IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE U.S.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached preliminary offering circular following this page (the "**Preliminary Offering Circular**") or otherwise received as a result of such access and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Preliminary Offering Circular. In accessing the attached Preliminary Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of your representation: By accessing this Preliminary Offering Circular you have confirmed to Barclays Bank PLC, Deutsche Bank Aktiengesellschaft, Goldman Sachs International Bank and J.P. Morgan Securities plc as joint lead managers (the "**Joint Lead Managers**") and Abanka d.d. and Nova Ljubljanska banka d.d. as co-lead managers (the "**Co-lead Managers**" and, together with the Joint Lead Managers, the "**Managers**"), and to the Republic of Slovenia that (i) you have understood and agree to the terms set out herein, (ii) that the electronic mail address you have given to us is not located in the United States, its territories and possessions and (iii) you consent to delivery by electronic transmission.

This Preliminary Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Managers nor any of their respective affiliates nor the Republic of Slovenia accepts any liability or responsibility whatsoever in respect of any difference between the Preliminary Offering Circular distributed to you in electronic format and the hard copy version.

You are reminded that the attached Preliminary Offering Circular has been delivered to you on the basis that you are a person into whose possession this Preliminary Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this offering circular, electronically or otherwise, to any other person and in particular to any U.S. address. Failure to comply with this directive may result in a violation of the United States Securities Act of 1933, (as amended) (the "**Securities Act**") or the applicable laws of other jurisdictions.

Restrictions: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OF AMERICA OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

Under no circumstances shall this Preliminary Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

Any securities to be issued will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered in the United States (as such term is defined in Regulation S under the Securities Act) unless registered under the Securities Act or pursuant to an exemption from such registration.

THE REPUBLIC OF SLOVENIA

€1,000,000,000 1.750 per cent. Notes due 2040

The issue price of the €1,000,000,000 1.750 per cent. Notes due 2040 (the "**Notes**") of the Republic of Slovenia (the "**Republic**", "**Slovenia**" or the "**Issuer**") is 97.829 per cent. of its principal amount.

The Notes will bear interest from and including 3 November 2016 at the rate of 1.750 per cent. per annum payable annually in arrear on each Interest Payment Date, commencing on 3 November 2017 (see "*Terms and Conditions of the Notes — Interest*"). Payments of interest in respect of the Notes will be made without deduction for or on account of Slovenian taxes, as described, and subject to the exceptions set out, under "*Terms and Conditions of the Notes — Taxation*".

The Notes will mature on 3 November 2040. The Terms and Conditions of the Notes are governed by Slovenian law.

The Notes will be in dematerialised registered form and will be issued and cleared through KDD – *Centralna klirinško depotna družba, delniška družba* ("**KDD**"). The Notes may be held by the Noteholders directly through accounts with KDD. In addition, links between KDD and Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") have been established which allow interests in the Notes to be held through the fiduciary accounts with KDD maintained by Citibank N.A. on behalf of Euroclear and through the accounts of Clearstream, Luxembourg.

Persons holding interests in the Notes otherwise than directly at their accounts with KDD will not be considered as the legal owners of such Notes under Slovenian law. The Terms and Conditions of the Notes contain provisions pursuant to which persons holding the Notes through accounts with Euroclear or Clearstream, Luxembourg ("**Accountholders**") may, in certain circumstances, directly make a claim against the Republic for payment under the Notes. The Republic will recognise the statement of accounts of Euroclear and Clearstream, Luxembourg, to be conclusive and binding evidence of the right of Accountholders under the Terms and Conditions of the Notes. See also "*Clearing and Settlement*" for further information.

Application has been made for the Notes to be listed and traded on the bond segment (*segment obveznic*) of the stock exchange market (*borzni trg*), which is the EEA Regulated Market of the Ljubljana Stock Exchange (*Ljubljanska borza d.d.*) (the "**Ljubljana Stock Exchange**") pursuant to the rules and regulations of the Ljubljana Stock Exchange. An "**EEA Regulated Market**" means a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Joint Lead Managers

BARCLAYS | **DEUTSCHE BANK**

GOLDMAN SACHS INTERNATIONAL BANK | **J.P. MORGAN**

Co-lead Managers

ABANKA | **NOVA LJUBLJANSKA BANKA**

The date of this Offering Circular is 28 October 2016.

