SLOVENSKA
IZVOZNA
DRUŽBA

družba za
zavarovanje in
financiranje
izvoza
Slovenije, d.d.,
Ljubljana

SEC BUSINESS

REPORT 2004

Company name:	Slovenska izvozna družba, družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana (Slovene Export Corporation, Export Insurance and Finance Corporation of Slovenia, Inc., Ljubljana)
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Foreword by the Management Board

For Slovenska izvozna družba, d.d., Ljubljana (Slovene Export Corporation, Inc., Ljubljana; hereinafter referred to as SEC or the Corporation), the year 2004 was another year marked by good business results and further development of the SEC Group. Throughout the year, considerable effort was invested in harmonising SEC operations with the Law on Insurance and Financing of International Business Transactions, which came into force on 14 February 2004 as the main legal document regulating the basic principles of the insurance and financing system applicable to international business transactions.

As in previous years, SEC again succeeded in increasing its business volume in all its main branches of activity.

The volume of insurance business covered showed a 29% increase on the year 2003. SEC insured EUR 3.1 billion worth of transactions, which accounts for 18% of Slovenia's total exports. The rise in business volumes was highest in domestic and foreign export credit insurance against marketable risks, climbing 30% on the previous year. The increase in business insured reflects the increasing importance of credit risk insurance in the risk management practices of Slovene companies.

As an authorised export credit agency, SEC signed a special agreement with the Ministry of Finance to provide insurance against non-marketable risks.

The volume of business insured by SEC on account of the Republic of Slovenia, which comprises short-term export credit insurance against non-marketable risks, medium-term export credit insurance and investment insurance, totalled EUR 810 million at the end of 2004. Particularly encouraging was the rapid growth in insurance of investments undertaken by Slovene legal entities abroad, as it results from active participation of Slovene companies in this area over the recent years, in particular in the countries of South Eastern Europe, as a response of Slovene economy to fast and dramatic globalisation processes.

By securing financing of international business transactions, SEC has been and continues to be an important partner of Slovene banks and exporters. As such, it also played an active role in the financing of exports and outward investment in 2004. Primarily thanks to borrowings obtained in international financial markets, SEC saw a 23% upturn in financing volumes, with credits to banks and companies totalling EUR 500 million at the end of 2004.

SEC has a 50% share in the factoring company PRVI FAKTOR, faktoring družba, d.o.o., which also had a successful year. By expanding its operations to Croatia, PRVI FAKTOR managed to increase the volume of acquired receivables by 45%, and finished the year with a profit.

As regards insurance against marketable risks which SEC provides on its own account and reinsures in the global private reinsurance market, preparations were underway for setting up a fully owned subsidiary of the Corporation named SID – Prva kreditna zavarovalnica, d.d., Ljubljana. The credit insurance company, which had obtained all the required licences by the end of 2004 and was entered into the Register of Companies on 31 December 2004, started operations on 1 January 2005.

In 2004, SEC founded another subsidiary, PRO KOLEKT d.o.o., an agency specializing in debt collection and claims recovery.

SEC has established a group of companies able to perform banking and insurance operations and related supplementary activities with strong synergy effects and, in doing this, contribute to improved economic safety, promotion of trade and increased competitiveness of Slovene corporate sector, thus living up to one of the main mission statements of SEC.

Marko Plahuta
President of the Management Board

Report by the Supervisory Board

In 2004 the Supervisory Board maintained a constant watching brief on the course of business and the situation of the company with regard to its goals and strategic orientations and in compliance with the Rules of procedure of the Supervisory Board, the Articles of Association of the Slovene Export Corporation and in line with the regulations stating the authorities of the Supervisory Board.

There were certain changes in the composition of the Supervisory Board in 2004. After her resignation, the Supervisory Board Member mag. Mateja Mešl was replaced by mag. Helena Kramar. At the meeting on 16 December 2004 the members of the Supervisory Board accepted the resignation of mag. Sibil Svilan from the position of Supervisory Board Chair and elected Janez Lotrič the new Chairperson, and mag. Helena Kamnar the new Deputy Chairperson.

The Supervisory Board of Slovenska izvozna družba, d.d., Ljubljana (SEC) met at seven regular and three correspondence meetings, and held one meeting together with the International Trade Promotion Commission. The Supervisory Board regularly studied periodical reports by the management, quarterly reports by the Internal Audit and Controlling Department, data on risk management and other general and specific issues related to the business operations of the Corporation.

At the meeting held on 20 January 2004 the Supervisory Board appointed Marko Plahuta to the position of President of the Management Board of Slovenska izvozna družba, d.d., Ljubljana. Marko Plahuta, whose appointment became effective 1 February 2004, succeeded the former President Marjan Kramar.

The Supervisory Board followed with special care and discussed at several meetings the establishment of the SEC subsidiary named SID – Prva kreditna zavarovalnica d.d., Ljubljana, implementation of the Law on Insurance and Financing of International Business Transactions and the negotiations concerning mutual relations between the Ministry of Finance and the SEC concerning provision of insurance on behalf of and for the account of the Republic of Slovenia.

In 2004 the Supervisory Board discussed and decided on the following important issues:

- annual report of the Corporation for 2003 with the auditor's and actuary's reports,
- appropriation of balance sheet profit for 2003,
- information on the establishment of a debt collection company, SEC subsidiary PRO KOLEKT d.o.o.,
- borrowings in international markets
- development strategy and business policy of SEC for the year 2005,
- business plan for the year 2005,
- working plan regarding internal audit and controlling for the year 2005.

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

At its meeting held on 20 April 2005, the Supervisory Board examined in detail the Annual Report of the Corporation for 2004 together with the report of the certified auditors and certified actuary for the year 2004, which were prepared by the auditing house KPMG Slovenija, d.o.o and the certified actuary Mr Matjaž Musil who confirmed the balance of insurance technical provisions as of 31 December 2004.

Upon examination of the mentioned reports the Supervisory Board finds that in 2004 the Corporation successfully followed its planned policy and achieved set business goals. The Supervisory Board has no reservations to the submitted reports and hereby confirms the Annual Report of Slovenska izvozna družba, d.d., Ljubljana for the year 2004.

Janez Lotrič

Chairperson

1. Highlights from the Business Report of 2004

Business volume

- Total value of **business insured** by SEC was EUR 3,085 million (up by 29%)
  which accounts for more than 18% of Slovenia's total exports. Business volume can be broken down into
  - **insurance** of export and domestic credits against marketable risks **on own account** - EUR 2,636 million (up by 30%)
  - **insurance** of export credits and investments against non-marketable risks **on behalf of and for the account of the State** – EUR 810 million (up by 0.4%)

  (certain export credits are insured both against marketable and non-marketable risks)

- **Financing** of international business transactions (as of 31 December 2004) – SIT 120 billion (EUR 500 million) (up by 23%)

- Value of **guarantees** issued – EUR 33 million (down by 18%)

Business results

- **Insurance on own account** – EUR 4.1 million (without recoveries in the amount of EUR 0.6 million); premium EUR 7.2 million / claims paid EUR 3.2 million / loss ratio 0.44

- **Insurance on behalf of and for the account of the State** – premium EUR 5.2 million / claims paid EUR 2.1 million / recoveries EUR 0.2 million → increase in safety reserves to EUR 89.7 million (as of 31 December 2004)

- **Financing** – interest income SIT 4,154 million (EUR 17.3 million) / non-interest income SIT 159.9 million (EUR 0.7 million)

- **Total assets** (as of 31 December 2004) – SIT 140.4 billion (EUR 585.6 million) (up by 22%)

- **Long-term provisions** (as of 31 December 2004) – SIT 12.7 billion (EUR 52.9 million), with insurance-technical provisions making up SIT 4.0 billion (EUR 16,8 million) and provisions for general banking risks climbing to SIT 0.9 billion (EUR 3.9 million)

- Προφιτ βεφορε ταξ ΣΙΤ 1.3 βιλλιον (ΕΥΡ 5.3 μιλλιον)

Key Figures

	2000	2001	2002	2003	2004
number of shareholders	83	81	89	89	**88**
nominal capital (in EUR million)	44.1	42.1	40.5	39.4	**38.9**
capital & reserves (in EUR million)	78.8	81.3	79.2	78.2	**79.4**
profit before tax (in EUR million)	0.9	0.9	1.3	1.6	**5.3**
return on equity before tax (ROE)	1.18%	1.22%	1.65%	2.01%	**6.71%**
number of employees (31 Dec.)	50	56	69	74	**83**

Note: Unless otherwise specified, SIT (Slovene Tolars) equivalents in EUR used for showing SEC business results at the end of each calendar year correspond to the middle (final monthly) exchange rates of the Bank of Slovenia on the last day of each calendar year. Thus the following exchange rates were used for expressing the data in EUR: 31.12.2000: 1 EUR = 211.5062 SIT; 31.12.2001: 1 EUR = 221.4095 SIT; 31.12.2002: 1 EUR = 230.2673 SIT; 31.12.2003: 1 EUR = 236.6903, 31.12.2004: 1 EUR = 239.7430). For other operational figures the values expressed in EUR have been calculated from the average monthly exchange rates of the Bank of Slovenia in a given calendar year (2000: 205.0316 SIT; 2001: 217.1851 SIT; 2002: 226.2237 SIT; 2003: 233.7045 SIT, 2004: 238.8615). As is clear from the notes and tables, indices have been calculated from data containing more decimal positions than presented in the notes and tables.

2. Corporate Profile

Legal status

- **Slovenska izvozna družba, d.d., Ljubljana** (SEC) was established on 22 October 1992 as a specialised private-law financial institution for insurance and financing of exports.
- The Corporation is entered into the Register of Companies at the District Court of Ljubljana with Decision No. SRG 8096/92 of 27 October 1992, under record entry number 1/19966/00.
- In accordance with the **Law on Insurance and Financing of International Business Transactions (ZZFMGP)** (Official Gazette of RS, No. 2/04), SEC continues to operate as an authorised Slovene export credit agency (ECA) although since February 2004, when the Law became effective, it has been performing insurance against non-marketable risks and the Interest Rate Equalization Programme **on behalf of the Republic of Slovenia** (previously on own behalf and on account of the State) but continues to carry out insurance against marketable risks, financing and issue of guarantees **on its own account**. In this respect, the state issues **guarantees** to cover SEC borrowings made to secure provision of funds to lenders in support of their international transactions, and to investors in support of their investments in SEC debt securities.
- Pursuant to the Law on Insurance and Financing of International Business Transactions, SEC signed an agreement with the Ministry of Finance on regulation of mutual relations concerning implementation of Chapter II of the Law on Insurance and Financing of International Business Transactions on 1 December 2004.
- In establishing an insurance company and transferring onto it the insurance portfolio which SEC had performed on its own behalf by the end of 2004, SEC acted in accordance with the Law, modifying its status and activities regarding this type of insurance with the regulations governing insurance company operations. SID – Prva kreditna zavarovalnica d.d., Ljubljana, 100% owned by SEC, was entered into the Register of Companies on 31 December 2004.

Capital as of 31 December 2004

- The nominal capital of Slovene Export Corporation is SIT 9,323,540,000 (EUR 38.9 million);
- The capital is divided into 932,354 shares, issued in several series, with a nominal value of SIT 10,000 per share.
- Capital and reserves amounted to SIT 19,046,010,562 (EUR 79.4 million);
- Audited book value per share, as of 31 December 2004, was SIT 20,428 (31 December 2003 – SIT 18,859).

Shareholders

- The majority shareholder of the Corporation is the Republic of Slovenia, other shareholders being banks, insurance companies, the Chamber of Commerce and Industry, and many other Slovene companies (on 31 December 2004, SEC had 88 shareholders).

Shareholders (31 December 2004)

Shareholders	**Number of shares**	**Ownership (in %)**
Republic of Slovenia	849,812	91.15
Factor banka d.d.	18,445	1.98
Nova Ljubljanska banka d.d.	18,027	1.93
other banks	11,509	1.23
Lesnina inženiring d.d.	4,420	0.47
Petrol d.d.	3,940	0.42
insurance companies	8,640	0.93
Chamber of Commerce and Industry	85	0.01
other companies	17,105	1.83
natural persons	371	0.04
Total	**932,354**	**100.00**

Activities

SEC is registered for a wide range of activities (activity code: 65.230 – other financial intermediation), issues financial instruments and performs a number of activities which support and promote sales of goods and services and investments of Slovene companies abroad.

On its own account, SEC:
- insured short-term export and domestic credits against commercial and other marketable risks by 31 December 2004;
- finances international trade and investment transactions;
- issues bonds and guarantees for transactions Slovene companies execute in foreign and domestic markets;
- provides credit rating and other credit information, business and legal advice, assistance in debt collection and other supporting activities.

On account of the State, SEC as an authorised ECA performs:
- short-term export credit insurance against non-commercial and other non-marketable risks;
- outward investment insurance against political risks;
- medium-term export credit insurance against commercial and/or non-commercial risks;
- Interest Rate Equalisation Programme (IREP) in financing international business transactions, and
- some other activities on special authorisation (i.e. as an agent of the State).

SEC operations on account of the Republic of Slovenia

The operations which SEC as the national export credit agency (ECA) performs on account of the Republic of Slovenia are clearly separated from the operations performed on its own account in terms of management and accounting. The Corporation performs insurance against non-marketable risks on behalf of and for the account of the Republic of Slovenia, and will, as an agent of the State, also conduct the Interest Rate Equalisation Programme (the beginning of operations is scheduled for 2005, after a corresponding agreement is signed with the Ministry of Finance). In these operations as well as in providing financing for international business transactions from resources for which guarantees of the Republic of Slovenia have been issued, SEC is assisted by the government-appointed International Trade Promotion Commission, and a number of other competent bodies.

Safety reserves which, together with budget appropriations, constitute the insurance capacity of the Corporation for insurance against non-marketable risks before claims from insurance contracts made on account of the state are paid out of the state budget, if necessary, are formed from insurance premiums paid, fees, recoveries and other revenues which the Corporation generates through business and services which are used to provide insurance and reinsurance coverage against non-marketable risks. Pursuant to the Law and a long-term contract between the Corporation and the Ministry of Finance, safety reserves are primarily used to settle obligations to the insured, to pay the cost of prevention and minimisation of claims and future claims, to cover losses incurred by this business and by the operations of managing these funds and risks, and to pay the costs associated with these operations. If the losses cannot be indemnified with the claims paid from the funds of safety reserves, the funds for claims payments shall be ensured by the Republic of Slovenia.

3. SEC Group

In addition to Slovenska izvozna družba, d.d., Ljubljana, the SEC Group contains:

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

SID – Prva kreditna zavarovalnica d.d., Ljubljana

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

After having obtained all the required licences, the new insurance company was entered into the Register of Companies on 31 December 2004. In conformity with the provisions of the agreement and required consents from its supervisory body, SEC transferred onto its daughter company the portfolio of all insurance operations it had performed on its own account prior to the end of 2004 and which will from 1 January 2005 be conducted exclusively by the newly established insurance company. Through portfolio transfer, insurance policy holders were ensured continuous implementation of the rights and obligations arising from concluded insurance contracts, regardless of the change in its legal status. Transfer of employees from the SEC Short-term Credit Insurance Department into the new insurance company also guaranteed continuity in terms of human resources and implementation of operations.

With regard to ownership and business performance, the operations of SID – Prva kreditna zavarovalnica d.d., Ljubljana remain an inseparable part of the SEC Group, which ensures that despite legal changes the synergy effects of complementary facilities will be maintained.

The nominal capital of the company is SIT 1 billion.

The company is led by a two-member Management Board, represented by Ladislav Artnik, President, and Rasto Hartman, Member.
The composition of the Supervisory Board is as follows: Marko Plahuta, President, and Alenka Ferjančič of SEC and Ivan Štraus, Employee Representative of SID - Prva kreditna zavarovalnica, d.d., Ljubljana.

The company started operation on 1 January 2005 and had 28 employees on that day.

PRVI FAKTOR, faktoring družba, d.o.o.

PRVI FAKTOR, faktoring družba d.o.o., Slovenska cesta 17, Ljubljana (PRVI FAKTOR, factoring company, Ltd., Slovenska cesta 17, Ljubljana; hereinafter referred to as PRVI FAKTOR, Ljubljana) is the leading factoring company in Slovenia which purchases short-term accounts receivable and offers a full recourse and non-recourse factoring for domestic, export and import facilities.

In 2002, SEC acquired a fifty percent share of the nominal capital and a half of the voting rights in the company PRVI FAKTOR, the other shareholder being Nova Ljubljanska banka d.d.. The book value of the capital share owned by SEC was SIT 386 million as of 31 December 2004.

The company is led by the Shareholders' Assembly and General Manager. Since 1 February 2004, the position of General Manager has been held by Ernest Ribič.

PRVI FAKTOR, Ljubljana has seen a significant increase in business volumes over the recent years. It also expanded to Croatia, forming a subsidiary in Zagreb at the end of 2003. PRVI FAKTOR, d.o.o., Zagreb has a nominal capital of HRK 110,000. In 2004, PRVI FAKTOR acquired SIT 28 billion (EUR 117.3 million) worth of account receivables, an increase of 45% on the year 2003. In its first year of operation, PRVI FAKTOR d.o.o. Zagreb purchased EUR 28.3 million. Business volume growth led to an increase in consolidated total assets which stood at SIT 10.4 billion of account receivables at the end of 2004, showing a rise of 78% on the year before.

