Creditreform Bank Rating

SID - Banka, d.d.

Rating Object	Rating Information
SID - Banka, d.d. Creditreform ID: 400986286 Management: Sibil Svilan (CEO); Goran Katušin	Long Term Issuer Rating / Outlook: **AA- / stable** Short Term: **L1** Type: Initialrating / unsolicited
Rating Date: 07 July 2021 Monitoring until: withdrawal of the rating Rating Methodology: CRA "Bank Ratings v.3.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Government-Related Banks v.2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3" Rating History: www.creditreform-rating.de	Rating of Bank Capital and Unsecured Debt Instruments: Preferred Senior Unsecured: AA- Non-Preferred Senior Unsecured: - Tier 2: - Additional Tier 1: -

Contents

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Key Rating Driver

+ SID`s liabilities are irrevocably and without limitations backed by the Republic of Slovenia
+ Sound capitalization
+ Clear strategy on behalf of the Slovenian State

+/- Increasing needs of stimulus measures in the Slovenian economy due to the Corona pandemic impact

- Concentration risk due the limited business diversification opportunities following SID Bank's role
- Relatively high RWA ratio, which is increasing in recent years

Executive Summary

Our rating of SID Banka is clearly affected by the fact that the Republic of Slovenia (CRA Rating as of 22.01.21: AA-/stable) ultimately and irrevocably backs the bank's liabilities. In addition, SID Banka shows satisfactory capital figures, a sound asset quality and decent cost to income ratios.

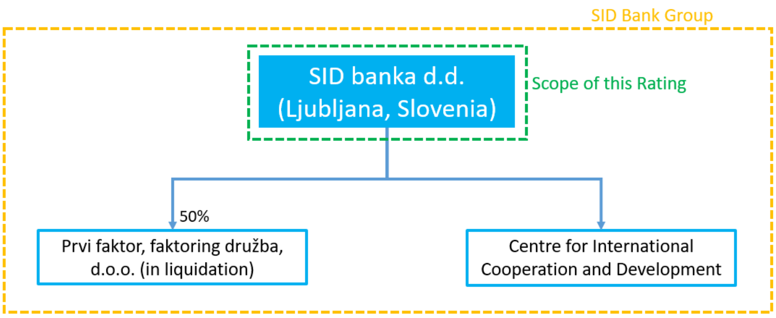
Company Overview

SID Banka d.d. (SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana) was founded in 1992 and the bank operates as a promotional, development and export bank for the Republic of Slovenia. The role of SID Banka is to develop, provide and promote long-term financial services designed to supplement financial markets for the higher competitiveness of the Slovenian economy, creating new jobs and sustainable development of Slovenia. SID Banka's development strategy for the period 2021–2023 is based on the following two objectives: high multiplier and sustainability effects in the economy and society, and own performance that ensures the long-term financial viability of the Bank's operations.

As the sole shareholder, the Republic of Slovenia is responsible irrevocably and without limitations for SID Banka's liabilities deriving from the transactions concluded during the pursuit of activities from Articles 11 and 12 of the Slovene export and development bank act (ZSIRB). If SID Banka fails to settle its due liabilities to a creditor at its written request, such liability should be immediately settled by the Republic of Slovenia at the creditor's request. This arrangement allows SID Banka to borrow on financial markets without having to obtain a guarantee by the Republic of Slovenia for each borrowing transaction. In accordance with Article 4 of the ZSIRB, the distributable profit of SID Banka shall not be used for distribution to shareholders, but shall be allocated to other profit reserves. SID Bank acquires most funds through borrowing on the international financial markets.

Scope of this rating and group structure: SID Banka is the operating company of SID Bank Group. In addition to SID Banka, the SID Bank Group comprises as of the year-end 2020 the factoring company Prvi Faktor Group (joint venture) and the Centre for International Cooperation and Development (CMSR) of which SID Banka is a co-founder and in which it does not have any financial stake, but holds 33% of the voting rights (associate). However, these investments are not included in the consolidation of SID Banka, as the combined total assets of the two companies' amount to less than 1% of SID Banka's total assets following the principle of immateriality.