The Republic accepts responsibility for the information contained within this document. To the best of its knowledge and belief, the information contained within this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The Republic accepts responsibility accordingly.

*Barclays Bank PLC, Deutsche Bank Aktiengesellschaft, Goldman Sachs International Bank and J.P. Morgan Securities plc as joint lead managers (the "***Joint Lead Managers***") and Abanka d.d. and Nova Ljubljanska banka d.d. as co-lead managers (the "***Co-lead Managers***" and, together with the Joint Lead Managers, the "***Managers***") have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Republic in connection with the Notes or their distribution.*

No person is or has been authorised to give any information or to make any representation which is not contained in, or which is not consistent with, this Offering Circular or any other information supplied by or on behalf of the Republic in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Republic or the Managers.

Neither this Offering Circular nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Republic that any recipient of this Offering Circular should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Republic.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Republic since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Republic since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Notes is correct as of any date subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Republic and the Managers do not represent that this document may be lawfully distributed or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Republic or the Managers which would permit a public offering of the Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published, in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe any such restrictions. In particular there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States and the United Kingdom. For a description of further restrictions on offers and sales of Notes and distribution of this Offering Circular see "Subscription and Sale" below.

*The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "***Securities Act***"), or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States (as such term is defined in Regulation S under the Securities Act). The Notes will be offered and sold outside the United States in reliance on Regulation S. For a description of restrictions on offers, sales and transfers of the Notes, see "Subscription and Sale".*

Neither the offer or sale of the Notes nor the Notes have been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits *of any offering of the Notes or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.*

*This Offering Circular neither constitutes a prospectus pursuant to the Slovenian Financial Instruments Market Act (Zakon o trgu finančnih instrumentov, (ZTFI) (the "**ZTFI**") which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as amended (the "**Prospectus Directive**") nor a simplified prospectus pursuant to article 42 of the ZTFI. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No 809/2004 (as amended) implementing the Prospectus Directive, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Agencija za trg vrednostnih papirjev, in its capacity as competent authority under the ZTFI. The Notes, issued pursuant to this Offering Circular, will therefore not qualify for the benefit of the single European passport pursuant to the Prospectus Directive.*

*In this Offering Circular, unless otherwise specified or the context otherwise requires, references to "**€**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.*

STABILISATION

In connection with the issue of the Notes, Deutsche Bank Aktiengesellschaft (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

CONTENTS

Page

RISK FACTORS

Investment in the Notes involves risks. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Offering Circular, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the Republic's capacity to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to the Issuer or that the Issuer currently deems to be immaterial may also materially affect the Republic's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Offering Circular have the same meanings in this section.

Risk Factors Relating to the Republic

The Republic's economy remains vulnerable to external and domestic economic conditions, including the slow rate of recovery in the Eurozone, a number of political and macroeconomic risks relating to the United Kingdom's potential exit from the European Union (the "EU") and the effect of any future significant economic difficulties of its major trading partners or by more general "contagion" effects, which could have a material adverse effect on the Republic's economic growth

The Republic's economic performance remains vulnerable to external and domestic economic conditions and shocks, including the delayed restoration of the Slovenian private sector, the slow rate of recovery in the Eurozone, the potential exit of the United Kingdom from the EU and the effect of any future significant economic difficulties of its major trading partners. The Slovenian economy is small and is highly export-oriented. Challenges in achieving the Government's key macroeconomic policy objectives could impact gross domestic product ("**GDP**") growth, as could procedural difficulties related to the absorption of EU funds and Government investment activity. A significant decline in the economic growth of any of the Republic's major trading partners, in particular, Germany, Italy, Austria, Croatia and the other member states of the EU (the "**EU Member States**") could also have a materially negative impact on the Republic's balance of trade and adversely affect its economic growth prospects.