PRVI FAKTOR, Ljubljana ended the financial year 2004 with a net profit of SIT 104.9 million, and PRVI FAKTOR, Zagreb made net profit of SIT 15.1 million. Net profit as shown in the consolidated income statement of the PRVI FAKTOR Group totalled SIT 130.3 million.

PRVI FAKTOR Group employs 28 people, 22 of whom work in Ljubljana and 6 in Zagreb.

PRVI FAKTOR is also expanding its operations to the markets of former Yugoslavia. In February 2005, PRVI FAKTOR, Ljubljana formed a fully owned subsidiary in Belgrade (PRVI FAKTOR, Beograd), and continues to work through agencies in Macedonia and Bosnia & Herzegovina.

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

PRO KOLEKT, družba za izterjavo d.o.o., Ulica Josipine Turnograjske 6, Ljubljana (PRO KOLEKT, debt collection agency, Ltd., Ulica Josipine Turnograjske 6, Ljubljana; hereinafter referred to as PRO KOLEKT) was established in 2004 by SEC as its sole owner. The nominal capital of the company was SIT 2.1 million. Marjan Sterle has been appointed General Manager of PRO KOLEKT. At the end of 2004, the company had one employee.

The company started operation in June 2004. It specializes in out-of-court dispute settlements, handles recovery of claims held by SEC, recovery of insured and uninsured claims, and takes on recovery of claims on behalf of other entities which are not insured by SEC.

In only seven months of operation in 2004, PRO KOLEKT managed to establish a network of debt collection agencies in 48 states (at present, debt collection is executed in 33 states) and signed 60 contracts with customers in need of debt collection. It has processed 153 accounts totalling EUR 3.4 million and recovered EUR 180 million worth of claims. In 60 percent of these cases, the creditor was a domestic entity and the debtor was a foreign entity.

Its 2004 turnover was SIT 6.9 million and its net profit amounted to SIT 93,000. In 2005 PRO KOLEKT plans to achieve a significant increase in its business volumes.

4. Development Strategy

In 2005, SEC shall continue its activities aimed at implementing the strategy for further development of export insurance and financing system in the Republic of Slovenia and gradual reformation of SEC, based on expert analyses and strategic documents discussed and adopted by the Supervisory Board over the previous years.

SEC development strategy is based on the international (EU, OECD, Berne Union) and national legislation, experience and good practice of ECAs, considers the latest trends in international trade, insurance and financing of international business transactions and covers the contents, organisation and legal structure of the present and future system of insurance and financing in Slovenia as well as potential changes in the relevant legislation and other regulations in the field. The basis and the framework for future activities of SEC are provided for by the new Law on Insurance and Financing of International Business Transactions, which defines the legal frame and the roles of the State and the authorised ECA in insurance and financing of international business transactions, as well as reorganisation of SEC and its activities.

In view of Slovenia's membership in the EU, the development of the insurance and financing system in Slovenia is determined by the EU-adopted arrangement on export credits (OECD), the process of integrating *acquis communautaire* in the national legislation and the process of EU harmonisation. These regulations provide for the member states to gradually withdraw its subsidies from insurance against marketable risks and for changes in general provisions, which would further lead to modifications of the system of insurance and financing of international business transactions in Slovenia.

In January 2005, SEC transfered its portfolio of insurance against marketable risks onto its subsidiary, a specialized credit insurance company SID – Prva kreditna zavarovalnica, d.d., Ljubljana (SEC – First Credit Insurance Company, Inc., Ljubljana). In addition to insurance against marketable risks conducted by SID – Prva kreditna zavarovalnica, d.d., Ljubljana (SEC – First Credit Insurance Company, Inc., Ljubljana) , the Corporation as an authorised ECA shall, in accordance with the new Law, continue to provide non-marketable financial operations related to insurance and financing of international business transactions at least in the transition period, by authority of the State. Performance of this type of insurance shall be separated from other operations SEC performs on its own account and subject to general provisions and special contracts concluded with the relevant Ministry on behalf of the State.

Implementation of planned development of the insurance and financing system in Slovenia and its future dynamics and modalities are subject to sufficient volume growth and development of quality SEC services.

5. International Economic Environment and Slovene Economy

World economy in 2004

The forecasts of global economic recovery came true in 2004. According to first estimates, world GDP growth was 4.1%, the highest rate seen in the last 15 years. The reasons for the economic recovery lie mainly in the economic growth experienced in the USA, Asia and in oil-exporting countries.

Dynamic changes in the world economy did not go unnoticed in Europe where economic growth was lower than the world average. In Europe, growth trends were extremely positive in the first half of the year but calmed down in the second half, fixing the estimated annual GDP growth rate for euro area at 2.1%.

As for new EU members, the economic growth in the Czech Republic, Poland and Hungary exceeded spring expectations in the first half of the year 2004. Reaching approximately 4%, the economic growth in Hungary and the Czech Republic in that period was similar to Slovenia's. As these countries recorded higher import rates than Slovenia, their economic growth was further stimulated by both export and domestic (mainly investment) demand. Although most import-export flows between the old and new EU member states had been liberalized prior to 1 May 2004, EU accession was an additional driver in the development of international trade, in particular in Poland and the Czech Republic. Comparing the two, GDP growth was higher in Poland, reaching 6.5%. According to estimates, the growth rate in new EU member states slowed down gradually, closing the year at 3.2%, in line with the forecasts.

In August 2004, Croatian government signed another stand-by agreement with IMF which provides for additional saving measures in public finances, namely stability of external debt and budget deficit reduction. Thanks to fast highway construction, economic growth rates in Croatia were relatively high in the last four years, averaging at 4.6%. According to 2004 forecasts, the growth rate is expected to drop a little to 3.2-3.7%. Despite low political stability linked to the change of government and presidential elections in 2004, Serbia and Montenegro is looking ahead to a brighter future. The increase in industrial production and private and public consumption had a benevolent effect on economic growth. According to forecasts, economic growth in Bosnia and Herzegovina is expected to rise to 4.5% while the growth rate in Macedonia is likely to stay at the 2003 level of 3.2%.

In Russia, President Putin strengthened his position and the role of central government after presidential elections in March 2004. Following numerous terrorist attacks, Putin announced long-term political changes to improve the efficiency of government action in its fight against terrorism. At the beginning of 2004 Russian Government put forward an economic plan with two main objectives: doubling of GDP by 2014 and implementation of structural reforms. The programme supports state-private partnership in strategic sectors, which should help the state maintain its control over the private sector. High domestic demand and a significant increase in export volumes have spurred high economic growth, estimated to have reached 7.4% in the first half of the year 2004. Export growth is a result of high oil prices and global recovery of the world economy. Investment demand remains the fastest growing component of domestic demand, rising by 12% in 2004 according to estimates. About a quarter of all investments are in the oil sector. Considering high oil prices and strengthened investments, the economic growth in Russia in 2004 is expected to be 7.3-7.6%.

Slovene economy in 2004

The year 2004 was marked by two important events: Slovenia's accession to the EU in May 2004 and ERM 2 entry at the end of June, which will both continue to have a strong effect on Slovenia's economy in the years to come.

Economic developments in Slovenia were positively affected by conditions in the world and European economy so that according to first estimates from the Statistical Office of Slovenia, real GDP growth rate went up to 4.6%, the highest since 1999. The main factor which pushed Slovenia's GDP growth over its 2003 rate of 2.5% was foreign exchange. Its negative effect on economic growth (-0.2 percentage points) may have been still evident, but it was significantly lower than in 2003 (-2.2 percentage points).

Reaching 4.7%, domestic consumption remained at the level of the year before. Private spending saw a modest increase over the previous years, and state consumption rate was down one percentage point on 2003, lagging far behind GDP growth. Gross investment in fixed assets increased in volume by 6.8% in 2004, but the growth started to slow down in the second quarter of the year.

The economic recovery of Slovenia's main trading partners and its accession to the EU had a positive effect on international trade. Export growth (expressed in euros) was 11.6% in 2004 (only 2.7% in 2003): exports of goods rose by 11.3%, while exports of services edged up 13%. Exports to EU member states climbed by 9.7% and Slovenia managed to increase exports to most traditional trading partners of the EU, namely Austria, France and Italy, while lower growth was recorded in exports to Germany. High export growth rates were achieved with some small EU member states. Just like in previous years, exports to new EU member states, in particular the Czech

Republic and Hungary, were high, while the growth in exports to Slovakia and Poland remained modest. Exports to non-EU member states were up by 14.3%. The growth rate was highest with regard to Russia and Ukraine and several other CIS states where economic recovery has already created new export opportunities for Slovene companies. Mainly thanks to the expiry of duty-free agreements upon Slovenia joining the EU, exports to the countries of former Yugoslavia, in particular Croatia, Serbia & Montenegro and Bosnia & Herzegovina increased significantly, while exports to Macedonia showed a drop compared to the previous year.

In addition to high exports of goods and stronger growth in domestic consumption and production, the year 2004 saw a marked, 12.7%, growth in the import of goods and a 9.9.% increase in the import of services, pushing total imports up by 12.3%.

Deficit in the goods and services trade was EUR 105.7 million in 2004, an increase of EUR 98.3 million on the year 2003. Deficit in the current account of the balance of payments widened by EUR 87.9 million to EUR 179.1 million, mainly because high surplus in services was insufficient to cover the trade deficit.

Within the framework of the capital and financial account which recorded a surplus of EUR 511.7 million (in 2003, EUR 26 million), financial transactions abroad showed a net capital inflow of EUR 434.5 million (in 2003, EUR 456.1 million), with the rise being highest in international borrowing. Banks borrowed the most (EUR 943.2 million, EUR 284.2 million more than in 2003), to meet the high corporate demand for foreign currency loans. Contrary to 2003, foreign investment in Slovenia exceeded the investment of Slovene companies abroad. Direct foreign investment, mainly in equity, amounted to EUR 419.9 million in 2004 (in 2003, EUR 298.8 million). Conversely, investments of Slovene companies abroad fell from EUR 414 million in 2003 to EUR 368 million in 2004. Growth in capital run-off was fastest in investments in foreign securities, which increased by EUR 410.4 million on the year 2003. The increase resulted from investments into foreign shares and bonds undertaken by Slovene residents, with payment of Eurobonds accounting for over a third of the amount.

ERM 2 entry at the end of June 2004 brought an important element of stability into Slovenia's economy and is expected to be the key element in future inflation cuts. Inflation had already dropped from 4.6% in 2003 to 3.2% in 2004. In the second half of the year, euro exchange rates fluctuated at the level of the mean central exchange rate of SIT 239.64 per euro, while deviations of market exchange rates from the central rate were slight. Given the key importance of exchange rate growth for price growth, the exchange rate stabilisation helped remove an important inflation factor which had in previous years been accountable for approximately 50% of total price growth. Inflation cuts were further anchored by price regulation measures.

In the first half of 2004, the Bank of Slovenia lowered interest rates, and they remained practically unchanged from June when Slovenia entered the ERM 2 till the end of the year.

Influence on SEC operations

In 2004 SEC operations were profoundly affected by developments in the international environment and in Slovenia.

Changes in the structure of Slovenia's exports after joining the EU led to several changes in the structure of business insured by SEC. In 2004, SEC again recorded a considerable growth in domestic insurance.

Changes in the reinsurance market, having started several years before, also had a considerable effect on SEC operations in 2004. The changes were mainly concerned with the definition of the reinsurance facility and marketing of (commercial and non-commercial) risks in certain higher-risk countries, namely the countries which were unable to acquire reinsurance in the private market prior to and in 2004. Reinsurance covering commercial and non-commercial risks in high-risk countries opens new possibilities for cooperation with SEC and the Republic of Slovenia as a reinsurer who provides Slovene exporters with insurance of those business transactions which the private market is not yet willing to assume. The circle of countries to be insured under national cover is shrinking year by year. In 2004 the group of countries where SEC covers marketable risks included Bulgaria and Romania, and in 2005 SEC expects to provide insurance for transactions in most other states which have been considered unacceptable to date.

Accession to the EU and ERM 2 entry did not only affect Slovene banks but also the operations of SEC in the field of financing. As credit rating of Slovenia improved, credit risk margins for Slovene borrowers decreased, leading to a further decrease in interest margins.

6. Review of Operations in 2004

In 2004 SEC achieved its planned business objectives and generated positive results of all its business segments: insurance, financing and issue of guarantees for international business transactions.

Income statement summary (in SIT billion)

	2002	2003	**2004**
net interest	3.02	3.38	**3.11**
net non-interest income	1.30	0.88	**1.31**
cost of labour, materials and services	1.02	1.09	**1.29**
depreciation	0.07	0.08	**0.09**
net provisions	2.89	2.73	**1.78**
profit before tax	0.30	0.37	**1.26**
income tax	0.06	0.09	**0.64**

Profit before tax amounted to SIT 1.26 billion, a significant increase on the year 2003.

Interest income totalled SIT 5.2 billion (a decrease of 14% on the year 2003), whereas interest expenses dropped by 22%, keeping net interest income at SIT 3.1 billion, 8% lower than in 2003.

The most important item in net non-interest income is income from net fees and commissions. The largest, 52.3%, share in income from net fees and commissions, which climbed by 30.2% on the year 2003, is represented by net income from insurance premiums and commission earned from insurance against short-term commercial risks (on own account). In this presentation the income, which rose by 43.8% in 2004, is reduced by claims paid and allowances for recourse claims, and stated in the income statement under other operating charges. Net premiums from insurance on account of the State represented 35.5% of net commission income, commission income from financing made up 2.4%, and net commission from issued guarantees accounted for 3.6% of the total commission income.

Given estimated operating expenses and investment returns, the technical account of short-term commercial insurance was SIT 1.73 billion. Net income from insurance premiums totalled SIT 586.98 million. Net claims paid amounted to SIT 4.17 billion. However, thanks to a reduction in provisions for claims, the expenses actually turned into income.

In 2004 operating expenses totalled SIT 1.38 billion and were 17.9% higher than in the previous year. In the structure of operating expenses, labour costs accounted for 56.1%, cost of services 35.3%, depreciation 6.4% and cost of materials 2.2%. The percentage of operating expenses as of assets lowered from 1.17% in 2003 to 1.10% in 2004.

Net provisions stood at SIT 1.78 billion, a drop of 35.0% over the year 2003, resulting from a reduction in insurance technical provisions by SIT 1.34 billion.

Balance sheet summary (in SIT billion)

	2002	2003	**2004**
total assets	88.37	115.44	**140.39**
capital & reserves	18.24	18.52	**19.05**
provisions	2.62	2.39	**3.48**
insurance technical provisions	3.97	5.38	**4.03**
off balance sheet items	21.29	26.31	**57.89**

As of 31 December 2004, total assets of SEC stood at SIT 140.4 billion, an increase of 21.6% on the previous year. In the liabilities structure, the biggest share of 61.9% is taken up by liabilities to banks in the amount of SIT 87 billion, which went up by 42.5% in 2004. The highest percentage of total liabilities (60.5%) is debt in foreign currency.

At the end of 2004, the Corporation's capital and reserves stood at SIT 19.0 billion, accounting for 13.6% of total liabilities, and had increased by 2,9% through generated net profit. Safety reserves for insurance on account of the State rose by 2.2% in 2004 to SIT 21.5 billion, accounting for 15.3% of total liabilities.

Long-term provisions, totalling SIT 7.5 billion, dropped by 2.8% in 2004 and account for 5.4% of total liabilities. In this respect, insurance technical provisions rose to SIT 4.0 billion, bank provisions amounted to SIT 2.6 billion whereas general provisions reached SIT 0.9 billion.

The growth of total assets in 2004 again resulted from intensive financing activities. Loans to banks increased by 13.9% to SIT 102.42 billion, making up 72.9% of total assets. There was a 65% increase in loans to non-bank customers, making up SIT 23.2 billion or 16.5% of total assets. At the end of 2004 the Corporation held debt securities in the amount SIT 10.7 billion, which is 7.7% of total assets. Equity investment in the SEC Group was SIT 1.4 billion, 1.0% of total assets.