Chart 1: Group of SID Bank Group and Scope of this Rating | Source: Website of SID



Business Development

Profitability

SID's most significant income sources are its interest income and its trading income. The bank's interest income shows a stable development in recent years but suffers from the low interest rate environment despite the increased loan activities. On the other hand, the bank benefits from more favorable refinancing costs through lower interest expenses. In addition, SID changed the accounting treatment of its interest income in 2020 and reports under its interest income item only the portion of interest income, which relates to its performing portfolio.
By contrast, trading income increased significantly over the last two years. However, the background of this development is an operation together with the Ministry of Economic Development and Technology (MEDT) of Slovenia. Hereby SID Banka manages four loan funds, which were set up in conjunction with the MEDT, whereby a first loss clause was contractually agreed on the part of the MEDT for all four funds (any loss of the funds is first covered by the MEDT). Since lending from the loan funds in 2020 was up relative to 2019 and created impairments were higher, a loss of EUR 20.8mn (2019: EUR 10mn) was accounted. However, because of the agreed first loss clause, this issue is reflected in recognized gains on financial liabilities measured at amortized cost and thus lead to the increase in the item of net trading income in our presentation. Overall, a general volatility in this item is likely due to the aforementioned agreement, but SID bears only an insignificant risk on behalf of the bank. Moreover, additional volatility in this item arises from the banks accounting treatment of interest income from non-performing assets. Due to the sale of the subsidiary SID – Prva kreditna zavarovalnica in 2019 (non-recurring revenue of EUR 10mn) the bank will likely report dividend income at a lower level in the future (accounted under equity accounted results).

The bank's development of expenses is driven by rising personnel expense. Due to the bank's counter-cyclical role, the Corona pandemic impact and the resulting expansion of its financing programs and the introduction of new products the bank increased its staff. The number of employees was up by 22 to 223 at year-end 2020. As a result of the bank's increasing importance, we do not expect the bank to decrease its labor costs to the previous level in the upcoming years. The remaining expenses of the bank are less important with cost of services of EUR 3.6mn being most significant.

The impairments of SID are displayed in the item asset-write-downs. The strong increase in this item is related to the banks increased countercyclical and supportive lending activities for the Slovenian companies, which lead to higher impairments due to the deteriorating economic conditions and the macroeconomic forecast. About EUR 25.9mn of the impairments are related to the bank's loans and advances to customers. With its cost of risk for customer loans of about 237bp, SID clearly underperforms its peer banks. Due to the still ongoing pandemic and the upcoming run out of moratoria and state support, we do not expect any improvements in this regard. However, due to its role in the economy of Slovenia and its state guarantee we do not perceive a significant risk in this regard to arise. In addition, we acknowledge that SID is not a bank which is pursuing profit maximization.

A detailed group income statement for the years of 2017 through 2020 can be found in Figure 1 below:

Figure 1: Income statement | Source: eValueRate / CRA

Income Statement (EUR k)	2020	%	2019	2018	2017
Income					
Net Interest Income	23.193	-3,1	23.932	22.986	20.294
Net Fee & Commission Income	293	+46,5	200	291	-227
Net Insurance Income	-	-	-	-	-
Net Trading Income	31.242	+34,0	23.311	3.730	-2.303
Equity Accounted Results	-	-	5.418	582	3.353
Dividends from Equity Instruments	316	> +100	35	36	87
Other Income	3.865	+38,5	2.791	3.667	1.732
Operating Income	**58.909**	**+5,8**	**55.687**	**31.292**	**22.936**
Expense					
Depreciation and Amortisation	970	+6,1	914	881	1.131
Personnel Expense	13.184	+14,2	11.540	9.978	8.853
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	2.282	+82,4	1.251	322	917
Other Expense	4.172	-3,3	4.316	3.629	3.541
Operating Expense	**20.608**	**+14,4**	**18.021**	**14.810**	**14.442**
Operating Profit & Impairment					
Pre-impairment Operating Profit	**38.301**	**+1,7**	**37.666**	**16.482**	**8.494**
Asset Writedowns	27.839	> +100	10.491	-1.037	-7.731
Net Income					
Non-Recurring Income	-	-	10.063	-	4
Non-Recurring Expense	-	-	-	-	5
Pre-tax Profit	**10.462**	**-71,9**	**37.238**	**17.519**	**16.224**
Income Tax Expense	1.972	-62,1	5.198	3.205	2.268
Discontinued Operations	-	-	-	-	-
Net Profit	**8.490**	**-73,5**	**32.040**	**14.314**	**13.956**
Attributable to minority interest (non-controlling interest)	-	-	-	-	-
Attributable to owners of the parent	8.490	-73,5	32.040	14.314	13.956