While the Government believes that its efforts to revitalise the banking sector are helping to improve the state of the economy, credit conditions have been tight following the economic recession. Debt in the corporate sector remains high relative to firms' capacity to repay. Additionally, ongoing restructuring of the corporate sector weighs on growth prospects. While concerns over credit risk, the large amount of sovereign debt and the fiscal deficits of several other European countries have been somewhat mitigated recently, the default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or any EU or Eurozone exits (or threats thereof), could cause severe stress in the financial system generally and could adversely affect the global financial markets in ways that are difficult to predict. A slow or delayed recovery of the Eurozone economy could cause the Republic to face difficulties in accessing funding for the Slovenian government and domestic banks.

Recent efforts by European leaders to find a lasting solution to market concerns about certain European countries' ability to repay their debt have produced bail-out packages and restructuring agreements for a number of these sovereign debtors. These include agreements with certain EU member countries, such as Cyprus and Greece, which have adopted or have agreed to adopt fiscal austerity plans and impose losses on uninsured depositors to address concerns over its credit profile. Despite these efforts and successful completions of programmes in the case of Ireland and Spain, doubts remain over the successful implementation of these measures and the continued stability of the European monetary system and economy. As of 30 June 2016, the Republic's exposure to financial assistance programmes supporting financial stability in the euro area was €1,497.4 million, of which €263.7 million related to the Loan Facility Agreement for Greece on a bilateral level.

Following the national referendum on 23 June 2016, the eventual timing or terms of the United Kingdom's potential exit from the EU has created significant political, social and macroeconomic uncertainty, with certain public figures in other EU member states calling for referenda in their respective countries on exiting the EU. This has raised concerns over a "domino" or "contagion" effect whereby multiple member states seek to exit the EU and Eurozone.

Furthermore, following the United Kingdom's withdrawal from the EU, and depending on the agreements (if any) that the United Kingdom reaches regarding tariffs and other trade regulations with either the EU or individual member states, the Republic's products and services could be subject to increased import duties, levies and regulatory requirements in the United Kingdom, which could negatively affect trade between the Republic and the United Kingdom and could, as a result, negatively impact the Slovenian economy.

The possible exit of the United Kingdom (or any other country) from the EU, or prolonged periods of uncertainty relating to this possibility, could result in significant macroeconomic deterioration, including, but not limited to further decreases in global stock exchange indices, increased foreign exchange volatility (in particular a further weakening of the pound sterling and euro against other leading currencies) and decreased GDP in the EU or other markets relevant to the Slovenian economy, any of which, were they to occur, could have a negative impact on the Slovenian economy. In addition, there are increasing concerns that these events could push the United Kingdom, Eurozone and/or United States into an economic recession, any of which, were they to occur, would further destabilise the global financial markets and could have a negative impact on the Slovenian economy.

There also remains the possibility that the uncertainty described above could lead to the reintroduction of individual currencies in one or more EU Member States, or, in more extreme circumstances, the possible dissolution of the Economic and Monetary Union ("**EMU**") entirely. The exit of one or more EU Member States from the EMU or the dissolution of the EMU could have a material adverse effect on the European and global economies, including the Republic, and cause a redenomination of financial instruments or other contractual obligations from the euro to a different currency.

Additionally, in the event of weaker than budgeted growth, driven by either softer external or domestic demand, the Government may need to implement further cost-reduction or revenue raising measures in order to meet the central government deficit-to-GDP ratio targets of 2.1 per cent. and 1.7 per cent. for 2016 and 2017, respectively. Such measures may adversely affect economic growth.

There can be no assurance that any of the factors described above will not have a negative impact on the Slovenian economy.