Selected figures

	2002	2003	**2004**
number of employees (31 Dec.)	69	74	**83**
number of shareholders	89	89	**88**
number of shares	932,354	932,354	**932,354**
par value of a share (in SIT thousand)	10,000	10,000	**10,000**
book value of a share (in SIT thousand)	19,560	19,859	**20,428**
capital adequacy (in %)	19.10	19.33	**26.23**
doubtful and unrecoverable balance sheet receivables/assets (in %)*	0.64	14.98	**19.57**
provisions for balance sheet receivables/assets (in %)	3.42	4.38	**5.39**
interest margin (in %)	4.28	3.37	**2.44**
return on assets (ROA) (in %)	0.42	0.36	**0.98**
return on equity before tax – ROE (in %)	1.65	2.01	**6.71**
return on equity after tax – ROE (in %)	1.31	1.52	**3.29**
operating expenses / total assets (in %)	1.51	1.17	**1.10**

** High value of the index for 2003 and 2004 is a result of implementation of internal guidelines on investment classification (all investments approved to non-bank customers are in the first half of contract period normally classified as Class B investments ranking among doubtful and unrecoverable receivables according to a Decision of the Bank of Slovenia) and not a result of lower quality of SEC investment portfolio.*

• *Insurance on own account - Key figures*

		in SIT	**2004**	2003
growth of gross premium charged (index)	gross premium charged in current year x 100 / gross premium charged in previous year	1,730,406,906 x100 / 1,350,470,918	**128**	132
net premium charged as % of gross premium charged	net premium charged x 100 / gross premium charged	618,722,621 x 100 / 1,730,406,906	**36**	29
changes in gross claims paid (index)	gross claims paid in current year x 100 / gross claims paid in previous year	754,366,387 x 100 / 920,770,540	**82**	141
average claim paid (SIT)	gross claims paid / number of claims paid	754,366,387 / 158	**4,774,471**	6,138,470
loss ratio	gross claims paid / gross premium charged	754,366,387 / 1,730,406,906	**0,44**	0,68
operating expenses as % of gross premium charged	operating expenses* x 100 / gross premium charged	566,342,548 x 100 / 1,730,406,906	**32,73**	38,34
net loss provisions in % of earned premium	net loss provisions ……………….x 100 / earned premium	918,917,740 x 100 / 586,984,537	**157**	1322
average value of net technical provisions relative to earned premium	average value of net technical provisions x 100 / earned premium	4,705,319,344 x 100 / 586,984,537	**802**	1207
gross premium charged relative to number of employees (in SIT)	gross premium charged / average number of employees	1,730,406,906 / 21	**82,400,329**	79,439,466

* Operating expenses comprise operating expenses with regard to insurance on own account and were estimated by applying a special methodology.

Indices are calculated in accordance with the Decree on Annual Reports of Insurance Companies - SKL 2002, issued by the Insurance Supervision Agency, and in accordance with the Decision Amending the Decree on Annual Reports of Insurance Companies (SKL 2002) pursuant to Article 355 of the Insurance Act.

The methodology for calculating loss provisions was changed in 2004 and consequently the 2004 indices which contain loss provisions differ greatly from the values for previous years. Changes to the methodology of loss provision determination are explained in detail in other parts of the Report.

7. Insurance

With its insurance services and a pro-active marketing approach to insurance against marketable risks, SEC has managed to develop its domestic market and strongly increase corporate demand for credit and investment insurance in 12 years of its existence. This approach to risk management will play an ever more important role in the period of continued intensive structural changes of Slovene economy which is successfully completing its transition.

In 2004 SEC again experienced a significant increase in total business insured, both for operations insured **on its own account** (insurance against marketable risks) and as an authorised institution **on behalf of and for the account of the Republic of Slovenia** (insurance transactions of the nature and risk for the cover of which private reinsurance market lacks either willingness or capacity). The contents and division of marketable and non-marketable types of insurance are presented in detail in Sections 7.1. and 7.2.

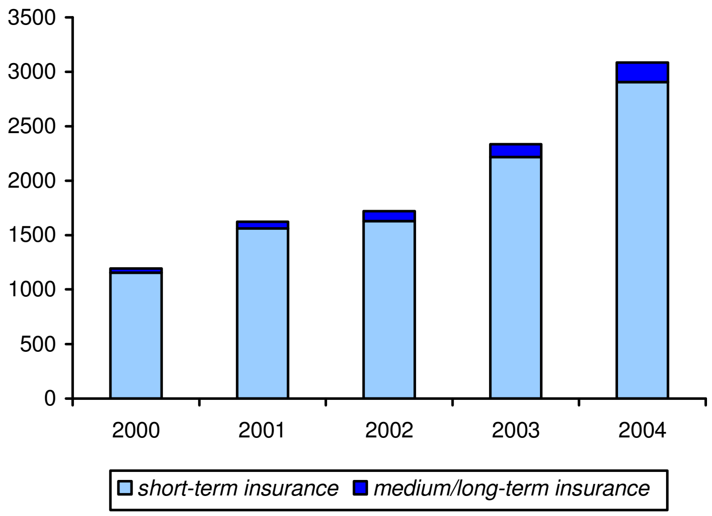
Total business insured: business results for 2000-2004 (in EUR million)

	2000	2001	2002	2003	**2004**
Business insured	1,191.6	1,624.0	1,719.6	2,393.5	**3,085.1**
short-term transactions	1,154.3	1,561.3	1,629.8	2,215.6	**2,908.0**
medium-term transactions and investments	37.3	62.7	89.8	177.9	**177.2**
Premiums	5.6	6.7	7.7	12.3	**12.4**
short-term transactions	4.8	5.3	6.1	7.9	**8.9**
medium-term transactions and investments	0.8	1.3	1.6	4.4	**3.5**
Claims	1.8	2.5	3.4	4.3	**5.3**
short-term transactions	1.4	2.5	3.3	4.3	**5.3**
medium-term transactions and investments	0.4	0.0	0.1	0.0	**0.0**
Recoveries	0.4	0.2	1.1	1.1	**0.8**
short-term transactions	0.1	0.2	0.6	1.1	**0.7**
medium-term transactions and investments	0.3	-	0.5	0	**0.1**

Business insured

The total value of operations related to all types of credit and investment insurance taken out by Slovene legal entities abroad amounted to EUR 3,085.1 million in 2004, a 29% rise on the year 2003. Fast growth in insurance volumes from the previous years was maintained. It was only four years ago, in 2000, that the total business insured exceeded EUR 1 billion for the first time. Actually, it has increased four-fold since 1999 when it totalled EUR 738.5 million.

Short-term and medium-term insurance for 2000-2004 (in EUR million)



High growth rates SEC has been achieving in its insurance operations since 1993, when first insurance covers were sold, are also reflected in the share of Slovenia's exports insured by the Corporation. In 2004, SEC insurance covered 18% of Slovenia's total exports of goods (compared to 17% in 2003), which is one of the highest shares achieved by an ECA even in international terms. Safety of Slovene exporters, resulting from protection against the risk of non-payment from buyers, has become an increasingly important factor in the stability of the entire national economy.

A considerable part of Slovenia's exports of goods and services, especially to high-risk markets, would most certainly not have been realised without SEC insurance and the exporters could not have offered competitive finance conditions in selling their products. Consequently, the Corporation plays a very important role in opening certain markets for Slovene corporate sector and contributes to a more favourable balance of payments and higher level of employment in the national economy.

Business insured follows the structure of Slovene economy, industry and exports: the major part of the insurance volume is taken up by production and export of consumer goods and consumer durables, sold on deferred payment terms for a maximum of 180 days. On the other hand, exports of higher value added goods and services (export of equipment and other capital goods, construction of production plants and other sites abroad (turnkey projects), export of engineering services and other knowledge), which normally requires medium-term financing and insurance, continue to have a smaller share of the business insured, revealing a stark contrast in the share and importance of these industries prior to transition and independence. Conversely, high growth in investment insurance undertaken by Slovene legal entities abroad is promising.

Insurance technical figures

Total premium, which rose to EUR 12.4 million in the year 2004, failed to keep up with the increase in business insured mainly due to further cuts in average premium rates and a fall in the number of large individual export transactions for which premium rates are several times higher than for short-term or investment insurance, to account for longer credit periods.

Claims paid for short-term insurance were up by 23% (EUR 53 million), mainly due to one substantial claim payout, while no claims were submitted with regard to medium-term insurance. **Recoveries** of claims paid did not increase in 2004 (EUR 0.8 million) because the volume of claims paid in the previous years was low, especially in medium-term insurance.

In the continuation, insurance against marketable risks and insurance against non-marketable risks are presented under separate headings.

7.1. Insurance against Marketable Risks

This type of insurance, which was in 2004 still performed by the ST Credit Insurance Department, is the main business activity of the newly established Corporation's subsidiary, a specialised credit insurance company SID - Prva kreditna zavarovalnica d.d., Ljubljana, onto which SEC has transferred its portfolio of insurance against marketable risks.

Insurance of short-term credits to private buyers from developed countries (i.e. supplier credits of up to 180 days, exceptionally up to 1 year) against commercial (marketable) risks is the basic facility offered to Slovene enterprises selling at home or abroad on deferred payment and, often enough, on open account. The insurance contracts are normally made on a whole turnover revolving basis covering risks of non-payment in foreign and domestic markets. As for this type of insurance, SEC is the leading insurance company in Slovenia, and is also offering the facility in several foreign markets.

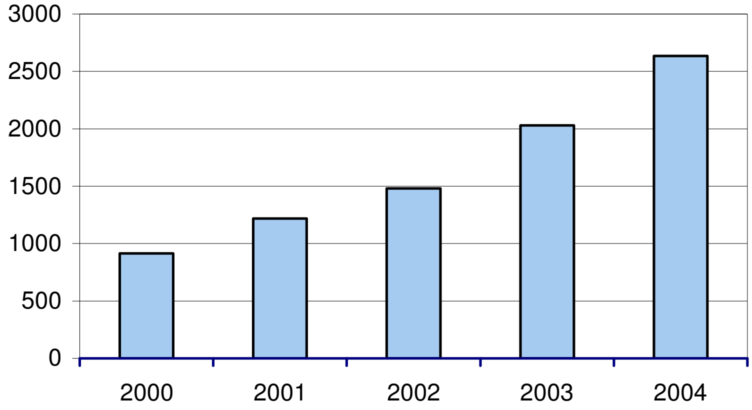
Insurance on own account: *business operations 2000-2004 (in EUR million)*

	2000	2001	2002	2003	**2004**
business insured	914	1,219	1,480	2,030	**2,636**
exposure (31 Dec.)	384	520	760	926	**1,095**
premiums	3.3	3.9	4.5	5.8	**7.2**
claims paid	1.3	2.3	2.9	3.9	**3.2**
number of claims	66	68	82	150	**158**
recoveries	0.1	0.2	0.6	1.0	**0.6**

Business insured

The volume of insurance against short-term commercial (marketable) risks, insured on own account and reinsured on the private markets with first-class foreign and domestic reinsurers, increased significantly in 2004. Business insured rose by 30%, totalling SIT 629.7 billion (EUR 2,636 million). In export credit insurance, business volumes went up by 21%, and in domestic credit insurance they climbed by 61%.

Business insured – short-term commercial (marketable) risks, 2000-2004 (in EUR million)



Slovenia's international trade shows a very diversified structure of products, economic sectors and partnerships although the majority of exports go to the developed EU and the neighbouring markets, and a small part of exports go the countries of South Eastern, Central and Eastern Europe. Geographical distribution of Slovene exports is reflected in the geographical destination structure of insured exports.

In 2004 the majority of export credits were insured against commercial (marketable) risks of buyers in Slovenia, Germany, Italy and Croatia. Policy holders, most of them using this SEC insurance instrument against commercial risks as a whole turnover cover, were mainly companies operating in metal and metal-working industry, manufacturers of electrical and optic devices, and companies from pulpwood and paper industry.

SEC client list includes a number of large and important Slovene exporters, but the number of medium and small enterprises, which are granted the same treatment as large companies, is also increasing. SEC completed the year 2004 with 269 clients and 406 insurance contracts.

Co-operation with PCMG

SEC strives to further improve its insurance and financing services for SMEs in co-operation with the Slovenian Enterprise Promotion Center (PCMG) as these enterprises need financing as well as effective cash flow and asset management in order to successfully overcome the ever-present risks of non-payment and late payment. Receivables normally represent a substantial part of corporate assets. Small and medium-sized enterprises are thus given an opportunity to take out credit insurance through regional development centres (PCMG) where they are provided with all the needed information on SEC services and insurance procedures.

Exposure

A significant rise of 18% was recorded in exposure from insurance against short-term commercial (marketable) risks, reaching SIT 262.4 billion (EUR 1,095 million) as of 31 December 2004. Exposure was highest with regard to buyers from Slovenia and Germany, Italy and Croatia. In 2004 SEC insured exports against short-term commercial (marketable) risks to 64 countries.

SEC provided expert – insurance and technical – consulting services to the Macedonian Bank for Development Promotion (MBPR) but the volume of business with Macedonia remained fairly limited due to unfavourable conditions in the area.

Insurance technical figures

With a 25% increase on the year 2003 (18% in export credit insurance and 54% in domestic credit insurance), **gross premium charged** from insurance against short-term commercial risks on SEC own account failed to keep up with the overall increase in business insured, and at the end of 2004 amounted to SIT 1,730 million (EUR 7.2 million).

In 2004 SEC continued with reinsurance of short-term commercial (marketable) risks in the private market with first class reinsurers within the framework of the quota share treaty. The subject of the treaty was the risks assumed directly and the risks assumed subject to the agreement on active reinsurance between SEC and MBDP.

As regards short-term credits against commercial risks, SIT 754.4 million (EUR 3.2 million) were paid out in **claims** in 2004, largely on account of outstanding receivables of insured persons to debtors from Italy, Germany and Slovenia.

However, positive economic growth recorded in all markets where SEC operates led to a decrease in the volume of claims submitted for short-term credits against commercial risks. For claims which occurred in 2004, over SIT 222 million worth of claims were being processed on 31 December 2004, while a year before the volume of claims processed was over SIT 402 million.

The **loss ratio** (measured as the ratio between gross premiums and claims, without recoveries which totalled EUR 0.56 million) was positive in 2004, amounting to EUR 4.1 million. In absolute terms, the insurance technical result was much more favourable in 2004 than a year before when it stood at EUR 1.9 million. In 2004, claims paid made up 44% of the total premium charged (it needs to be noted, however, that a certain percentage of claims which occurred in 2004 and were being processed or were recorded as potential claims on 31 December 2004 will have to be paid out in 2005).

The **value of recoveries** relative to insurance of short-term credits against commercial risks rose to SIT 131.2 million (EUR 0.6 million) in 2004, making up 17.8% of claims paid from this type of insurance, a percentage which is totally comparable with the results achieved by other export credit agencies. In 2004 SEC received recoveries mainly from France, Italy and Slovenia.

Recently, SEC has given a lot of attention to the minimisation of potential claims, both before a claim for an insurance benefit is submitted and after its initial submission. Working with the insured, the Corporation tries to secure payment from the date when it is first informed that the insured credit was not paid in due time. It is estimated that in the previous year alone this practice helped the Corporation prevent a significant number of claims, with the help and co-operation of its subsidiary, a debt collection agency PRO KOLEKT.

7.2. Insurance against Non-Marketable Risks

Certain (commercial and non-commercial or political) risks of the nature and level of which private reinsurance market lacks either willingness or capacity are insured by SEC as an authorised institution **on behalf of and for the account of the Republic of Slovenia**. According to the EU legislation, **non-marketable risks** are defined as commercial and political risks of a period exceeding two years in OECD countries and all risks in non-OECD countries. In practice, however, the border between marketable and non-marketable risks is determined by private reinsurers and their willingness to reinsure certain types of risks. What causes additional problems in this field of insurance is the changeability of private reinsurers' interest (e.g. their interest in a certain state or a group of states where risk level increases on a temporary or permanent basis) and difficult access of small-scale economies and their credit insurance agencies to the international private reinsurance market, both with regard to the general readiness to cover certain risks (comprehensive cover or partial cover) and the conditions offered for such reinsurance.

The role of the state is of key importance as without an insurance cover, most business transactions, especially medium-term, would not be carried out. Furthermore, it is in insurance of such transactions that export promotion as the main SEC activity is clearly expressed. Insurance coverage for these risks is an important element of international competitiveness of Slovene exporters, given that most foreign companies also take out this type of insurance through national insurance schemes or national export credit agencies. It is essential that in defining its insurance capacity and policy, the state adapts to the private reinsurance market, thus providing exporters with a possibility to obtain cover for all countries, except for the ones which fail to meet the minimum standards of safety and general insurance principles of sound business practice of credit and investment insurance.

Insurance against non-marketable risks on behalf of and for the account of the State 2000–2004 (in EUR million)

	2000	2001	2002	2003	**2004**
business insured	821.4	936.3	748.8	806.6	**810.0**
exposure (31 Dec.) - gross	351.3	371.0	402.8	485.5	
- net*				434.3	**415.4**
premiums	2.3	2.8	3.2	6.5	**5.2**
claims	0.5	0.2	0.5	0.4	**2.1**
number of claims	7	7	16	15	**23**
recoveries	0.3	/	0.5	0.04	**0.2**

**see notes below the table on page 20*

Business insured

Volume of business insured against non-marketable risks which SEC provided to Slovene exporters on behalf of and for the account of the Republic of Slovenia, rose to EUR 810 million in the year 2004, a slight increase on the previous year (EUR 807 million). Business insured dropped in insurance against short-term and medium-term export credits, while on the other hand, fast growth was maintained in investment insurance of Slovene companies abroad. In 2004, for the first time since 2001 when after an official mutual recognition of independence insurance business with Serbia & Montenegro started, Serbia & Montenegro came to the top of SEC client list with the volume of business insured (largely due to investment insurance) climbing to EUR 104 million. Serbia & Montenegro was followed closely by Bosnia & Herzegovina, Croatia and the Russian Federation.

In 2004, 299 Slovene exporters and investors were included in the national export credit insurance scheme. The number was down by 67 clients on the previous year, mainly on account of recent trends in the field of insurance against short-term risks as the most used facility with policyholders.