SID achieves an outstanding Cost to income ratio despite the worsening YOY. The drop in the banks cost to income ratio excluding trading is primarily attributable to an accounting issue. The background is the bank's first loss agreement with MEDT and the gains in relation with this agreement, which are recognized as gains on financial liabilities measured at amortized costs as mentioned in the previous chapter. We do not perceive any specific risk in this regard, as the fluctuation is not related to trading activities. The bank's other income ratios (ROA, ROE and RORWA) before and after taxes decline as a result of the strong increase of its impairment in 2020. Due to the high level of uncertainty in relation with the Corona pandemic, it is currently uncertain if SID is able to reach the previous year's level of profitability. By contrast, the bank's net interest margin is still at a good level.

Overall, SID's reports satisfying earnings figures given its business purpose as development bank. In addition, we expect SID to maintain its outstanding cost to income ratio while the development of the other income ratios (ROA, ROE and RORWA) before and after taxes are dependent on the final impact of the Corona pandemic.

A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	34,98	+2,62	32,36	47,33	62,97
Cost Income Ratio ex. Trading (CIRex)	74,49	+18,82	55,66	53,73	57,22
Return on Assets (ROA)	0,29	-1,04	1,33	0,62	0,57
Return on Equity (ROE)	1,78	-5,12	6,91	3,39	3,40
Return on Assets before Taxes (ROAbT)	0,36	-1,19	1,55	0,76	0,66
Return on Equity before Taxes (ROEbT)	2,20	-5,83	8,03	4,15	3,96
Return on Risk-Weighted Assets (RORWA)	0,54	-2,03	2,57	1,20	1,33
Return on Risk-Weighted Assets before Taxes (RORWAbT)	0,67	-2,32	2,99	1,47	1,55
Net Interest Margin (NIM)	1,88	-0,09	1,97	1,16	0,74
Pre-Impairment Operating Profit / Assets	1,32	-0,25	1,57	0,71	0,35
Cost of Funds (COF)	0,22	-0,14	0,36	0,43	0,43
Change in %- Points					

Asset Situation and Asset Quality

In response to the Covid-19 pandemic SID supports the Slovenian economy and on behalf of the Slovenian Republic conducts various measures like payment moratoria and liquidity guarantee schemes.

SID's asset side is dominated by its promotional loan activities. Due to its countercyclical and promotional role, SID increased its direct lending activities in particular to Slovenian non-financial corporations in recent years, which account now for about 89% of its customer loans. Loans to the government sector (primarily loans to municipalities and loans to infrastructure sector) represent the second largest exposure of the banks customer loans. In addition, SID provides loans to Slovenian banks, which as financial intermediaries funnel development funds to its customers (accounted for 91% of loans and advances to banks (excl. deposits)). By contrast, the remaining portion of the bank's loans and advances to customers represents loans to foreign banks to finance the export transactions of Slovenian companies. Overall, SID's structure of loans shifted in favor of the Slovenian corporate sector over the banking sector.

SID's debt securities consists primarily of Slovenian government bonds (EU 336mn) and government bonds from other EU member states with a high liquidity to ensure its asset liability management. In addition, SID holds about EUR 100mn of bonds from non-financial corporations. Moreover, SID has little exposure to currency risk as the bank conducts almost all of its investments in its domestic currency.

