR 1 million.

6.14.5 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										46.85
2	Of which: members of the MB	7	2	9							
3	Of which: other senior management				0.00	0.00	0.00	5.00	0.00	0.00	
4	Of which: other identified staff				0.00	6.73	5.70	5.73	5.34	9.91	
5	Total remuneration of identified staff	220,301	582,645	802,946	0	536,342	318,805	1,245,960	434,884	862,311	
6	Of which: variable remuneration	0	111,324	111,324	0	48,898	27,117	196,508	55,598	138,432	
7	Of which: fixed remuneration	220,301	471,321	691,622	0	487,444	291,688	1,049,452	379,286	723,879	

The figures in the template are presented in euros.

6.15 Disclosure of encumbered and unencumbered assets

6.15.1 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**	**372,351**	**244,931**			**2,538,161**	**577,616**		
030	Equity instruments	0	0	0	0	34,491	0	34,491	0
040	Debt securities	282,804	244,931	282,804	244,931	542,853	386,191	542,853	386,191
050	of which: covered bonds	0	0	0	0	0	0	0	0
060	of which: securitisations	0	0	0	0	0	0	0	0
070	of which: issued by general governments	219,978	219,978	219,978	219,978	344,279	343,514	344,279	343,514
080	of which: issued by financial corporations	23,242	1,773	23,242	1,773	140,523	15,918	140,523	15,918
090	of which: issued by non-financial corporations	39,584	23,180	39,584	23,180	58,051	26,760	58,051	26,760
120	Other assets	89,547	0			1,960,816	191,425		

The figures in the templates of the disclosures of encumbered and unencumbered assets are presented using mean values (median). Medians are consecutive quarterly mean values over a 12-month period (2021) determined using interpolation. Encumbered assets relate almost entirely to the raising of targeted longer-term refinancing operations (TLTROs), while a small portion covers concluded CSA 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.

6.15.2 Template EU AE2 - Collateral received and own debt securities issued

(Article 443 of the CRR)

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
250	Total collateral received and own debt securities issued	372,351	244,931		

SID Bank has no encumbered collateral accepted for the securing of loans granted.

6.15.3 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	371,226	371,226

7 DISCLOSURE OF EXPOSURES SUBJECT TO MEASURES APPLIED IN RESPONSE TO THE COVID-19 PANDEMIC

Information according to the EBA's Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) is presented in Templates 1 and 2 below. The validity of all legislative moratoria expired on 31 December 2021. Therefore, the Bank does not disclose detailed information in Template 1.

None of the loans issued by the Bank as a response to the COVID-19 crisis were included as at 31 December 2021 in new guarantee schemes that are the subject of disclosures in Template 3 (Information regarding newly approved loans and other financial assets issued based on new public guarantee schemes implemented as a response to the COVID-19 crisis).

7.1 Template 1 – Information on loans and advances subject to legislative and non-legislative moratoria

The validity of all legislative moratoria expired on 31 December 2021. Therefore, the Bank does not disclose detailed information in Template 1.

		a	b	d	e	f	g	h	i	k	l	m	n	o
		Gross carrying amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk						Gross carrying amount
			Performing		Non-performing				Performing		Non-performing			
30 June 2021				Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due ≤ 90 days			Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due ≤ 90 days	Inflows to non-performing exposures
1	Loans and advances subject to moratorium	38,532	33,194	17,132	5,337	5,337	5,337	(5,118)	(4,055)	(3,297)	(1,063)	(1,063)	(1,063)	404
4	of which: Non-financial corporations	38,532	33,194	17,132	5,337	5,337	5,337	(5,118)	(4,055)	(3,297)	(1,063)	(1,063)	(1,063)	404
5	*of which: Small and Medium-sized Enterprises*	29,168	25,857	17,132	3,312	3,312	3,312	(4,780)	(3,754)	(3,297)	(1,026)	(1,026)	(1,026)	404
6	*of which: Collateralised by commercial immovable property*	34,174	29,240	15,977	4,934	4,934	4,934	(4,553)	(3,741)	(3,148)	(812)	(812)	(812)	0

7.2 Template 2 – Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

		a	b	c	d	e	f	g	h	i
		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
31 December 2021						≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
1	Loans and advances for which moratorium was offered	84	146,455							
2	Loans and advances subject to moratorium (granted)	77	135,272	135,272	135,272	0	0	0	0	0
5	of which: Non-financial corporations		135,272	135,272	135,272	0	0	0	0	0
6	*of which: Small and Medium-sized Enterprises*		57,326	57,326	57,326	0	0	0	0	0
7	*of which: Collateralised by commercial immovable property*		106,090	106,090	106,090	0	0	0	0	0

Disclosed in the template is the balance of legislative moratoria as at 31 December 2021 by residual maturity. The validity of legislative moratoria expired, as under Slovenian law moratoria were only concluded with a validity until the end of 2021.