Exposure

After experiencing fast growth in the previous years, exposure from business insured on behalf of and for the account of the Republic of Slovenia (insurance covers issued) stood at EUR 415 million at the end of 2004 (compared with EUR 434 million at the end of 2003). The value of valid offers of cover, however, was by far the highest at the end of 2004, rising to EUR 167 million, mainly in investment insurance. Subject to the same trends affecting the volume of business insured, insurance structure has undergone certain changes: exposure resulting from short-term insurance dropped 19% in a year, whilst exposure from medium-term insurance saw an upturn of 11%. Exposure (excluding offers of cover) was largest with regard to Serbia & Montenegro, Bosnia & Herzegovina and Ukraine.

Insurance technical figures

Compared with 2003, **insurance premium** dropped 20% (from EUR 6.5 million to EUR 5.3 million), mainly due to a reduction in the number of medium-term export credit transactions insured where premium is several times higher than for other types of insurance. The reduction was also caused by a decrease in the volume of short-term insurance. Nevertheless, the insurance result is satisfactory, as it should be noted that in 2002 the total insurance premium only reached EUR 3.2 million, and had been even lower before that year. Income from handling fees was negligible because SEC, in conformity with its business policy, returns the amount charged to exporters and other persons insured if the project is implemented.

Mainly on account of a large claim arising from an export transaction to China, the value of **claims paid** exceeded EUR 2 million, the number of claims paid rising to 23. All new claims were paid from short-term insurance policies. The Corporation successfully **recovered** EUR 0.17 million from paid claims, the relatively low amount being linked to a low number of claims paid out from insurance on account of the State in previous years. The **volume of processed claims** fell by 51% on the year 2003, and the **volume of potential claims** dropped by 12%.

The **current business result** of insurance made on account of the State was **positive** for the fifth year running, reaching nearly EUR 0.5 million, and the **cumulative business result** rose to EUR 9.4 million for the first time in the 12-year history of SEC. Safety reserves for this type of insurance were additionally increased by a (part) of the funds obtained through sales of privatised state-owned companies and interests generated from safety reserve investments, closing the year 2004 at EUR 89.7 million.

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

Insurance against non-marketable risks on behalf of and for the account of the State, 2000-2004; by type of insurance

(in EUR million)

Short-term export credits	2000	2001	2002	2003	**2004**
business insured	782.2	873.6	658.9	628.6	**632.9**
exposure (31 Dec.)					
- gross	286.4	304.1	282.0	253.6	
- net*				221.7	**179.2**
premiums	1.5	1.4	1.6	2.1	**1.7**
claims	0.1	0.1	0.4	0.4	**2.1**
number of claims	5	8	14	15	**22**
recoveries	/	/	/	0.08	**0.1**

Medium-term export credits	2000	2001	2002	2003	**2004**
business insured	21.7	44.9	20.7	79.1	**44.9**
exposure (31 Dec.)					
- gross	47.4	49.1	68.1	138.9	
- net*				129.5	**122.9**
premiums	0.6	1.2	1.1	3.6	**2.4**
claims	0.4	0.0	0.1	0.05	**0.008**
number of claims	3	0	2	/	/
recoveries	0.2	/	0.5	-0.04	**0.06**

Investments abroad	2000	2001	2002	2003	**2004**
business insured	17.5	17.8	69.1	98.8	**132.3**
exposure (31 Dec.)					
- gross	17.5	17.8	52.7	93.0	
- net*				83.0	**113.4**
premiums	0.1	0.2	0.5	0.9	**1.1**
claims	/	/	/	/	/
number of claims	/	/	/	/	/
recoveries	/	/	/	/	/

Notes:

- In accordance with the Law on Insurance and Financing of International Business Transactions, SEC began in 2004 to present net exposure (i.e. total (gross) exposure reduced by the insured's self-retentions borne as their own shares in claims paid), while only gross exposure is included in the data for previous years. In both cases, credit instalments due and paid are deducted. Valid offers of cover are not included, and neither are claims in process and potential claims.
- The volume of business insured on account of the State includes all credits which have in any way been insured on account of the State (against commercial and/or non-commercial risks), even though they were at the same time insured (against marketable risks) on account of SEC. Only transactions insured fully on account of SEC are excluded. As for reinsurance, only the share of Slovene partners was taken into account and not the whole credit or investment insured.
- Investment insurance includes all insurance contracts for which premium was charged in a given accounting period (year). Since the facility entails annual renewal of the insurance, the data includes investments for which contracts had been taken out prior to this accounting period.
- As for recoveries, the date when the claim was received is relevant and not the loss year; similarly, the date of payment is decisive in the presentation of claims. If the claim was paid out in several part-payments, the claim case is recorded upon the first payment.

7.2.1. Short-Term Export Credit Insurance

The majority of the total business insured on behalf and for the account of the Republic of Slovenia is still linked to insurance of short-term credits against non-marketable (commercial and political) risks, which recorded a 1% increase in the year 2004.

The main reasons behind the current situation lie in the increasing willingness of the private reinsurance market to undertake the risks which had until recently been covered by states and from state budgets only. Consequently, an increasing number of export credits are insured on SEC own account and reinsured in the private reinsurance market rather than for the account of the Republic of Slovenia. In 2004, reinsurance in the private market was taken out for Romania and Bulgaria as well as for several new EU member states, and in the year 2005 the private market is expected to cover most other export markets.

When taking into account the existing classification of countries and territories into risk categories (according to SEC classification, there are seven groups, group 1 consisting of the lowest-risk countries), risk exposure in high-risk countries (groups 6 and 7) represented 62% of the total SEC exposure to the mentioned risks (excluding valid offers of cover).

The majority of short-term export credits is linked to the export of intermediate goods, semi-products, consumer goods and consumer durables with revolving insurance predominating thanks to the specific nature of exporter-buyer relations in such transactions; less common individual transaction insurance is determined by the nature of export goods (equipment and other capital goods of lower value) and taken out in commercial contracts of a clearly defined value and also individual insurance contracts normally subject to tailor-made insurance policies and payment of the entire premium upon the issue of insurance cover.

In 2004, **total business insured** amounted to EUR 633 million, mostly for exports to the Russian Federation, Bosnia & Herzegovina, and Serbia & Montenegro. Insurance against non-marketable short-term risks on account of the State was taken out by 265 Slovene exporters.

Exposure from this type of insurance fell by 19% in 2004, from EUR 222 million at the end of 2003 to EUR 179 million at the end of 2004, mainly in the segment of short-term export credits insured on state account against non-commercial risks (down by 26%), whereas exposure from transactions insured on state account against commercial and non-commercial or political risks only dropped by 5%. The order of exposure by country is similar to the order of business volume by country with Serbia & Montenegro in the first place. In short, the turnover of aqpproved limit for customers in the Russian Federation was higher than in Serbia & Montenegro.

Lower business insured led to lower **insurance premiums**, which were down 19% (EUR 1.7 million), while there was a significant increase in **claims paid**, largely on account of the claim linked to an indiviudal export transaction in China. Thus, business result for short-term credit insurance on account of the State was negative, for the first time.

7.2.2. Medium-Term Export Credit Insurance

Most medium-term export credits insured in 2004 were linked to the export of telecommunications and broadcasting equipment to the Russian Federation, Ukraine, Bosnia & Herzegovina and Iran, the rest bearing on reconstruction of tourist facilities in the Russian Federation and in Croatia, construction of infrastructure, production lines for food industry (bakeries and pallet equipment), export of agricultural mechanization, etc.

The **volume of medium-term export credit insurance** fluctuates from year to year due to a low number of executed projects, and at the end of 2004 it totalled EUR 45 million. In the record-breaking year 2003, total business volume from this type of insurance amounted to EUR 79 million. Almost a half of these credits covered were linked to exports to Ukraine, followed by exports to the Russian Federation, Croatia, Serbia & Montenegro, Algeria and Kazakhstan.

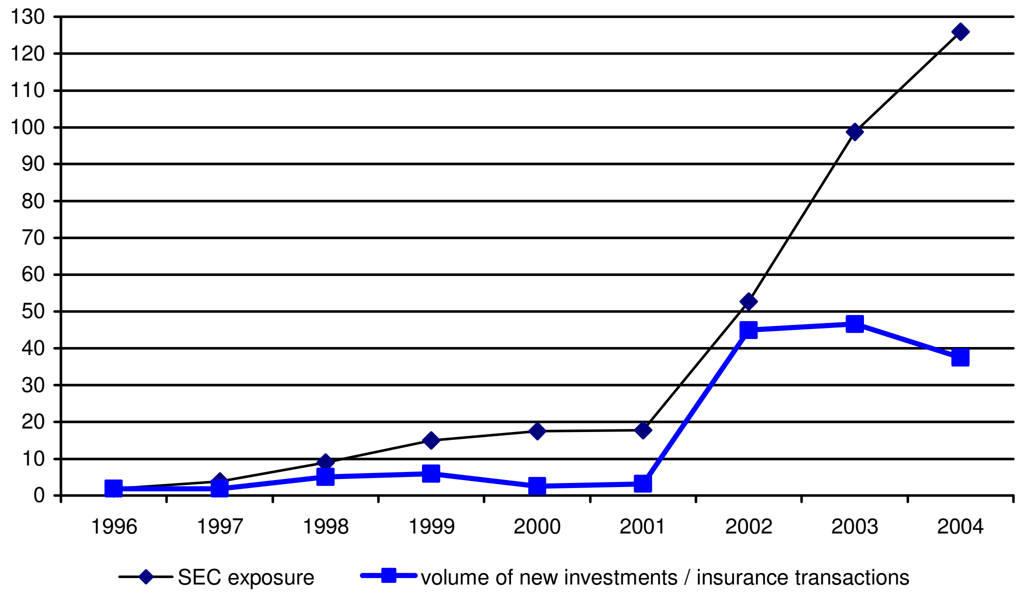
In 2004 the Corporation secured 22 medium-term export credits with a total of 19 main contractors or exporters and a significant number of Slovene subcontractors and subsuppliers. The number is much lower than in 2003 when SEC insured 45 medium-term export credits. Lower number of secured individual transactions requiring medium-term insurance and also financing lies in the low number of Slovene companies which are able to acquire such transactions on a regular rather than sporadic basis, and resulted from the record year 2003 when several large individual transactions, which used up most of the exporters' capacities, were insured in the second half of the year. We also need to mention the development of banking systems in several traditional Slovene markets which are becoming increasingly capable of providing financing to their best companies at competitive financing conditions, less favourable insurance for the markets of SE Europe resulting from high-risk nature of these markets and less competitive (if compared with foreign banks) financing options provided by Slovene banks.

Exposure from the 78 currently outstanding export credits as of 31 December 2004 was EUR 123 million, with the Russian Federation as the prevalent country of exposure. In 2004, total **premium charged** was EUR 2.4 million; no claims were paid.

7.2.3. Investment Insurance

The increase in direct outward investment led to the **growth in insurance** against political risks, which amounted to EUR 132.3 million in 2004. In addition to investments insured and valid offers of cover in the amount of EUR 150 million, SEC finished the year with eight other applications for insurance, totalling EUR 15 million, which clearly shows that the trend of growing interest for outward investment insurance is likely to continue. The change in the attitude of several Slovene exporters to insuring investments of Slovene companies in foreign countries may be a result of completed transition and clearer ownership structure of Slovene companies, which sets high demands for investments to be insured. Besides, it may have been the experience Slovene exporters have gained from incidents in the neighbouring countries and around the world that political risks were present everywhere and at all times. Although the general perception of insurance has changed and certain awareness of the consequences of political risks exists, certain features that had determined insurance investment in the past were also observed in 2004: firstly, investors still viewed insurance premiums as a cost; secondly, some investments were undersigned, and thirdly, additional investments in the expansion of project companies and reinvested profit in the form of reserved insurance amounts were rarely insured.

Investment insurance: exposure (as of 31 December) / new investment insurance policies by year - (in EUR million)



In 2004 SEC insured twelve new transactions covering direct investments of Slovene companies abroad, that is eight new transactions and four extensions of existing insurance coverage (four transactions in Bosnia & Herzegovina – metal working industry , financial sector and trade; six transactions in Serbia & Montenegro – trade and finance; one transaction in Macedonia – finance; one transaction in Croatia – finance) with a total insurance sum of EUR 37.5 million, which accounts for 31.1% of all investments insured at the end of 2004. In addition, SEC concluded an agreement to insure all current and future investments with two leading Slovene investors. On the basis of this agreement, SEC will have insured EUR 150 million of investments by the end of 2006.

At the end of 2004, the company portfolio included 24 investment insurance transactions of Slovene companies and banks worth EUR 113.4 million, and together with its offers of cover the SEC **exposure** from investment insurance was EUR 248.5 million as of 31 December 2004. Investment insurance mainly covers transactions in Serbia & Montenegro, Bosnia & Herzegovina and Croatia. In 2004, **total premium** was EUR 1.1 million, which is 29% higher than in the year before; no claims were paid in that year.

7.2.4. Trends and Future of Non-Marketable Risks Insurance

Private reinsurance market is increasingly willing to cover reinsurance of short-term risks which have until recently been considered non-marketable. Besides, withdrawal of national schemes from insurance against short-term risks is part of regulatory demands of the European Community. Nevertheless, the role of state governments or national export credit agencies will remain vital, in particular as regards insurance of medium-term credits and investments since, in most cases, the corresponding risks are not borne by the private capital market. Studies into the future role of a state or a national credit agency need to consider the changeability of the private reinsurance market and its capacity allocated to certain states or a group of states. The reputation and popularity of these types of insurance can be credited to the awarded first-class rating of such insurance by Bank of Slovenia and expected same status according to the Basel II Agreement, which allows zero weighing of bank investments, secured by the state.

A number of credit export agencies (most of them small-sized) are not satisfied with the current definition of marketable risks, claiming that states and their exporters do not have the same possibility to access the reinsurance market for the same risks. Elimination of these, generally lower, risks has had an additional negative effect on risk spread, thus increasing **portfolio concentration** by geography, industry branch, maturity of insured export credits and concentration in terms of securing individual (large) transactions.

This will probably increase (temporarily) the availability of national or public finance facilities for other types of insurance, and there are several reasons to concentrate efforts on the **promotion of exports of the goods and services with highest knowledge and value added**, and on investments of Slovene companies abroad, for which cover will be needed at least until the political situation calms down and positive economic trends are achieved in the South Eastern Europe, a traditional destination of Slovene investments. In view of diametrically opposed opinions regarding the suitability of production transfer to other countries (usually with a cheaper labour force) for the national economy, SEC financed a study entitled »Is outward investment in the national interest of Slovenia?« (by authors Dr Marjan Svetličič and Dr Andreja Jaklič), which not only showed that there are more positive than negative effects of outward investment, but that this in inevitable and necessary in view of recent trends. In the future, export promotion with SEC as a major player should therefore focus on the mentioned industries with a higher added value and knowledge.

The role of the state and its International Trade Promotion Commission will be of key importance, as these transactions are not only concerned with the security of doing business. On the contrary, due to risks (risk countries, long maturity, large projects) these business transactions cannot be financed nor implemented without proper insurance. Besides, insurance is **one of the most efficient tools** in the whole government export promotion system, even with regard to potential influences on the reorganisation of certain industries where the process may be made more effective by acquiring new business deals, and as a consequence new challenges and knowledge, taking into account also payment of insurance premium and the fact that the majority of export credits are in fact paid.

A **study into public finance sustainability** of insurance on account of the State, which was commissioned at the Institute for Economic Research (IER) by the Ministry of Finance (also to determine potential effects of this industry on compliance with the Maastricht fiscal criteria) showed that even if worst-case scenarios came true, state budget would not be under any immediate negative effects, and would not be significantly affected later in time.

In the field of medium-term export credit insurance, export credit agencies have undergone a **dramatic change in the structure of insured risks**. A decade ago, before the Berlin Wall came down, the majority of insurance was based on state guarantees and risks undertaken by (state) banks. Today, however, most insurance transactions are granted on the basis of **risks of companies (corporates),** without additional third-party guarantees, and **project risks**. Besides, export credit agencies are increasingly willing to secure risks of (sub-sovereign) public buyers, e.g. risks of towns, municipalities, regions, other authorities and companies who perform activities of a public nature and are (mostly) budget-financed, etc. **Structured financing** (and insurance) is on the increase, often combined with a pledge on hard currency inflows in special escrow accounts abroad. By setting up branches in importing countries, foreign banks have started to use **local financing**, more and more frequently in local currency, which strengthens the competitive advantage of their exporters, and, on the other hand, decreases risks (prohibition or incapability of conversion and transfer, etc.) In Slovenia these trends have not yet been observed. Conversely, more and more foreign and Slovene banks in foreign ownership are willing to finance Slovene exports, provided they have an insurance cover with SEC.

Export credit agencies have had to adjust to these changes as fast as possible. There has been a **change in the risk acceptability assessments** as these risks require a different approach (branch analyses, business plans, feasibility studies, management and market position assessments, etc.); export credit agencies are **more and more forced to engage in the process of acquiring business and direct negotiations** (which was unthinkable in the time of »state transactions« or dealings with banks with whom stable correspondence relations was held) and they must adopt a market attitude which includes determination of premium rates (limited by the OECD Knaeppen package) and **flexibility** in defining other insurance conditions.

Major changes were introduced to the **prevention and processing of claims**. Relatively comfortable processing and handling of claims within the Paris Club (together with other export credit agencies and public creditors) has been replaced by differentiated treatment for a high number of small debtors, each demanding an individual, specific approach and application of various techniques for minimisation of claims and, also importantly, direct involvement of an export credit agency in debt collection.