The Republic's credit rating has been downgraded in recent years and could be downgraded in the future

As the situation in the international financial markets deteriorated significantly in the second half of 2011 and doubts over the sustainability of the Eurozone increased, several rating agencies downgraded the credit ratings of a number of EU sovereigns, including the Republic. Further sovereign downgrades occurred in 2012 and 2013, with the Republic being downgraded by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") in 2012 to A with a negative outlook from A+ with a negative outlook, and in 2013 to A- with a stable outlook. In 2012, Moody's Investors Service, Inc. ("**Moody's Inc.**") downgraded the Republic to Baa2 with a negative outlook from A2 with a negative outlook, and Fitch Ratings Limited ("**Fitch**") to A- with a negative outlook from A with a negative outlook. On 30 April 2013, Moody's Inc. announced that it was further downgrading the Republic's government bond rating to Ba1 from Baa2 and retaining its negative outlook. On 17 May 2013, Fitch also downgraded the Republic's government bond rating to BBB+ with a negative outlook due to concerns about deteriorated macroeconomic and fiscal outlooks and a frail banking system. In January 2014, Moody's Inc. changed the Republic's outlook from negative to stable, and Fitch upgraded its outlook on the Republic from negative to stable on 2 May 2014. On 27 June 2014, S&P revised its outlook on the Republic from stable to negative before upgrading its outlook to stable on 19 December 2014. In addition, on 23 January 2015, Moody's Investors Services Ltd. ("**Moody's Ltd.**") upgraded the Republic to Baa3 with a stable outlook, an investment grade rating. On 19 June 2015, S&P revised its outlook on the Republic to positive. Fitch revised its outlook on the Republic to positive on 9 October 2015 and on 18 December 2015, S&P affirmed its rating of A- with a positive outlook. Fitch affirmed Slovenia's BBB+ rating with a positive outlook on 25 March 2016. On 17 June 2016, S&P upgraded the Republic to A with a stable outlook. On 16 September 2016, Moody's Ltd. upgraded its outlook on the Republic from stable to positive. On 23 September 2016, Fitch upgraded its rating of the Republic to A- with a stable outlook. Although S&P and Fitch have a stable outlook and Moody's Ltd. has a positive outlook on the Republic, the risk of a possible future downgrade still remains. The agencies could lower their ratings of the Republic if, among other things, the Republic's macroeconomic environment was substantially weakened, the policy-making became less predictable, the Government's debt trajectory worsened or in the event of economic or financial shocks arising from the ongoing banking system stabilisation. A further downgrade of sovereign debt ratings, including those of the Republic, or a continued Eurozone crisis may result in an increased risk of further deleveraging and credit contraction, which could have a materially negative effect on the Slovenian economy and could have a negative impact on investor confidence in the Republic or on the Republic's ability to raise capital from the external debt markets in the future.

The credit ratings of the Republic as at the date of this Offering Circular are A by S&P, A- by Fitch and Baaa3 by Moody's Ltd.

Parts of the Slovenian banking system could require further recapitalisation

In 2013 and 2014, the Slovenian banking system received significant injections of capital as a result of the recapitalisation of the three largest Slovenian banks. The Slovenian banking system needed capital support due to the deterioration of the asset quality of its major banks, for which support had to be provided within the time frame set out by the bank regulator. As at 31 December 2013, following the transfer of bad assets to the Government-owned bank asset management company (*Družba za upravljanje terjatev bank, d.d.*, the "**BAMC**"), the share of non-performing loans, in the Slovenian banking sector, measured by claims in arrears over 90 days, was 13.4 per cent. of all outstanding bank loans. Largely due to increased active management of non-performing loans by banks as part of their on-going restructuring processes, as well as an additional transfer of non-performing loans to the BAMC in the last quarter of 2014, the share of non-performing loans decreased to 11.9 per cent. and to 9.9 per cent. as at 31 December 2014 and 31 December 2015, respectively. The share of non-performing loans further decreased to 6.7 per cent as at 31 August 2016.