Figure 3: Development of assets | Source: eValueRate / CRA

Assets (EUR k)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	120.187	+65,3	72.729	121.184	71.071
Net Loans to Banks	783.725	-6,2	835.770	809.350	1.032.179
Net Loans to Customers	1.091.560	+33,7	816.550	706.787	597.740
Total Securities	900.538	+34,5	669.324	662.688	730.521
Total Derivative Assets	1.153	-	-	-	-
Other Financial Assets	1.230	-76,6	5.261	1.853	1.553
Financial Assets	**2.898.393**	**+20,8**	**2.399.634**	**2.301.862**	**2.433.064**
Equity Accounted Investments	-	-	-	-	8.413
Other Investments	-	-	-	-	-
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	-	-	-	8.413	-
Tangible and Intangible Assets	5.328	-4,8	5.598	5.921	5.796
Tax Assets	2.423	> +100	468	2.271	4.086
Total Other Assets	1.214	> +100	464	367	282
Total Assets	**2.907.358**	**+20,8**	**2.406.164**	**2.318.834**	**2.451.641**

SID's NPL ratio improved over the last years and reached an average level with 3.4%. The improvement is partially due to a higher proportion of A-rated exposures. In addition, payment holidays and liquidity measures likely lead to a reduction as well.
The bank's stage 2 ratio (stage 2 loans over net loans to customers) is at a relatively high level and represents a high potential of upcoming non-performing loans. The increase in this ratio is clearly affected by the Covid pandemic and the resulting downturn of the economy. The bank's RWA ratio is constantly at a high level due to its supporting role and the increased lending to the non-financial sector. In 2020, SID reported relatively high impairments primarily on its customer loans due to the deteriorating economic environment and macroeconomic forecasts, which ultimately caused its high net-write off figures.
Overall, considering the run out of the various guarantee schemes and moratoria measures, we expect SID to remain at its high level of net-write off figures in the following periods. In addition, due to the aforementioned reason we expect a worsening of SID's asset quality in general. However, due to its role and the government backed business activities, we do not perceive an increased risk in this regard.

Figure 4: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	37,54	+3,61	33,94	30,48	24,38
Risk-weighted Assets/ Assets	53,99	+2,17	51,82	51,23	42,79
NPLs*/ Net Loans to Customers	3,40	-1,25	4,65	5,90	4,70
NPLs*/ Risk-weighted Assets	2,36	-0,68	3,05	3,51	2,68
Potential Problem Loans**/ Net Loans to Customers	17,99	+6,53	11,47	6,51	0,15
Reserves/ NPLs*	187,95	+76,69	111,26	87,29	482,00
Reserves/ Net Loans	6,38	+1,21	5,17	5,15	22,66
Net Write-offs/ Net Loans	2,55	+1,27	1,28	-0,15	-1,29
Net Write-offs/ Risk-weighted Assets	1,77	+0,93	0,84	-0,09	-0,74
Net Write-offs/ Total Assets	0,96	+0,52	0,44	-0,04	-0,32

Change in %- Points

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Refinancing, Capital Quality and Liquidity

SID Banka increased its refinancing position by banks primarily through the participation at the TLTRO III program of the ECB. This participation enables SID to further reduce its interest expense in the upcoming periods, as the current interest rate at the ECB is negative. In addition, SID increased its total debt through the issue of a so-called Covid-19 bond in July 2020 in the amount of EUR 350mn with a yield to maturity of 0.14% (a spread of 21bp over comparable government bonds at time of issue). The close spreads shows again a high financial relationship between SID and the Slovenian Republic which the market perceives. The Covid-19 bond is dedicated for the financing of the Slovenian economy in order to mitigate the impact of the COVID-19 pandemic through programs implemented by SID Banka. The banks liabilities to customers include among other the loans of development institutions and MEDT funds relating to liabilities from the functioning of loan funds and funds of funds.
Overall, SID increased its liabilities though different positions in order to cope with the increasing duties to counteract the Covid pandemic impact on the Slovenian economy. By contrast, the bank's equity position increased equivalent to its distributable profit as the profit it is predetermined to increase the bank's profit reserves according to the ZSIRB instead of being distributed to the shareholder.