Largely, **SEC has already adapted to the new trends** by modifying its business policy and insurance approval procedures as well as by revising and changing the methodology of determining the acceptability of insurance risks (implemented at the beginning of 2004). In 2004, 17 out of 22 medium-term projects (67% of medium-term business insured) were based on the so called corporate risk, three export credits were insured based on bank risk (24%) and two export transactions were based on (sub-sovereign) public buyer risk (9%).

The focus of export credit agencies is shifting from pure insurance towards provision of credit information, debt collection and risk management (i.e. **service credit insurance**), largely on account of exporters' growing interest in integral risk management.

In 2005 SEC plans to **complete the revision of procedures** for insurance of export credits (more transparent procedures which will define in more detail the roles of project parties and complete introduction of a new methodology for determining the risk assessment). Another important task is change in the **domestic content policy** which has already been approved by the International Trade Promotion Commission. Owing to globalisation trends and increasing numbers of subcontractors and subsuppliers from different countries involved in a particular business transaction, and due to growing openness of Slovene economy, the existing solutions no longer provide sufficient response to the demands of fast-changing environment. In line with the changes seen in the politics of most (in particular, small-sized) countries, the new SEC policy will also consider the **elements of national interest** in addition to the share of Slovenia's content in a particular business transaction. This will bring substantial benefits to the service industry where value added and knowledge are normally high, while the share of Slovene goods in the transaction remains low due to the specific nature of the industry (engineering in various fields, construction industry, etc.). Quite understandably, the issue of **support to subsidiaries of Slovene companies abroad** will have to be addressed also.

Insurance of medium-term export credits is beginning to concentrate on and consider certain **social and environmental aspects** associated with business transactions. Following OECD-adopted policies, SEC is working on its **environmental policy** aimed at preventing negative impacts of projects on the habitat of the local population, and a **corruption prevention policy**. At the last meeting of the Berne Union held in October 2004 in Taiwan, the Union members, including SEC, signed the **Berne Union Values Statement**, a record of values to be observed by ECAs in the future.

Project co-operation of companies from different countries has led to more active co-operation of financial institutions and, in particular, export credit agencies. After 1998 the **number of international agreements on co-operation of ECAs** (exchange of information, parallel insurance, co-insurance, reinsurance) has **increased dramatically**, the process involving all members of the Berne Union. These agreements provide the necessary infrastructure for inclusion of Slovene exporters into multi-sourcing transactions. As it is, foreign states and their ECAs are in general not willing to provide insurance cover for exports by other economies without sufficient reciprocal measures and thus add to the burden of their taxpayers, or can only undertake such insurance in limited scope. In the past six years, SEC has concluded over 20 agreements, an co-operation in joint projects is expected to intensify further in the future.

8. Financing

In 2004 one of SEC main activities was financing of export transactions in domestic and foreign currency, based on SEC borrowings in international financial markets supported by the state guarantee. In order to ensure substantial multiplicative effects and in line with the intention to increase the involvement of commercial banks financing export transactions and direct outward investments, SEC provided financing of international business transactions mainly through intermediary banks and other financial institutions, in the form of indirect financial support to exporters, in particular refinancing of export credits for international business transactions. In order to successfully support Slovene economy in foreign markets, SEC provides favourable funding primarily to:

- domestic companies, i.e. exporters, and
- foreign buyers of Slovene goods and services, or to their banks.

Through this activity SEC has significantly contributed to increase capacities of commercial banks for financing international trade. In financing export transactions, as in insurance, SEC covers all phases of international business transactions:

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

Volume of financing

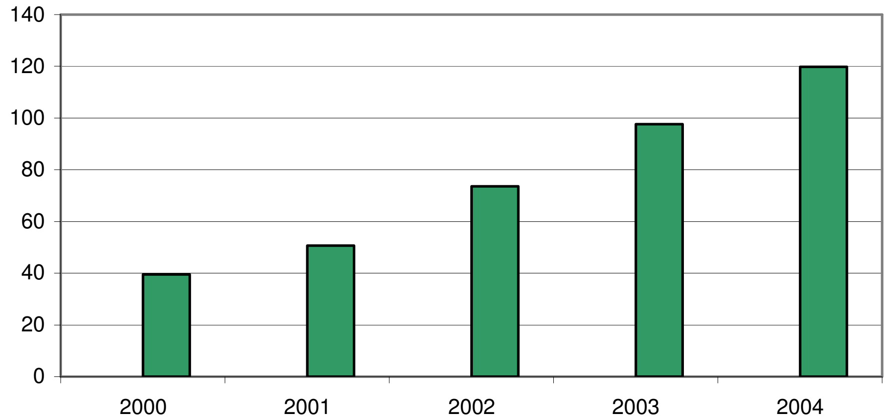
• SEC financing 2000-2004 (in SIT billion)

	2000	2001	2002	2003	**2004**
outstanding (31 Dec.)	39.5	50.6	73.6	97.6	**119.8**
number of exporters	420	398	351	354	**319**
number of banks	22	22	19	19	**18**
number of contracts	1,143	1,117	1,006	765	**585**

Last year SEC actively co-operated with 18 Slovene banks and 319 exporters in financing their international business transactions. Increased demand for SEC funding was mainly due to the favourable offer of long-term foreign currency funs and preserved competitiveness of financing international trade and international business transactions in domestic currency.

Compared to 2003 when the outstanding amount of SEC financing was SIT 97.6 billion, financing operations in 2004 rose by 22.7% and totalled 119.8 billion (EUR 499.7 million) at the end of 2004. The share of financing portfolio in total SEC assets was 85.3 %.

SEC financing: outstanding 2000 - 2004 (in SIT billion)



According to first estimates from the Statistical Office of the Republic of Slovenia, Slovene exports saw an 11.6% growth in the year 2004, which means that the growth rate of SEC financing in 2004 was almost twice the growth rate of Slovene exports.

The growth of SEC financing (22.7%) was slightly higher (by nearly two percentage points) than the annual growth of all loans extended to the Slovene corporate sector (20.9%), with the share of SEC financing in all loans extended to Slovene corporate sector in 2004 (direct and indirect) reaching 5.9%.

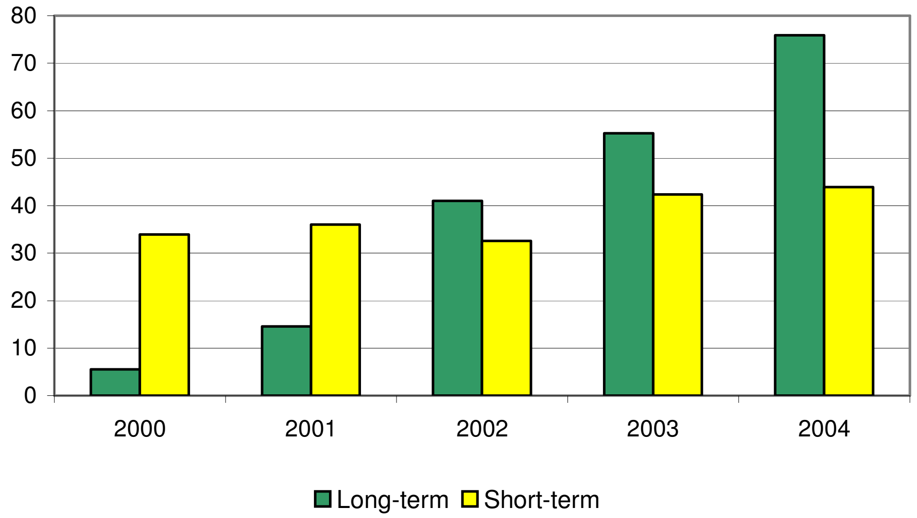
Portfolio structure

- **By maturity**

In the past years, the maturity structure of SEC credit portfolio was characterised by a high share of short-term refinanced credits in domestic currency, but the years 2002 and 2003 began to show signs of fast growth in the long-term credit portfolio, and in 2004 SEC became a financial institution focused primarily on long-term financing.

SEC Financing: Oustanding amounts by maturity 2000-2004 (in SIT billion)

	2000	2001	2002	2003	**2004**
long-term	5.5	14.6	34.2	55.2	**75.9**
short-term	33.9	36.0	39.4	42.4	**43.9**
total	39.4	50.6	73.6	97.6	**119.8**



At the end of 2004, SEC recorded a significant growth in long-term financing in domestic and foreign currencies. Long-term loan portfolio increased 37.5% over the year before, long-term credits representing 63.3% of the overall credit portfolio of SEC. High growth in long-term credit portfolio was largely due to a steep rise in foreign currency lending, accounting for 56.1% of the long-term segment.

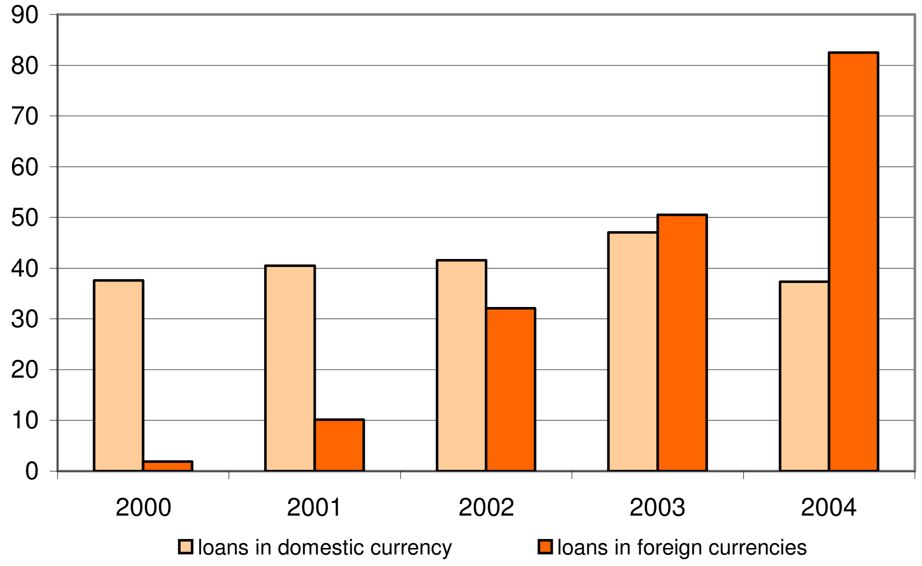
- **By currency**

Following Slovenia's accession to the EU and the Exchange Rate Mechanism ERM 2 entry in June 2004, the interest of exporters and their banks for foreign currency financing strengthened, bringing SEC financing up by 63.2% amounting to SIT 82.5 billion in foreign currency financing at the end of the year.

As for tolar financing, a gradual decline in the share of tolar credits in the first half of 2004 strengthened in the second half of the year when the tolar credit portfolio, in particular long-term credits, dropped dramatically.

Compared with 2003, tolar financing decreased in both short-term (down by 20.4%) and long-term (down by 21%) segments. Foreign currency financing, conversely, saw a dramatic rise with short-term segment up 97.7% and long-term segment up 56.1% on the year 2003.

SEC Financing: currency structure as of 31 December 2004 (in SIT billion)

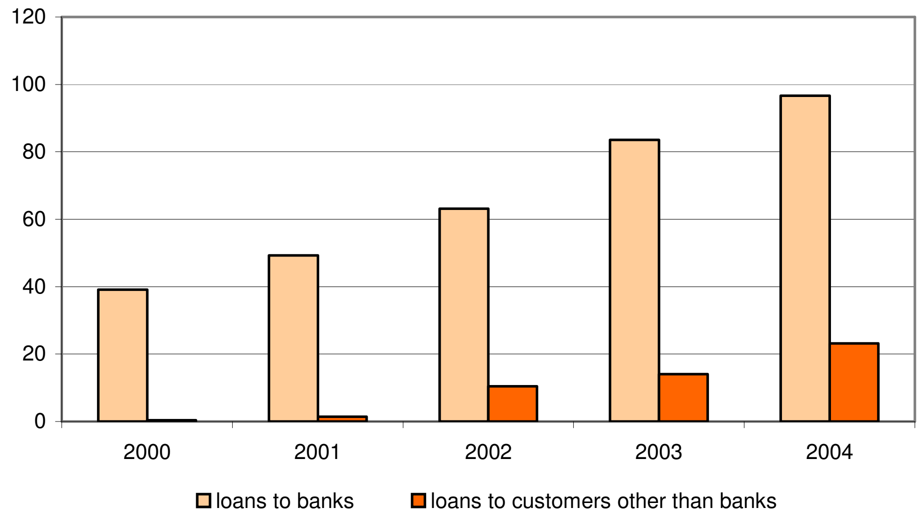


- **By borrower**

In 2004 commercial banks remained the most important SEC partner in financing international business transactions (including outward investment), their share in SEC portfolio reaching 80.6% at the end of the year. The demand for direct financing of projects of Slovene exporters abroad and for pre-shipment financing increased steadily throughout the year 2004, showing a 64.9% increase on the year before for loans extended to non-bank customers.

Despite a significant growth in loans provided to non-bank customers, this segment represented only 19.4 % of total SEC total loan portfolio at the end of 2004.

SEC Financing: By borrower as of 31 December 2004 (in SIT billion)



- **By risk**

In spite of a considerable increase in the volume of direct financing of Slovene exporters, their buyers and investors abroad, high quality of SEC financing portfolio remained unchanged since the assets classified in lower than A and B take up 1.5 % only of SEC loan portfolio.

Classification of loan portfolio	Percentage of total loan portfolio
A	78.8
B	19.7
C, D, E	1.5

In classification of on-balance sheet receivables and off-balance sheet receivables relative to SEC financing operations, SEC considers legislative and other regulations applicable to the banking sector and internal acts regulating the management of credit, country and other risks.

Income from SEC financing

Despite demanding conditions in the domestic market, currently characterised by an aggressive policy of interest rate reduction as part of the process of compliance with the Maastricht criteria, SEC managed to slightly improve the 2003 results in income from financing, against all expectations.

Compared with 2003, SEC generated SIT 4,154 million (EUR 17.3 million) in interest income from financing in 2004. Non-interest income from financing operations was SIT 159.9 million (EUR 667,084) representing a 10.1% increase on 2003.

In addition to the mentioned interest and non-interest income, SEC generated income (financial transactions income) in the amount of SIT 49.1 million from its intermediation role in SME credit line, raised with KfW/CEB from the European Commission funds intended for the development of SMEs.

Favourable long-term financing of SMEs

In 2004, SEC successfully completed a special programme of providing financing to SMEs (and entrepreneurs) with the support of the European Commission, which it signed with the German Kreditanstalt für Wiederaufbau (KfW) and the Council of Europe Bank (CEB) in 2003. After completing drawdown of funds in 2004, SEC signed another contract in November 2004 which enables it to act as an intermediary in providing funds to final beneficiaries through commercial banks in the year 2005.

Long-term funds for foreign currency financing

In order to provide Slovene exporters and their banks with the favourable long-term funding for financing international business transactions in foreign currencies, SEC continued raising funds in international financial markets, which started in 1999. In 2004 SEC raised another long-term syndicated loan in the international syndicated loan market in the amount of EUR 180 million; the syndicated loan was arranged by the following banks – Mandated Lead Arrangers: Banca OPI S.p.A./Sanpaolo IMI S.p.A., Bank Austria Creditanstalt AG, Bayerische Landesbank, KBC Bank N.V.

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

9. Guarantees

Quality instruments of protection against risks

In good business practice, bank guarantees are frequently used private-law instruments for transferring business transaction related risks onto financial institutions which are able to provide beneficiaries with effective protection against the risk that their counter-parties in domestic and international business transactions will not fulfil their contractual obligations. Bank guarantees, taking the form of various legal instruments linked by a common element of economic purpose, are mainly issued by banks, but also by insurance companies and other financial institutions. If the guarantees are issued by a first-class financial institution, the partners of the relevant business transaction believe that they provide effective protection against various risks incurred in domestic and international business transactions.

SEC guarantees have all the characteristics of high quality guarantees. They supplement the offer of other SEC services and are even considered first-class guarantees by the Bank of Slovenia and various public- and private-law entities in Slovenia and abroad.

With regard to the importance which the issue or confirmation of commercial bank guarantees has for equipment producers and investment contractors in Slovenia and abroad, guarantees are a welcome supplement to the range of services SEC provides for Slovene companies in the field of insurance and financing and enables them to also acquire deals through the issue of guarantees which domestic and foreign beneficiaries consider a first-class protection instrument against counter-party risks related to contractual obligations and other contractual relations. In the issue of guarantees, SEC gives priority to those export transactions which are also financed and insured by SEC. Guarantees issued at request may also be insured with SEC against non-commercial risks and the risk of unfair calling, which is important for both banks (guarantors) and companies (obligors).

Short response time and competitive offer

In issuing guarantees and counter-guarantees, SEC pays special attention to specific needs of clients and to shortening its response time to client demands, thus helping Slovene companies reduce their costs and enabling them to be more competitive in doing business, especially in foreign markets. SEC also aims to reduce costs inherent in issuing guarantees to Slovene companies and tries to ensure better acceptability of direct issue of guarantees abroad. Especially in the markets where, as a relatively young institution, SEC is not known or not sufficiently known, it also makes use of fronting, which is given to SEC guarantees by reputable foreign financial institutions, and in this way enables Slovene exporters to make use of this service and realise deals faster.