30 June 2021		a	b	c	d	e	f	g	h	i
		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
1	Loans and advances for which moratorium was offered	98	181,692							
2	Loans and advances subject to moratorium (granted)	91	170,509	170,509	131,977	16,942	21,590	0	0	0
5	of which: Non-financial corporations		170,509	170,509	131,977	16,942	21,590	0	0	0
6	*of which: Small and Medium-sized Enterprises*		64,436	64,436	35,268	16,942	12,226	0	0	0
7	*of which: Collateralised by commercial immovable property*		141,172	141,172	106,998	14,516	19,658	0	0	0

8 SCOPE OF DISCLOSURES ACCORDING TO CRR

Article	Article name	Section of annual report	Chapter	Page
435	**Disclosure of risk management objectives and policies**			
	1(a) the strategies and processes to manage those categories of risks	BUS FIN	Risk management 3	63 – 76 170 – 171
	1(b) the structure and organisation of the relevant risk management function including information on the basis of its authority, its powers and accountability in accordance with the institution's incorporation and governing documents	BUS	Risk management	63 – 69
	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	63 – 76 170 – 171 172 – 193 193 – 198 199 – 203 203 – 204 205 – 207 208 – 211
	1(d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	FIN FIN	2.3.9 3.3	135 – 136 199 – 203
	1(e) a declaration approved by the management body on the adequacy of the risk management arrangements of the relevant 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	108
	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	216 – 218
	2(a) the number of directorships held by members of the management body	FIN	6.2.1	226
	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	92 – 107
	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 those objectives and targets have been achieved	BUS	Corporate governance statement	92 – 107
	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	92 – 107
	2(e) the description of the information flow on risk to the management body	BUS FIN	Risk management 3	63 – 76 171
436	**Disclosure of the scope of application**			
	(a) the name of the institution to which this Regulation applies	FIN	2.3.3	125 – 126
	(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	FIN	6.3.1	227

Article	Article name	Section of annual report	Chapter	Page
	consolidated and whether the holdings in those legal entities are deducted from own funds			
	(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	FIN	6.3.1	227
	(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	FIN	6.3.2	228
	(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 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 FIN FIN	3.6 6.4.1 6.4.2	208 – 209 229 – 230 231
	(b) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution	FIN	6.4.3	232
	(c) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	FIN	6.4.3	232
	(d) a separate disclosure of the nature and amounts of the following:	FIN	6.4.1	229– 230
	(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 pursuant to Articles 47, 48, 56, 66 and 79			
	(e) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply	FIN	6.4.3	232
	(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		
437a	**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 their internal capital to support current and future activities	BUS FIN	Risk management 3.6	69 – 70 210 – 211
	(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	FIN	6.1.1	223 – 224
	(c) upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process	N/A		

Article	Article name	Section of annual report	Chapter	Page
	(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	FIN	6.1.2	225
	(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		
	(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	176, 193 208 – 210
	(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	193
	(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	193
	(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	FIN	6.11.4	249
	(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	FIN	6.11.1	248
	(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	FIN	6.11.1	248
	(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	FIN	6.11.2	249
	(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	FIN	6.11.3	249

Article	Article name	Section of annual report	Chapter	Page
	(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	FIN	6.5.1	233
	(b) the amount of their institution-specific countercyclical capital buffer	FIN	6.5.2	234
441	**Disclosure of indicators of global systemic importance**	N/A		
442	**Disclosure of exposures 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	132 181
	(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments	FIN FIN	2.3.8 3.1	131 – 134 174
	(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	FIN FIN FIN FIN FIN	6.8.1 6.8.4 6.8.5 6.8.6 6.8.7	240 – 241 242 243 244 245
	(d) an ageing analysis of accounting past due exposures	FIN	6.8.5	243
	(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	FIN FIN	6.8.6 6.8.7	244 245
	(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	FIN FIN	6.8.1 6.8.3	240 – 241 242
	(g) the breakdown of loans and debt securities by residual maturity	FIN	6.8.2	242
443	**Disclosure of encumbered and unencumbered assets**	FIN FIN FIN	6.15.1 6.15.2 6.15.3	261 262 262
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	208
	(b) the exposure classes for which each ECAI or ECA is used	FIN	3.6	208
	(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	208
	(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		
	(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	FIN FIN	6.10.1 6.10.2	247 248
445	**Disclosure of exposure to market risk**	FIN	6.12	250

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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 FIN FIN	3.5 3.6 6.13.1	205 – 207 208 – 209 250
	(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	FIN	6.1.1	223 – 224
	(b) the total risk exposure amount as calculated in accordance with Article 92(3)	FIN	6.1.1	223 – 224
	(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	FIN	6.1.1	223 – 224
	(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	FIN	6.1.1	223 – 224
	(e) their leverage ratio and the total exposure measure as calculated in accordance with Article 429	FIN	6.1.1	223 – 224
	(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):	FIN	6.1.1	223 – 224
	(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	FIN	6.1.1	223 – 224
	(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	FIN	6.1.1	223 – 224
	(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	FIN	6.1.1	223 – 224
	(g) the following information in relation to their net stable funding requirement as calculated in accordance with Title IV of Part Six:	FIN	6.1.1	223 – 224
	(i) the net stable funding ratio at the end of each quarter of the relevant disclosure period	FIN	6.1.1	223 – 224
	(ii) the available stable funding at the end of each quarter of the relevant disclosure period	FIN	6.1.1	223 – 224
	(iii) the required stable funding at the end of each quarter of the relevant disclosure period	FIN	6.1.1	223 – 224
	(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	3.3	199 – 203
	(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	3.3	199 – 203
	(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	199 – 203
	(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	199 – 203