Figure 2: Development of refinancing and capital adequacy| Source: eValueRate / CRA

Liabilities (EUR k)	2020	%	2019	2018	2017
Total Deposits from Banks	909.970	+17,0	777.912	1.206.244	1.230.807
Total Deposits from Customers	832.377	+0,6	827.545	548.452	454.828
Total Debt	679.327	> +100	330.279	132.601	350.320
Derivative Liabilities	1.087	+29,3	841	2.898	93
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	2.879	+5,6	2.727	2.024	2.191
Total Financial Liabilities	**2.425.640**	**+25,1**	**1.939.304**	**1.892.219**	**2.038.239**
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	702	+55,7	451	3.294	447
Provisions	4.635	+95,2	2.374	1.130	2.946
Total Other Liabilities	274	+56,6	175	140	116
Total Liabilities	**2.431.251**	**+25,2**	**1.942.304**	**1.896.783**	**2.041.748**
Total Equity	**476.107**	**+2,6**	**463.860**	**422.051**	**409.893**
Total Liabilities and Equity	**2.907.358**	**+20,8**	**2.406.164**	**2.318.834**	**2.451.641**

SID Banka shows very sound capital figures. The banks total equity in relation to its total assets as well as the leverage ratio are at a very high level and more favorable than of ordinary commercial banks. In addition, the banks regulatory capital figures are far above the minimum requirements with more than sufficient buffer. The lowering of the banks CET1 ratio year-over-year is primarily due to the banks increase in corporate lending and the resulting increase in risk-weighted assets. The banks AT1 and Tier 2 figures match its CET1 figure due to the lack of these capital instruments. However, there is no need for the bank to issue these capital instruments as the bank maintains a high proportion of CET1 capital.
As a result of the government backed business operations, we do not perceive any liquidity issues at SID. The banks LCR of about 6,313% is outstanding and the NSFR of

about 132% exceeds comfortably the regulatory requirements.

Overall, SID's capital figures show sufficient buffer for loss absorption and are the best performers in any of the areas analyzed. In addition, as the bank shall not distribute its net profit according to the ZSIRB, we expect SID to maintain a solid capitalization despite a likely further increase of its lending activities and the following increase in risk-weighted assets. In addition, we do not expect to arise any liquidity issues in the near future due to the banks role in Slovenian Republic.

Figure 3: Development of capital and liquidity ratios | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	16,38	-2,90	19,28	18,20	16,72
Leverage Ratio	14,70	-1,80	16,50	16,30	15,50
Common Equity Tier 1 Ratio (CET1)*	29,12	-4,92	34,04	34,18	36,76
Tier 1 Ratio (CET1 + AT1)*	29,12	-4,92	34,04	34,18	36,76
Total Capital Ratio (CET1 + AT1 + T2)*	29,12	-4,92	34,04	34,18	36,76
Net Loans/ Deposits (LTD)	131,14	+32,47	98,67	128,87	131,42
Interbank Ratio	86,13	-21,31	107,44	67,10	83,86
Liquidity Coverage Ratio	6313,00	+4481,00	1832,00	458,00	1340,00
Customer Deposits / Total Funding (excl. Derivates)	34,25	-8,37	42,62	28,96	22,28
Net Stable Funding Ratio (NSFR)	132,00	-8,00	140,00	140,00	140,00
Change in %- Points					

*Fully loaded figures where available.

Due to SID's capital and debt structure, as well as its status as a government related bank, the bank's Preferred Senior Unsecured Debt instruments have not been notched down in comparison to the long-term issuer rating. Due to the lack Non-Preferred Senior Unsecured debt, Tier 2 capital as well as Additional Tier 1 capital we do not assign any rating to these capital classes.

Environmental, Social and Governance (ESG) Score Card

Creditreform Bank Rating
Environmental, Social and Governance (ESG) Score Card
SID - Slovenska izvozna in razvojna banka d.d.

Creditreform Rating

SID Bank has one significant and two moderate ESG rating drivers

Corporate Governance is identified as a significant rating driver. The relevance for the credit rating results from the impact of the Corporate Governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated neutral due to SID's legislatively predetermined strategy and role with little discretion. In addition, while the bank operates at an economic sustainable level, we do not perceive ambitious ESG targets.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated positive due to the in 2018 already issued first green bond, Corporate Behaviour is rated positive due SID's leading role in this regard with no negative issues.