Guarantees: business volume 2000-2004 (in EUR million)

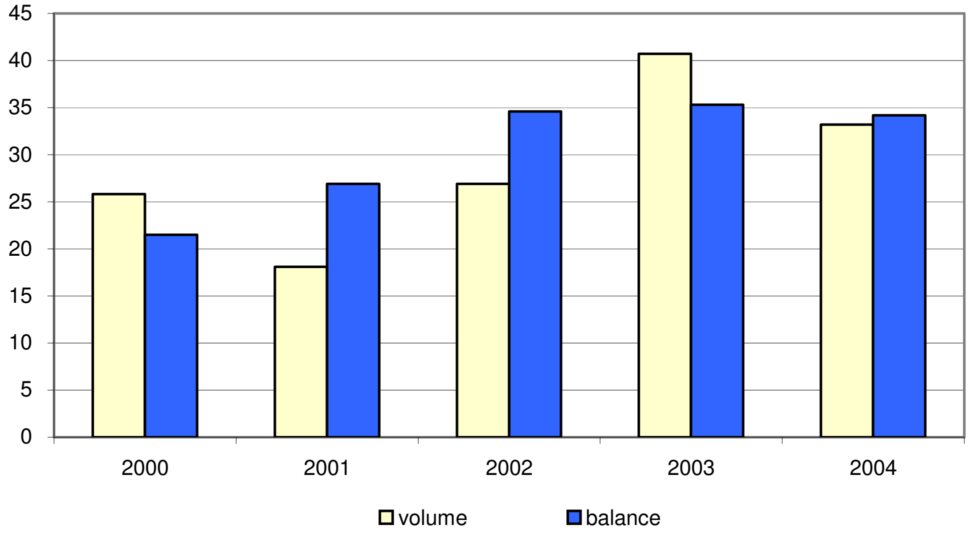
	2000	**2001**	**2002**	**2003**	**2004**
volume	25.8	18.1	27.0	40.7	**33.2**
outstanding (value as of 31 Dec.)	21.5	26.9	34.6	35.3	**34.3**
honoured	0.1	0.9	2.1	2.7	**0.7**
recourse (value)	0.1	0.7	0.4	0.4	**0.8**

The value of issued guarantees in 2004 was EUR 33 million, which was 18% less than a year before when the volume of SEC guarantees was particularly high thanks to the successful execution of a large short-term transaction. Most of the guarantees issued in 2004 were bid bonds, followed by advance payment bonds, maintenance bonds, performance bonds, waste bonds, customs bonds and payment bonds.

At the end of 2004, SEC had EUR 34.4. million in issued bonds, a slight decrease on the year 2003.The structure of outstanding bonds at the end of 2004 was taken up mainly by advance payment bonds, followed by payment bonds, customs bonds, performance bonds, maintenance bonds, retention bonds and bid bonds.

Two performance bonds, issued in the years 2000 and 2001, were called in 2004. Debtor's obligation resulting from one performance bond was paid out in total, and the obligation arising from the second bond was paid out in part.

SEC guarantees: issued and outstanding, 2000-2004 (in EUR million)



To a large extent, SEC secured its potential liabilities arising from issued guarantees. The majority of issued guarantees were secured by mortgages, deposits, guarantees of parent and other companies, counter-guarantees of financial institutions, various sureties and other instruments of payment insurance.

10. Treasury and Market Risk Management

Market risk management

In its operations, SEC primarily encounters liquidity risks, exchange and interest rate risks.

Management of market (non-credit) risks is determined by management policies covering various types of market risks (liquidity, exchange rate and interest rate) and by corresponding risk measurement methodologies. An important tool in market risk management is the thresholds which determine maximum SEC exposures to particular market risks.

Liquidity risk

In accordance with its approved liquidity management policy, SEC Treasury ensured that the company's financial obligations were regularly and continuously met and that sufficient liquidity reserves in domestic and foreign currencies were maintained.

In 2004 the Corporation's liquidity was good. The SEC Treasury Department monitored exposure to liquidity risks through liquidity indices. The value of tolar indices in the category of up to 30 days was 2.5, rising to 5.3 in the category of up to 180 days. Foreign currency indices in the category of up to 30 days rated about 5.3, and dropped to 2.1 in the category of up to 180 days. High index values indicate that the average maturity of liabilities was longer than the average maturity of assets.

In line with the situation in the monetary markets, SEC Treasury acquired necessary short-term funds in the interbanking market and, to a smaller extent, from the non-banking sector.

Currency and interest rate risks

In 2004 SEC increased its business volumes in foreign currency. SEC Treasury Department regularly monitored the Corporation’s foreign exchange position, employing such financial instruments and risk management techniques as stipulated by the relevant rules and regulations and used by the banks.

Balance sheet by currency structure as of 31 December 2004

	Assets		**Liabilities**		**Gap**	
	SIT million	**as % of total assets**	**SIT million**	**as % of total assets**	**SIT million**	**as % of capital***
in SIT	46,892	33.40	55,031	39.20	-8,139.46	-46.22
in SIT with exchange rate clause	6,609	4.71	0	0.00	6,609.08	37.53
USD	3,894	2.77	3,452	2.46	442.47	2.51
EUR	82,839	59.00	81,911	58.34	928,22	5.27
other currencies	160	0.11	0	0.00	160.11	0.91
Total	**140,394**	**100.00**	**140,394**	**100.00**		

** Note: Long-term investments in capital assets of SEC Group members are deducted.*

The figures for assets in SIT with an exchange rate clause as of 31 December 2004 show an excess of assets over liabilities at 37.53% of the Corporation's capital. The figures for liabilities in SIT show an excess of liabilities over assets at 46.22% of the Corporation's capital.

In 2004 the net position in foreign currency changed significantly in comparison with 2003, mainly due to changed nomination of safety reserve funds previously denominated in EUR. Pursuant to an Agreement on regulation of mutual relations concerning implementation of Chapter II of the Law on Insurance and Financing of International Business Transactions, which SEC signed with the Ministry of Finance, safety reserve funds are to be denominated in tolars (SIT).

Balance sheet by currency structure as of 31 December 2003

	Assets		Liabilities		Gap	
	SIT million	as % of total assets	SIT million	as % of total assets	SIT million	as % of capital
in SIT	57.467	49,78	37.050	32,09	20.417	112,63
in SIT with EUR exchange rate clause	6.422	5,56	21.020	18,21	-14.598	-80,53
in SIT with USD exchange rate clause	0	0,00	0	0,00	0	0,00
in USD	3.756	3,25	3.702	3,21	54	0,30
in EUR	47.798	41,40	53.671	46,49	-5.873	-32,40
Total	**115.443**	**100,00**	**115.443**	**100,00**		

** Note: Index calculation considers the capital less long-term investments in capital assets of SEC Group members.*

Balance sheet by maturity as of 31 December 2004

Maturity class	Assets		Liabilities		Gap
	SIT million	in %	SIT million	in %	SIT million
on deposit	213	0.15	92	0.07	121
up to 1 month	1,048	0.75	3,943	2.81	-2,895
1 to 3 months	9,189	6.55	922	0.66	8,267
3 months to 1 year	39,049	27.81	11,461	8.16	27,588
1 to 5 years	72,120	51.37	73,051	52.03	-931
over 5 years	18,775	13.37	50,925	36.27	-32,150
Total	**140,394**	**100.00**	**140,394**	**100.00**	

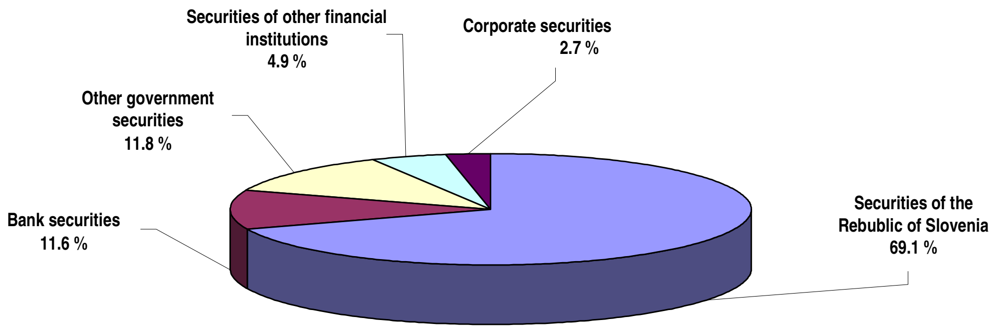
Balance sheet by maturity as of 31 December 2003

	Assets		Liabilities		Gap
Maturity class	SIT million	in %	SIT million	in %	SIT million
up to 1 month	5,070	4.39	9,275	8.03	-4,205
1 to 3 months	10,853	9.40	1,546	1.34	9,307
3 months to 1 year	37,791	32.74	2,234	1.94	35,557
1 to 5 years	53,654	46.48	52,699	45.65	955
over 5 years	8,075	6.99	49,689	43.04	-41,614
Total	**115,443**	**100.00**	**115,443**	**100.00**	

Securities trading

The market value of SEC securities portfolio as of 31 December 2004 totalled SIT 10,870 million, recording a 42.2% increase on the year 2003. Securities of domestic issuers make up 74.3% of the total portfolio and securities of foreign issuers take up the remaining 25.7%. Securities issued by the Republic of Slovenia (bonds and treasury bills) represent 69.1% of the portfolio, 55.4% more than at the end of 2003. Bank securities (bonds, certificates of deposit) hold an 11.6% share in securities portfolio, whereas other government securities (bonds and treasury bills of other EU member states and OECD states) take up 11.8% of all investment in securities.

Structure of investments in securities as of 31 December 2004*



* *Investments in securities portfolio include own property investment, investments of safety reserves and assets for covering technical provisions.*

Relevant events linked to securities trading

Act Amending the Insurance Act (Zzavar-B)

On 7 May 2004 the provisions of the Act Amending the Insurance Act became effective for Slovenska izvozna družba, d.d. (SEC). Pursuant to the amendments of the Insurance Act, SEC was obliged to build up covered assets to cover future liabilities arising from the insurance SEC performs on its own account, to cover potential losses from risks resulting from insurance SEC has performed and for which it is obliged to form insurance technical provisions.

The initial investments of covered assets were built from the existing SEC securities portfolio. Covered assets are invested pursuant to the provisions of the Insurance Act and in compliance with the regulations governing detailed types and characteristics of covered assets and detailed rules on dispersion and limitations concerning the investment of covered assets. SEC investments are regularly reported to the Insurance Supervision Agency.

The market value of covered assets as of 31 December 2004 was SIT 3,857 million, with market value of securities totalling SIT 3,188 million and the value of deposits amounting to SIT 669 million.

Agreement between SEC and the Ministry of Finance on regulation of mutual relations concerning implementation of Chapter II of the Law on Insurance and Financing of International Business Transactions

On 1 December 2004, SEC concluded an agreement with the Ministry of Finance on regulation of mutual relations concerning implementation of Chapter II of the Law on Insurance and Financing of International Business Transactions. This Agreement provides a new basis for management and trading in SEC safety reserves as long-term liabilities of SEC towards the Republic of Slovenia. Since 1 December 2004, safety reserve funds have been kept and managed on a separate transaction account and separate trading accounts, and separate records of the use and management of safety reserves have been kept in books of account and business reports. In designing an investment portfolio of safety reserves, SEC has also transferred to its investment portfolio a part of securities portfolio and refinanced loans.

The market value of securities in safety reserve investments as of 31 December 2004 was SIT 3,524 million.

11. Credit Information

Insurance of export and domestic credits and investments abroad, issue of guarantees and financing of international trade transactions require appropriate databases, country risk ratings, credit information and credit ratings of buyers, debtors and guarantors in order to ensure successful operation of an export credit agency.

Quality credit information, databases and credit rating analyses

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

Aware of these requirements, SEC continued to develop its own Credit Rating Department also in 2004. In its work, the department uses state-of-the-art professional methodology of risk assessment, in particular with regard to solvency, an own internal information system (IS SEC), existing and regularly updated internal databases, reliable credit information and analyses of domestic and foreign institutions, as well as information on export markets, paid and potential claims, buyers, debtors and guarantors, which is also exchanged among the members of the Berne Union.

In assessing country risks of foreign markets, SEC, in co-operation with certain ministries and diplomatic consular representatives, works closely in particular with the Centre for International Co-operation and Development which provides SEC with country risk reports for selected markets. SEC internal credit rating department prepares credit rating reports and credit information on domestic and foreign companies and banks. For the purpose of issuing guarantees, financing and certain classes of insurance and for external users of credit information, the department prepares corporate credit rating reports and recommended credit and exposure limits. Additionally, the Corporation provides such information to other domestic and foreign financial institutions whose interest in credit rating information is increasing, in particular as regards information on certain markets, companies and banks in Slovenia and in those countries of South Eastern, Central and Eastern Europe where Slovene enterprises have gained rich experience, and where SEC has gained specific information and experience in performing insurance services.

Credit rating information on companies and banks

In addition to country risk assessments and information on individual markets, SEC clients and other customers can order with SEC Credit Rating Department:

- credit information on Slovene companies,
- credit information on Slovene banks,
- credit information on banks, in particular those from South Western, Central and Eastern Europe, and
- credit information on companies, in particular those from the countries of South Eastern, Central and Eastern Europe.

Access to credit information via the Internet

Credit Rating Department services were the basis for the transfer of SEC operations to e-business platforms. As a result, credit information on Slovene companies, prepared by SEC, is now readily available to registered users also via the Internet. The Corporation has established connections with the best providers of credit rating and other credit information for individual markets and created extensive and up-to-date databases and links which are supported by analyses carried out by the Corporation's own experts. Registered users are thus provided with a fast and safe access to quality and up-to-date information, in particular with regard to Slovene companies, which enables SEC clients better performance, faster decision-making relative to business operations, assumption of insurance-related risks, definition of underwriting conditions and risk monitoring.

12. Information System

Integral information system

A well-developed information system, quality databases (currently, there are 200 databases) and existing links with other institutions are an essential tool for effective operation of a financial institution, its management, supervision and its entire operation and planning. The entire development of an information system is based on its gradual integration into the working process and on improvement of internal and external communication.

In order to ensure effective support to its operations, in 1996 SEC introduced a software called LOTUS NOTES and thus started systematic formation of its own integral information system. Today this information system is a quality basis for the management of all business operations and services of the Corporation. All processes are IT supported and automated to a large extent. All documents, from a client's application, its processing and approval, to the corresponding contracts and invoices, are made automatically, and at the same time all the data is used as the basis for analytical data processing and Management Information System (MIS). All the Corporation's operations are provided with an adequate information system support, integrated in an overall information system. SEC Information System enables the Corporation to not only master the management of documentation flow and business processes, but also create knowledge databases. Uniform and standardised are also cumulative analytical tables on SEC operations and business partners, computer network is connected with the CTI telephony which enables the employees to recognize the partner calling immediately and at the same time view all cumulative information about a particular partner on the computer screen.

The main orientation of IS development in 2004 was continued implementation of uniform standards in application development, electronic connections with business partners and continued efforts to improve system independence and integration of safety (standard BS7799) and control mechanisms into the overall operations of the Corporation and building of a system which enables IS maintenance to be carried out by an outsourced IT company.

In 2003, SEC began working on a project aimed at producing software solutions for monitoring all SEC investment operations, including the functions of the bank information system and analytical accounting, and it is now nearing completion. A new software solution has been introduced to facilitate monitoring of securities trading.

Besides, the entire system was studied and revised to check its compliance with the security policy according to the standard BS7799. In November 2004, a new security policy in line with the standard BS7799 was adopted and its implementation was started.

The first major task in 2004 was to provide the required technical conditions for the operation of the newly established SEC subsidiary SID - Prva kreditna zavarovalnica d.d., Ljubljana. For this purpose, databases and data were divided on a logical level, in utmost consideration of the synergy SEC Group needs to ensure.

Production technical equipment has been fully separated from the development and testing environments, and additional levels of protection for operating systems and communication systems were implemented.

E-business (SID-NET)

Electronic business has been expanding and gaining in importance in international trade as well as in SEC client operations. Clients have been using electronic communication more and more extensively. At the end of 2004 there were 82 companies reporting their exports electronically. Fully aware of the fact that electronic business is a must for modern financial institutions, SEC has developed SID-NET as an answer to the challenges of modern business conduct. SID-NET is intended for the existing and future insurance policy holders who are given an opportunity to fill out an electronic form which is then automatically processed by the system. The internal information system was reorganised and integrated with SID-NET and this will, to a large extent, facilitate client dealings with SEC through electronic channels. SEC internet portal (http://www.sid.si) provides easier access to all information on SEC facilities, conditions of insurance and financing, including credit rating information (SID-BON), administration and monitoring of current transactions.

13. Personnel

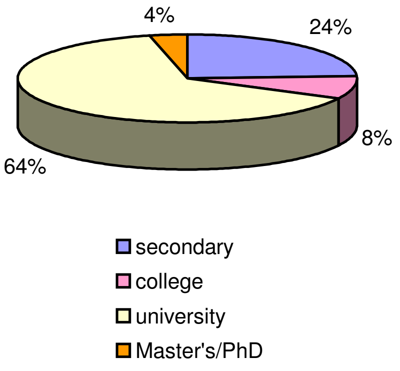
Recruitment (structure and trends)

Personnel recruitment in 2004 was conducted in accordance with the approved business policy and recruitment plan. In order to attract the most suitable candidates, SEC has used a variety of recruitment methods including advertisements in mass media, informal recruitment, unsolicited job applications and regular contacts with schools and universities.