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	(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	199 – 203
	(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	199 – 203
	(g) average and longest repricing maturity assigned to non-maturity deposits	FIN	3.3	199 – 203
449	**Disclosure of exposures to securitisation positions**	N/A		
449a	**Disclosure of environmental, social and governance risks (ESG risks)**	BUS FIN FIN	Risk management 3 3.1	63 – 75 171 176
450	**Disclosure of remuneration policy**			
	Institutions shall disclose the following information regarding their remuneration policy and practices 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	FIN	6.14	250 – 257
	(b) information about the link between pay of the staff and their performance	FIN	6.14	250 – 257
	(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	FIN	6.14	250 – 257
	(d) the ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) of Directive 2013/36/EU	FIN	6.14	250 – 257
	(e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	FIN	6.14	250 – 257
	(f) the main parameters and rationale for any variable component scheme and any other non-cash benefits	FIN	6.14	250 – 257
	(g) aggregate quantitative information on remuneration, broken down by business area	FIN	6.14.5	260
	(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 institutions, 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	FIN	6.14.1	258
	(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	FIN	6.14.1	258

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	(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	FIN	6.14.3	259
	(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	FIN	6.14.3	259
	(v) the guaranteed variable remuneration awards during the financial year, and the number of beneficiaries of those awards	FIN	6.14.2	258
	(vi) the severance payments awarded in previous periods, that have been paid out during the financial year	FIN	6.14.2	258
	(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	FIN	6.14.2	258
	(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	FIN	6.14.4	259
	(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)	FIN FIN FIN	6.6.1 6.6.2 6.6.3	234 234 – 235 235
	(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	FIN FIN FIN	6.6.1 6.6.2 6.6.3	234 234 – 235 235
	(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)	FIN FIN FIN	6.6.1 6.6.2 6.6.3	234 234 – 235 235
	(d) a description of the processes used to manage the risk of excessive leverage	FIN	3.6	211
	(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	211
451a	**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	FIN FIN	6.7.1 6.7.2	236 – 237 238
	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	FIN FIN	6.7.1 6.7.2	236 – 237 238
	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	FIN FIN	6.7.1 6.7.2	236 – 237 238
	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	FIN	6.7.3	239
	3(b) an overview of the amount of available stable funding calculated in accordance with Chapter 3 of Title IV of Part Six	FIN	6.7.3	239
	3(c) an overview of the amount of required stable funding calculated in accordance with Chapter 4 of Title IV of Part Six	FIN	6.7.3	239
452	**Disclosure of the use of the IRB Approach to credit risk**	N/A		

Article	Article name	Section of annual report	Chapter	Page
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	173 – 174
	(c) a description of the main types of collateral taken by the institution to mitigate credit risk	FIN	3.1	173 – 174
	(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 risk mitigation taken	FIN	3.1	174
	(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	FIN	6.9.1	246
	(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	FIN	6.10.1	247
	(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	FIN	6.10.1	247
	(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	FIN	6.10.1	247
	(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
N/A: Not applicable

LIST OF ABBREVIATIONS AND TERMS

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services *(Agencija Republike Slovenije za javnopravne evidence in storitve)*
AOP	Annual Operational Plan
ASF	Available stable funding
BAM	Bank Association of Slovenia
BAMC	Bank Assets Management Company
BGN	Bloomberg Generic Price
BS	Bank of Slovenia
CC	Central counterparty
CCF	Credit conversion factor
CCR	Counterparty credit risk
CCUS	Carbon capture, utilisation and storage
CEETT(platform)	Central and Eastern European Technology Transfer Platform
CET1	Common Equity Tier 1 Capital
CMSR	Centre for International Cooperation and Development
Commission Implementing Regulation (EU) No 2021/637	Commission Implementing regulation (EU) 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
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
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
EFRAG	European Financial Reporting Advisory Group
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
EWS	Early Warning System
FED	Federal Reserve Board
GBER	General Block Exemption Regulation
GDP	Gross Domestic Product
GSIIs	Global systemically important institutions
HQLA	High-quality liquid assets
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards as adopted by the EU
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
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

MEO	A concept developed by the European Commission, with which the entity demonstrates that an individual transaction does not constitute state aid; this applies in the case that a transaction is carried out in accordance with market terms (Market Economy Operator)
MI	Ministry of Infrastructure
N/A	Not applicable
NACE	Nomenclature of Economic Activities
NALOŽBE 3	Programme for the financing of investments that contribute to the transition to a circular economy
NPLs	Non-performing loans
NSFR	Net Stable Funding Ratio
NFT	Non-Fungible Token
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
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	Total required stable funding
RWAs	Risk-weighted assets
RWEA	Risk-weighted exposure amount
SEGIP	Slovenian Equity Growth Investment Programme
SFTs	Securities financing transactions
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
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
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
ZZFMGP	Insurance and Financing of International Commercial Transactions Act