ESG Score

3,4 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
< = 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	1.2 Exposure to Environ-mental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	2	( )
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	1	( )

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	2	( )
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	4	( )
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	1	( )

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage https://creditreform-rating.de/en/about-us/regulatory-requirements.html. In addition, we refer to CRA's position paper "Consodering the Impact of ESG Factors".

Conclusion

Our rating of SID - Slovenska izvozna in razvojna banka, d.d. is clearly affected by our opinion that there is an almost certain likelihood of support by the Republic of Slovenia (CRA Rating: AA-/stable – 22.01.2021) in the event of financial distress. This owes to the fact that SID is entirely and exclusively owned by the Republic of Slovenia, due to SID's role in Slovenian Republic as well as due to the obligation arising from the Slovene export and development bank act (ZSIRB). Therefore, we assume a high public interest of the Republic of Slovenia in the business operations of the bank.

Overall, SID's faced a challenging fiscal year 2020, which was characterized by increasing business activities following its supporting role. Because of the Corona pandemic, the bank increased significantly its impairments, which lead to lower income figures. However, the banks cost to income ratio is still considerable. Moreover, the bank benefits from its government backed business through very favorable refinancing opportunities. For 2021, we expect a further negative impact by the Corona pandemic on SID's profitability figures. However, the bank does not pursue profit maximization due its public mission of supporting the prosperity of the Slovenian Republic and thus we do not expect any material changes in this regard.

The asset quality of SID is still at a sound level despite the strong increase of its impairments. However, due to the bank's increased supporting activities and the run out of moratoria and state support measures, we expect a further deterioration of the bank's asset quality.

On the liabilities side, SID shows a sound mixture of refinancing sources. In addition, the bank benefits from its government backed business. The bank's regulatory capital ratios are despite the recent decrease at an outstanding level and show more than sufficient buffer to the regulatory requirements. The liquidity situation of the bank is sufficient and we do not expect any issues in this regard to arise.

Overall, 2020 had a negative impact on the banks' profitability as well as its asset quality in particular as a result of the Corona pandemic. The capitalization of the bank is very good. However, the rating of SID is strongly affected by the rating of the Slovenian Republic.

Outlook

We consider the outlook of SID's long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that the bank is able to overcome the current adverse impact by the Corona pandemic in particular through its close relationship to the Slovenian Republic. However, we will observe how the bank will deal with the Corona pandemic effects on the economy, as the final impact is still uncertain.

In addition, we assume no further significant economic worsening due to the Corona pandemic and a stable political environment.

Scenario Analysis

Best-case scenario: AA-

Worst-case scenario: BBB+

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

In a scenario analysis, the bank is able to reach an “AA-“ rating in the “best case” scenario and an “BBB+” rating in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We might upgrade SID’s long-term issuer credit rating and its bank capital and debt instruments if we see an upgrade of the rating of the Slovenian Republic. In addition, a significant improvement of the banks’ profitability and asset quality might lead to an upgrade as well.

By contrast, a downgrade of the bank’s long-term issuer credit rating and its bank capital and debt instruments is likely if SID loses its state guarantee by the Slovenian Republic. In addition, a lasting decline of SID’s capitalization and asset quality / profitability might lead to a downgraded as well.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **AA- / stable / L1**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **AA-**
Non-Preferred Senior Unsecured Debt (NPS): **-**
Tier 2 (T2): **-**
Additional Tier 1 (AT1): **-**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 4: Rating History

Bank Issuer Rating	Rating Date	Result
Initialrating	07.07.2021	AA- / stable / L1
Bank Capital and Debt Instruments	**Rating Date**	**Result**
Preferred Senior Unsecured Debt	07.07.2021	AA-

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings as (Version 3.0), the methodology for the rating of bank capital and unsecured debt instruments (Version 2.0), the methodology for the rating of Government-Related Banks (Version 2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (Version 1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (Version 1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

On 07 July 2021, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to SID - Banka, d.d., and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Rating Endorsement Status: The rating of SID - Banka, d.d. was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate

2. Annual Report and interim reports

3. Investors relations information and other publications

4. Website of the rated bank

5. Public and internal market analyses

6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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