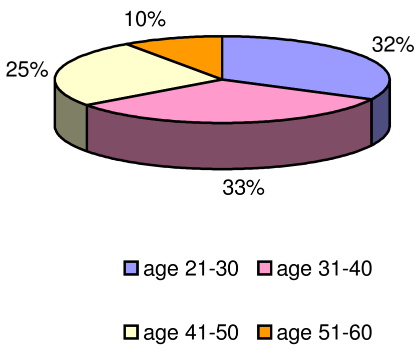
In 2004, the number of employees increased from 74 to 83 (60 women and 23 men) with the average number of employees in 2004 rising to 79.

In that period, twelve employees were granted permanent employment. Six employees, all with university degrees, were engaged temporarily, five of them as trainees. Employment terminated for 10 employees.

• Personnel structure by education level as of 31 December 2004



• Personnel structure by age as of 31 December 2004



Recruitment policy

Rapid growth of SEC operations and development of existing and implementation of new services were supported by the recruitment policy, which is mainly based on:

- engaging new employees with specific expert knowledge and experience,
- a system of monitoring and assessing job performance, as well as goals defined through annual development interviews and semi-annual appraisal interviews,
- development of remuneration policy, both for monetary and other forms, and
- encouraging active participation of all staff in the process of improving company operations and procedures.

Special attention was paid to project-based work conducted by specialized project teams whose main areas of work were e-business (SID-NET), information support for financing and treasury operations and issue of guarantees, sureties and bonds insurance, risk management, reinsurance arrangements and technical assistance to other export credit agencies, establishment of a subsidiary SID – Prva kreditna zavarovalnica d.d., and IT security policy.

Employees were invited to participate in the process of making constructive proposals and ideas for the improvement of processes and services, higher work efficiency and cost reduction.

Training

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

Employees also acquired certain general skills, especially with regard to foreign languages, communication skills, goal setting, time management, computing, etc., and specific knowledge, e.g. e-marketing, CRM, business negotiations, project funding, preparation of Slovene banks for Basel II, integration of Slovenia into the European Union, fiscal legislation, payment systems, etc.

In 2004 sixty-seven employees attended various forms of training. The number of days spent on training averaged at 5.66 per employee.

Labour costs

Although SEC activities comprise banking and insurance operations, payment of salaries and allowances complies with the provisions of the General Collective Agreement for the Commercial Sector and the Collective Agreement of Banks and Savings Banks of Slovenia.

In 2004 SEC covered part of the premium for the voluntary supplementary pension insurance and the premiums for the voluntary supplementary health insurance for all employees.

Absenteeism

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

In 2004 the number of working hours totalled 162,016, of which 15,672 hours were used as annual paid leave, 464 hours as special leave and 24 hours as study leave.

Total sick leave accounted for 9,392 hours, which is an average of 5.81%. The relatively high level of absenteeism can be credited to the illness of two employees requiring longer recovery periods, and risk pregnancies. Therefore, maternity leave was quite high, totalling 2,704 hours, or 1.64%, a result of the high percentage of women employees in SEC (72.3%).

Internal communication

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

Trade union

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

Working environment

SEC shows special concern to ensuring adequate working conditions. In accordance with the Occupational Health and Safety Act and the implemented Statement of safety with risk assessment, SEC organised training of employees for safe and healthy work and protection against fire risk, provided medical examinations and took all the necessary measures to ensure the optimum working conditions.

14. Internal Audit and Controlling

Internal audit in SEC is organised as an independent expert department, reporting directly to the Management Board and also to the Supervisory Board. In performing continuous and comprehensive supervision of company operations, Internal Audit and Controlling Department:

- examines and assesses the suitability and efficiency of internal control systems
- assesses performance and efficiency of risk management procedures
- evaluates capital with regard to own risk assessment
- assesses efficiency of the information system
- assesses accuracy and effectiveness of book accounts and financial reports
- checks reporting
- checks compliance of company actions with regulations and internal orders
- participates in project tasks.

Internal audit is performed on the basis of the adopted annual plan and in line with the professional principles and internal audit standards, code of professional ethics and rules of conduct, which are adopted by the Management Board and approved by the Supervisory Board. Special attention is given to the supervision of risk management (credit, market and operational risks) and to the examination and evaluation of the internal control system performance. Within the scope of its activities, the SEC Internal Audit works with the Bank of Slovenia, Insurance Supervision Agency, and also with the internal audit committees of the Banking and Insurance Association.

15. Risk Management

The key risk management objectives of the Corporation may be summarised as follows:

- identify individual risks,
- draw up management policies for individual risks,
- define the role of organisational units in risk management,
- determine risk measurement methodology,
- secure provision of information essential for risk management (risk measurements),
- adopt appropriate measures to lower the risks without affecting profitability, or to increase profitability at the same risk exposure.

In risk management, SEC operates on the basis of banking laws and regulations and best management practice. Its main activity is insurance of the (credit) risk of non-payment, for which the risk is measured according to banking standards and, to a lower level, according to the insurance standards. The other part of SEC risk management related activities is a proper banking operation as the Corporation provides services such as financing, guarantees and treasury.

In compliance with its business policy and the credit risk management policy, SEC has developed its own methodology for the assessment of corporate credit rating and country risk. This methodology helps SEC to examine the credit reference and creditworthiness of companies with regard to credit, export credit and investment insurance, (re)financing of business transactions, issue of guarantees and treasury transactions, and to approve, on the basis of these findings, risk exposure limits for a client or a group of clients and other debtors, guarantors, etc. The mentioned documents also determine the policy of risk monitoring and potential ways of reducing risk exposure (reinsurance, guarantees, pledges and other types of payment insurance).

Management of market (non-credit) risks is determined by management policies which cover various types of market risks (liquidity, exchange rate and interest rate) and by corresponding risk measurement methodologies. An important tool in market risk management is the thresholds which determine maximum SEC exposure to a particular market risk.

Currently, the most important type of operational risk is the risk inherent in the (correct) operation of information systems. To ensure best performance of its information system, SEC has been actively co-operating with renowned experts specializing in information system development and audit. SEC management has decided to delegate certain decisions to be made on the level of business operations to expert associates, and limit the scope of their decision-making by applying thresholds on individual types of transactions. In recent years, SEC has made marked progress in the field of information support to risk management so that it now carries out assessments of credit and market risks alike.

In terms of organisation, risk management is divided into three parts. Although receiving support from all business areas, credit risk management is mainly performed by the Credit Rating Department, while market risk management is dealt with by the Treasury Department. Operational risks are covered by internal audit. Expert College and A Commission are the consultative bodies of SEC responsible for balancing the credit and market risks which exceed the thresholds applied to individual organisational units. Final decisions are either taken by the Management Board, the Supervisory Board or, for major transactions of high national importance performed on account of the State, by an interministerial International Trade Promotion Commission appointed by the Republic of Slovenia. Supervision of risk exposure and management is performed by the internal and external audit services, and by the Bank of Slovenia, Insurance Supervision Agency and the Ministry of Finance, in accordance with their respective powers.

Financial Statements of Slovenska izvozna družba, d.d., Ljubljana (Slovene Export Corporation)

Contents

KPMG

Auditor's Report for the Purpose of Reporting to the Public

We have audited the financial statements of Slovenska izvozna družba, d.d., Ljubljana for the year ended 31 December 2004 in accordance with International Standards on Auditing and International Auditing Practice Statements issued by International Federation of Accountants. The summary of financial statements is based on the financial statements, consisting of the balance sheet as of 31 December 2004, the income statement for the year 2004, the cash flow statement for the year 2004 and the statement of changes in equity for the year 2004. An unqualified audit opinion was expressed in our report dated 12 April 2005 on the financial statements, on which the summary of financial statements is based.

In our opinion, the attached summary of the financial statements complies, in all material aspects, with the financial statements from which it originates.

For a better understanding of the financial situation of the Company as of 31 December 2004, the results of its operations, its cash flows for the year then ended and the scope of our audit, it is necessary to read the summary of the financial statements together with the financial statements from which it originates and our audit report on these financial statements.

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Marjan Mahnič, BSc.Ec.

Certified Auditor

Managing Partner

Andrej Korinšek, BSc.Ec.

Certified Auditor

Managing Partner

KPMG Slovenija, d.o.o.

Ljubljana, 9 May 2005

1. Balance Sheet as at 31 December 2004

		In thousand SIT
	2004	2003
Cash and balances at the central bank	42	22
Loans to banks	102,420,062	89,914,435
Loans to non-banks	23,350,619	14,839,368
Debt securities not held for trading	10,744,720	7,515,967
Long-term equity investments in group companies	1,434,597	388,167
Intangible fixed assets	83,497	55,099
Tangible fixed assets	630,948	666,585
Other assets	739,544	1,032,852
Deferred costs (expenses) and accrued revenues	989,980	1,030,587
TOTAL ASSETS	**140,394,009**	**115,443,082**
Deposits and borrowings from banks	86,968,379	61,012,805
Deposits and borrowings from non-banks	1,169,343	2,606,211
Long-term liabilities from safety reserves	21,499,182	21,019,857
Debt securities	2,599,358	3,500,000
Other liabilities	759,353	494,606
Accrued costs (expenses) and deferred income	840,662	522,673
Long-term provisions for commitments and charges	2,553,319	2,394,209
Insurance technical provisions	4,033,402	5,377,236
Provisions for general banking risks	925,000	0
Subscribed capital	9,323,540	9,323,540
Capital reserves	1,337,489	1,337,489
Revenue reserves	2,739,819	2,431,244
Capital revaluation adjustment	5,336,587	5,283,938
- General capital revaluation adjustment	5,283,938	5,283,938
- Specific capital revaluation adjustment	52,649	0
Net profit or loss for the year	308,576	139,274
TOTAL LIABILITIES	**140,394,009**	**115,443,082**
OFF BALANCE SHEET ITEMS	57,890,103	26,309,417

2. Income Statement for the Year Ended 31 December 2004

In thousand SIT

	2004	2003
Interest and similar income	5,208,257	6,064,977
Interest and similar expenses	2,093,623	2,682,529
Net interest and similar income	3,114,634	3,382,448
Equity investment income	0	0
Fee and commission income	2,839,581	2,066,748
Fee and commission expenses	141,229	138,499
Net fees and commissions	2,698,352	1,928,249
Financial transactions income	1,689,544	1,287,964
Financial transactions expenses	1,772,930	1,490,651
Net profit or loss on financial transactions	-83,386	-202,687
Other operating income	8,797	25,960
Labour costs	774,979	656,713
Costs of materials and services	517,660	428,740
Amortisation/Depreciation expense and operating expenses from revaluation of intangible and tangible fixed assets	87,926	78,844
Other operating expenses	1,344,196	874,119
Losses on loans/receivables less recoveries	829,101	2,726,811
Net value of provisions for general banking risks	925,000	0
Profit or loss on ordinary activities	**1,259,535**	**368,743**
Extraordinary income	0	0
Extraordinary expenses	0	0
- exclusive of capital revaluation adjustment		
- arising from capital revaluation adjustment		
Profit or loss on extraordinary activities	0	0
Profit or loss before tax	**1,259,535**	**368,743**
Corporate income tax	642,384	90,195
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**617,151**	**278,548**

3. Cash Flow Statement for the Year Ended 31 December 2004

In thousand SIT

		2004	2003
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	**Inflows**	**7,867,317**	**7,389,289**
	Interest and similar income	5,345,265	5,767,644
	Fee and commission income	2,595,765	1,797,702
	Income from recoveries	876	0
	Income from equity investments	0	0
	Net profit or loss on financial transactions	-83,386	-202,017
	Other operating income	8,797	25,960
b)	**Outflows**	**4,853,316**	**4,998,260**
	Interest and similar expenses	2,036,117	2,759,947
	Fee and commission expenses	63,687	104,302
	Payments to employees	775,470	597,646
	Other operating expenses	1,861,856	1,462,247
	Corporate income tax	116,186	74,118
	Total operating income/expenses before change in operating assets and liabilities	3,014,001	2,391,029
c)	**(Increase)/decrease in operating assets**	**-25,904,097**	**-23,285,774**
	Net (increase)/decrease in loans to banks (excl. revaluation)	-12,293,695	-18,695,547
	Net (increase)/decrease in loans to non-banks (excl. revaluation)	-10,285,701	-4,356,675
	Net (increase)/decrease in securities held for trading (excl. revaluation)	0	0
	Net (increase)/decrease in other operating assets (excl. revaluation)	-3,324,701	-233,552
d)	**Increase/(decrease) in operating liabilities**	**8,183,532**	**1,148,850**
	Net increase/(decrease) in deposits from banks (excluding revaluation)	7,225,990	686,402
	Net increase/decrease in deposits from non-banks (excluding revaluation)	957,542	462,448
e)	**Net inflows (a+c-b+d) or net outflows (b+d-a+c) from operating activities**	**-14,706,564**	**-19,745,895**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Inflows**	**7,773,353**	**13,257,683**
	Inflows from debt securities disposal	7,771,856	13,257,683
	Inflows from fixed assets disposal	1,497	0
b)	**Outflows**	**12,105,649**	**16,951,115**
	Outflows from debt securities purchased	11,000,609	16,869,680
	Outflows from equity investments	1,010,100	0
	Outflows from fixed assets purchased	94,940	81,435
c)	**Net inflows (a+b) or net outflows (b-a) from investing activities**	**-4,332,296**	**-3,693,432**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Inflows**	**130,617,242**	**124,615,525**
	Borrowings	130,617,242	124,615,525
	Increase of debt securities and subordinated liabilities (excl. of revaluation)	0	0
	Inflows from own shares disposal	0	0
b)	**Outflows**	**106,659,114**	**101,201,255**
	Dividends paid by bank	139,261	0
	Loan repayment	105,619,210	100,932,449
	Decrease debt securities and subordinated liabilities (excl. of revaluation)	900,643	268,806
	Outflows from own shares purchased	0	0
c)	**Net inflows (a+b) or net outflows (b-a) from financing activities**	**23,958,128**	**23,414,270**
	Effect of change in exchange rates on cash and cash equivalents		
D.	**CASH AND CASH EQUIVALENTS AT END OF PERIOD**	**5,340,673**	**421,405**
	x) Net increase (decrease) in cash and cash equivalents (Ad + Bc + Cc)	4,919,268	-25,057
	+		
	y) Cash and cash equivalents at beginning of period	421,405	446,462

4. Statement of Changes in Equity

In thousand SIT	Subscribed capital	Capital reserves	Revenues reserves	Net profit/loss from previous periods	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit/loss for the year	Total capital
OPENING BALANCE (31 December 2003)	**9,323,540**	**1,337,489**	**2,431,244**	**0**	**5,283,938**	**0**	**139,274**	**18,515,485**
Transfers to equity								
- Specific revaluation of capital	0	0	0	0	0	52,649	0	52,649
- Net profit for the year	0	0	0	0	0	0	617,151	617,151
Transfers within equity								
- Allocation of net profit to revenues reserves	0	0	308,575	0	0	0	-308,575	0
- Transfer of net profit	0	0	0	139,274	0	0	-139,274	0
Transfers from equity								
- Dividends payable	0	0	0	-139,274	0	0	0	-139,274
CLOSING BALANCE (31 December 2004)	**9,323,540**	**1,337,489**	**2,739,819**	**0**	**5,283,938**	**52,649**	**308,576**	**19,046,011**

In thousand SIT	Subscribed capital	Capital reserves	Revenue reserves	General revaluation adjustment	Net profit/loss for the year	Total
OPENING BALANCE (31 December 2002)	**9,323,540**	**1,337,489**	**2,173,322**	**5,283,938**	**118,648**	**18,236,937**
Transfers to equity	**0**	**0**	**0**	**0**	278,548	278,548
- Net profit for the year	0	0	0	0	278,548	278,548
Transfers within equity	**0**	**0**	**257,922**	**0**	**-257,922**	**0**
- Allocation of net profit to revenue reserves	0	0	257,922	0	-257,922	0
Transfers from equity	**0**	**0**	**0**	**0**	**0**	**0**
CLOSING BALANCE (31 December 2003)	**9,323,540**	**1,337,489**	**2,431,244**	**5,283,938**	**139,274**	**18,515,485**

Consolidated financial statements of SEC Group

Contents

KPMG

Auditor's Report for the Purpose of Reporting to the Public

We have audited the consolidated financial statements of Slovenska izvozna družba Group for the year ended 31 December 2004 in accordance with International Standards on Auditing and International Auditing Practice Statements issued by International Federation of Accountants. The summary of consolidated financial statements is based on the consolidated financial statements, consisting of the consolidated balance sheet as of 31 December 2004, the consolidated income statement for the year 2004, the consolidated cash flow for the year 2004 and the consolidated statement of changes in equity for the year 2004. An unqualified audit opinion was expressed in our report dated 12 April 2005 on the consolidated financial statements, on which the summary of consolidated financial statements is based.

In our opinion, the attached summary of the consolidated financial statements complies, in all material aspects, with the consolidated financial statements from which it originates.

For a better understanding of the financial situation of the Group as of 31 December 2004, the results of its operations, and its cash flows for the year then ended, and the scope of our audit, it is necessary to read the summary of consolidated financial statements together with the consolidated financial statements from which it originates and our audit report on these financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Marjan Mahnič, BSc.Ec.
Certified Auditor
Managing Partner

Andrej Korinšek, BSc.Ec.
Certified Auditor
Managing Partner

KPMG Slovenija, d.o.o.

Ljubljana, 9 May 2005

1. Consolidated Balance Sheet as at 31 December 2004

in thousand SIT

	31 December 2004	31 December 2003
Cash and balances at the central bank	42	22
Loans to banks	103,433,461	89,914,435
Loans to non-banks	23,350,619	14,839,368
Debt securities not held for trading	10,744,720	7,515,967
Long-term equity investments in group companies	424,280	388,167
Intangible fixed assets	83,497	55,099
Tangible fixed assets	630,948	666,585
Other assets	737,901	1,032,852
Deferred costs (expenses) and accrued revenues	990,442	1,030,587
TOTAL ASSETS	**140,395,910**	**115,443,082**
Deposits and borrowings from banks	86,968,379	61,012,805
Deposits and borrowings from non-banks	1,169,343	2,606,211
Long-term liabilities from safety reserves	21,499,182	21,019,857
Debt securities	2,599,358	3,500,000
Other liabilities	761,199	494,606
Accrued costs (expenses) and deferred income	840,717	522,673
Long-term provisions for commitments and charges	2,553,319	2,394,209
Insurance technical provisions	4,033,402	5,377,236
Provisions for general banking risks	925,000	0
Subscribed capital	9,323,540	9,323,540
Capital reserves	1,337,489	1,337,489
Revenue reserves	2,739,824	2,431,244
Capital revaluation adjustment	5,336,370	5,283,938
- General capital revaluation adjustment	5,283,938	5,283,938
- Specific capital revaluation adjustment	52,432	0
Net profit or loss for the year	308,788	139,274
TOTAL LIABILITIES	**140,395,910**	**115,443,082**
OFF-BALANCE SHEET ITEMS	57,890,103	26,309,417

2. Consolidated Income Statement for the Year Ended 31 December 2004

in thousand SIT

	2004	2003
Interest and similar income	5,208,456	6,064,977
Interest and similar expenses	2,093,625	2,682,529
Net interest and similar income	3,114,831	3,382,448
Equity investment income	0	0
Fee and commission income	2,846,275	2,066,748
Fee and commission expenses	141,058	138,499
Net fees and commissions	2,705,217	1,928,249
Financial transactions income	1,689,544	1,287,964
Financial transactions expenses	1,772,930	1,490,651
Net profit or loss on financial transactions	-83,386	-202,687
Other operating income	6,052	25,960
Labour costs	776,545	656,713
Costs of materials and services	520,077	428,740
Amortisation/Depreciation and operating expenses from revaluation of fixed assets	87,926	78,844
Other operating expenses	1,344,206	874,119
Losses on loans/receivables less recoveries	829,101	2,726,811
Net provisions for general banking risks	925,000	0
Profit or loss on ordinary activities	**1,259,859**	**368,743**
Extraordinary income	0	0
Extraordinary expenses	0	0
- excl. of capital revaluation adjustment		
- arising from capital revaluation adjustment		
Profit or loss on extraordinary activities	0	0
Profit or loss before tax	**1,259,859**	**368,743**
Corporate income tax	642,491	90,195
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**617,368**	**278,548**

3. Consolidated Cash Flow Statement for the Year Ended 31 December 2004

in thousand SIT

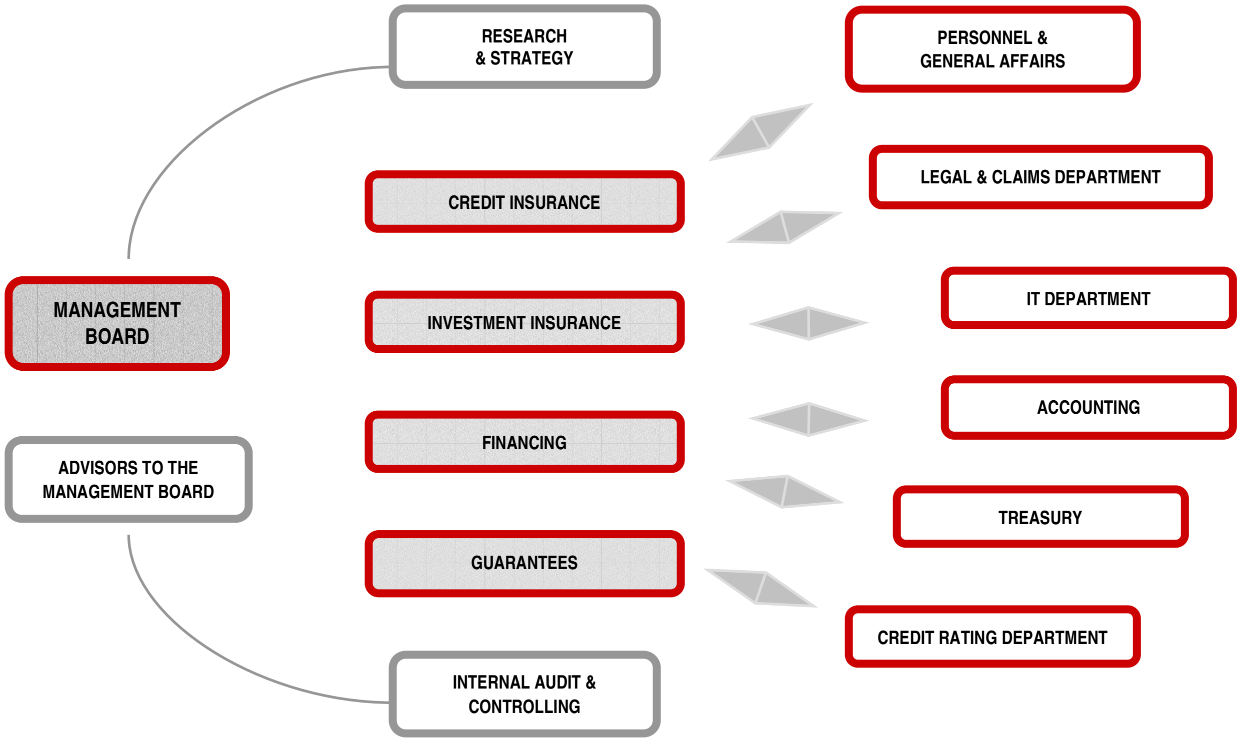
		2004	2003
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	**Inflows**	**7,867,317**	**7,389,289**
	Interest and similar income	5,345,265	5,767,644
	Fee and commission income	2,595,765	1,797,702
	Income from recoveries	876	0
	Income from equity investments	0	0
	Net profit or loss on financial transactions	-83,386	-202,017
	Other operating income	8,797	25,960
b)	**Outflows**	**4,853,316**	**4,998,260**
	Interest and similar expenses	2,036,117	2,759,947
	Fee and commission expenses	63,687	104,302
	Payments to employees	775,470	597,646
	Other operating expenses	1,861,856	1,462,247
	Corporate income tax	116,186	74,118
	Total operating income/expenses before change in operating assets and liabilities	3,014,001	2,391,029
c)	**(Increase)/decrease in operating assets**	**-25,904,097**	**-23,285,774**
	Net (increase)/decrease in loans to banks (excl. revaluation)	-12,293,695	-18,695,547
	Net (increase)/decrease in loans to non-banks (excl. revaluation)	-10,285,701	-4,356,675
	Net (increase)/decrease in securities held for trading (excl. revaluation)	0	0
	Net (increase)/decrease in other operating assets (excl. revaluation)	-3,324,701	-233,552
d)	**Increase/(decrease) in operating liabilities**	**9,196,931**	**1,148,850**
	Net increase/(decrease) in deposits from banks (excl. revaluation)	8,239,389	686,402
	Net increase/(decrease) in deposits from non-banks (excl. revaluation)	957,542	462,448
e)	**Net inflows (a+c-b+d) or net outflows (b+d-a+c) from operating activities**	**-13,693,165**	**-19,745,895**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Inflows**	**7,773,353**	**13,257,683**
	Inflows from debt securities disposal	7,771,856	13,257,683
	Inflows from fixed assets disposal	1,497	0
b)	**Outflows**	**12,105,649**	**16,951,115**
	Outflows from debt securities purchased	11,000,609	16,869,680
	Outflows from equity investments	1,010,100	0
	Outflows from fixed assets purchased	94,940	81,435
c)	**Net inflows (a+b) or net outflows (b-a) from investing activities**	**-4,332,296**	**-3,693,432**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Inflows**	**130,617,242**	**124,615,525**
	Borrowings	130,617,242	124,615,525
	Increase of debt securities and subordinated liabilities (excl. of revaluation)	0	0
	Inflows from own shares disposal	0	0
b)	**Outflows**	**106,659,114**	**101,201,255**
	Dividends paid by bank	139,261	0
	Loan repayment	105,619,210	100,932,449
	Decrease debt securities and subordinated liabilities (excl. of revaluation)	900,643	268,806
	Outflows from own shares purchased	0	0
c)	**Net inflows (a+b) or net outflows (b-a) from financing activities**	**23,958,128**	**23,414,270**
	Effect of change in exchange rates on cash and cash equivalents		
D.	**CASH AND CASH EQUIVALENTS AT END OF PERIOD**	**6,354,072**	**421,405**
	x) Net increase (decrease) in cash and cash equivalents (Ad + Bc + Cc)	5,932,667	-25,057
	+		
	y) Cash and cash equivalents at beginning of period	421,405	446,462

4. Consolidated Statement fo Changes in Equity

In thousand SIT	Subscribed capital	Capital reserves	Revenues reserves	Net profit/loss from previous periods	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit/loss for the year	Total capital
OPENING BALANCE (31 December 2003)	**9,323,540**	**1,337,489**	**2,431,244**	**0**	**5,283,938**	**0**	**139,274**	**18,515,485**
Transfers to equity								
- Specific revaluation of capital	0	0	0	0	0	52,432	0	52,432
- net profit for the year	0	0	0	0	0	0	617,368	617,368
Transfers within equity								
- Allocation of net profit to revenues reserves	0	0	308,580	0	0	0	-308,580	0
- Transfer of net profit	0	0	0	139,274	0	0	-139,274	0
Transfers from equity								
- Dividends payable	0	0	0	-139,274	0	0	0	-139,274
CLOSING BALANCE (31 December 2004)	**9,323,540**	**1,337,489**	**2,739,824**	**0**	**5,283,938**	**52,432**	**308,788**	**19,046,011**

in thousand SIT	Subscribed capital	Capital reserves	Revenue reserves	General revaluation adjustment	Net profit/loss for the year	Total
OPENING BALANCE (31 December 2002)	**9,323,540**	**1,337,489**	**2,173,322**	**5,283,938**	**118,648**	**18,236,937**
Transfers to equity	**0**	**0**	**0**	**0**	278,548	278,548
- Net profit for the year	0	0	0	0	278,548	278,548
Transfers within equity	**0**	**0**	**257,922**	**0**	**-257,922**	**0**
- Allocation of net profit to revenue reserves	0	0	257,922	0	-257,922	0
Transfers from equity	**0**	**0**	**0**	**0**	**0**	**0**
CLOSING BALANCE (31 December 2003)	**9,323,540**	**1,337,489**	**2,431,244**	**5,283,938**	**139,274**	**18,515,485**

Organisation Chart and Bodies



Shareholders' Assembly of Slovenska izvozna družba, d.d.

mag. Simon Oblak – Chairperson
Metod Zaplotnik – Deputy Chairperson

Supervisory Board of Slovenska izvozna družba, d.d., Ljubljana

1. Janez Lotrič – Chairperson
2. mag. Helena Kamnar, Deputy Chairperson
3. Pavel Demšar
4. Janko Deželak
5. Ivan Ferme
6. Jože Stanič
7. mag. Sibil Svilan

International Trade Promotion Commission

1. mag. Mojca Jazbinšek Volk - Chairperson
   Ministry of Economy
2. mag. Andrijana Starina Kosem – Deputy Chairperson
   Ministry of Economy
3. Jože Drofenik
   Ministry of Foreign Affairs
4. mag. Janez Košak
   Bank of Slovenia
5. mag. Cveto Stantič
   Chamber of Commerce and Industry
6. mag. Stanislava Zadravec Caprirolo
   Ministry of Finance

History of SEC

1992

- June 17 – Adoption of the Law on Export Insurance and Finance Corporation of Slovenia (Official Gazette of RS No. 32/92); several Amendments to the SEC law have been adopted so far (OG RS Nos 37/95, 34/96, 31/97 and 99/99);
- July 8 – 87 founding shareholders formally sign the Memorandum of Association of Slovenska izvozna družba, d.d. Ljubljana (SEC); during the same year, the first of the three instalments of the initial capital is paid in;
- October 22 – the Founding Shareholders' Meeting of Slovenska izvozna družba, d.d. Ljubljana. On October 27, SEC is entered into the Register of Companies.

1993

- first reinsurance arrangement closed in private reinsurance market (Quota Share Treaty on inward and outward reinsurance);
- starting up of operations – export credit insurance and export credit refinancing;
- Finnish technical assistance to SEC financed by EBRD.

1994

- accelerated growth of insurance volumes;
- first claim paid from the insurance on account of the State (later it was recovered in full from the Iranian bank)

1995

- introduction of medium-term export credit insurance against commercial risks;
- adoption of the Law on the Use of Funds, Acquired from the Proceeds on the Basis of the Ownership Transformation Act, which was used in the following year to build safety reserves for insurance performed on account of the state and to fund equity increase in SEC
- second technical assistance programme financed by EBRD;
- short-term export-credit insurance against commercial risks – covering permanent insolvency and protracted default;
- refinancing also available for exports of consumer goods and financing of marketing activities.

1996

- development of own integral information system (SEC IS);
- establishment of SEC Credit Rating Department;
- introduction of new services: refinancing of export credits is extended to include outward investments, and insurance of guarantees;
- SEC starts attending meetings of the newly established ECAs with the Secretary General of the Berne Union;
- technical assistance provided by COFACE (Phare programme).

1997

- adoption of the development strategy for the system of export insurance and financing of the Republic of Slovenia;
- amendments to the Law on SEC provide for completion of the project designed to introduce exchange risk insurance; new facility: insurance of credit lines, modification of facilities and adoption of new General conditions on investment insurance (growth of this insurance scheme)
- active networking with other ECAs by closing various types of agreements.

1998

- adoption of the Law on Guarantees of the Republic of Slovenia for the Loans Hired for Export Financing (Official Gazette of RS, No 20/98), which enables SEC to enter international financial markets and borrow funds to finance exports in foreign cureency;
- October 21 – at the 55th Annual General Meeting of the Berne Union (Cape Town, South African Republic), SEC becomes an observer member of the International Union of Credit and Investment Insurers;
- May 24–27 – at the 15th Annual General Meeting in Vancouver (Canada), SEC becomes an observer member of the Pan American Surety Association (PASA);
- introduction of the SME programme which facilitates access to insurance cover and refinancing for small and medium-sized enterprises.

1999

- in ten years of operation, 1999 was the only year when the result of the insurance on account of the State was negative (two major losses due to bankruptcy of two Croatian banks);
- first loan obtained from a foreign financial institution (KfW);
- successful launch of domestic credit insurance;

- amendments to the Law on SEC – privatisation of SEC is made possible, whilst the proceeds should be used for safety reserves.

2000

- volume of export insurance first exceeds one billion euros (EUR 1.192 million);
- 18.10. October 18 – At the 57th Annual General Meeting of the International Union of Credit and Investment Insurers, held in Amsterdam, Netherlands, SEC becomes a full member of the Berne Union.

2001

- SEC for the first time active as a consultant in a bilateral government programme of technical assistance (MBDP, Macedonia);
- adjustment of the premium system for the insurance on state account (OECD – Knaepen package)
- SEC issues bills in the nominal value of SIT 1 billion as a new form of financing. That is the first issue of debt securities by SEC.

2002

- October 15 – equity investment and acquisition of a fifty percent share in SEC subsidiary (later renamed as Prvi faktor, d.o.o.);
- launching of a financing scheme for SMEs, in co-operation with KfW and the Council of Europe Development Bank;
- SEC obtains the largest syndicated loan arranged by BACA, Citigroup, SMBC and WestLB in the amount of EUR 70 million;
- SEC issues bills in the nominal value of SIT 1.8 billion.

2003

- insurance and financing of the renovation project of Hotel Budapest in Moscow
- June 27 – SEC becomes an associate member of the ISLTC;
- Prvi faktor, d.o.o. sets up a company in Croatia;
- December 19 – The National Assembly of RS adopts the new Law on Insurance and Financing of International Business Transactions (Official Gazette of RS, No. 2/04) which becomes effective on 14 February 2004, replacing the laws of 1992 and 1998.
- business volume rises substantially, exceeding, for the first time in SEC existence, the EUR 2 billion (EUR 2,394 million); the amount of EUR 2 million is also exceeded by insurance on own account (EUR 2,031 million).

2004

- conclusion of a long-term agreement on insurance and financing of international business transactions between SEC and the Ministry of Finance of RS;
- revised and upgraded facility of bank guarantees (BANG);
- SID-NET is fully operational,
- establishment of an SEC subsidiary, a debt collection company PRO KOLEKT, družba za izterjavo d.o.o.
- setting up of SID - Prva kreditna zavarovalnica, d.d., Ljubljana.