The banking system's overall portfolio is impacted by non-performing loans, the majority of which are concentrated in the non-financial corporate sector, particularly in small-medium enterprises. Since the end of 2014, the non-performing loan amount and ratio have been decreasing substantially due to the restructuring of the exposures by the large companies, write-offs, the sale of non-performing portfolios by certain banks and the favourable impact of economic recovery.

For more information on non-performing loans, see "*Monetary and Financial System — Credit and Income Risk*". The recapitalisation of large state-owned banks has been the main driver of the considerable increase of public debt since the financial crisis.

The ratio of Government debt to GDP more than tripled since 2008, according to European Commission (the "**European Commission**") forecasts, and reached 83.2 per cent. of GDP as at 31 December 2015. This development decreased the Government's shock absorption capacity, weakening fiscal leeway should similar pressures re-emerge.

Due to the deterioration of the asset quality of its major banks, the Republic has had to engage in the recapitalisation of the banking system. From 2011 to 2013, the Republic recapitalised Nova Ljubljanska banka d.d., Ljubljana ("**NLB**") in the amount of €2.175 billion. In the same period, the Republic increased its capital share in Nova Kreditna banka Maribor d.d. ("**NKBM**") by €970 million. The Republic was the majority shareholder in NLB, Slovenia's largest bank and NKBM, its second largest bank, which together accounted for 53 per cent. of total assets of the Slovenian banking sector as at 31 December 2013. In the period from 2013 to 2014, the Republic recapitalised Abanka d.d. ("**Abanka**") in the amount of €591 million and Banka Celje d.d. ("**Banka Celje**") in the amount of €190 million. On 21 April 2016, the Republic completed the sale of its entire interest in NKBM to Apollo Global Management and the European Bank for Reconstruction and Development. On 5 October 2015, Abanka merged with Banka Celje. In addition, in 2013, the Republic recapitalised Probanka d.d. ("**Probanka**") in the amount of €176 million and Factor banka d.d. ("**Factor banka**"), in the amount of €269 million. In February 2016, Factor banka and Probanka were merged with the BAMC.

While certain non-performing loans and distressed assets from the balance sheets of certain Slovenian banks have been transferred to the BAMC, there is a risk that there will be an increase in the amount of non-performing loans of such Slovenian banks even after such transfers, which could result in the need for further bank recapitalisations. See "*Public Finance — Consolidated General Government Budget*".

Given the Republic's sizable reliance on non-resident market demand for government debt, the banking system remains subject to international liquidity risks and market conditions as well. As a result, the

Government could choose to pursue an external support package in the event of a stressed market environment and significantly higher than expected recapitalisation needs of the banking system.

In addition, the Republic's ability to take on further debt to finance further recapitalisation may be constrained.

The Republic may not succeed in implementing proposed or future fiscal, political and other reforms, and such failure may adversely affect its economy

The ongoing and anticipated reforms described in this Offering Circular, including, but not limited to, those described under "*Public Finance — Fiscal Policy and Reform*", "*Monetary and Financial System – Banking Reform and Recapitalisations*" and "*Public Finance – Fiscal Policy and Reform — Taxation and Taxation Policy*", may not continue in the manner described or on the basis of any expected timetable outlined therein, and may fail to be implemented or may subsequently be reversed. In particular, the Republic is bound by EU legislation and is committed to pursuing structural reforms, such as fiscal consolidation, long-term reform of the pension system in an effort to make the pension deficit sustainable in light of the Republic's ageing population and streamlining the stratified labour market. Pension reform was implemented by the Pension and Disability Insurance Act (*Zakon o pokojninskem in invalidskem zavarovanju (ZPIZ-2)*, the "**Pension Act**"), which came into force on 1 January 2013. Moreover, the law on Slovenian sovereign holding (*Zakon o Slovenskem državnem holdingu (ZSDH),* the "**SSHA**") and the act to strengthen the stability of banks (*Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank (ZUKSB)*, the "**Stability of the Banking Sector Act**") came into force at the end of December 2012 as well. Furthermore, labour market reforms were adopted in March 2013.

The current Government's privatisation agenda was launched in June 2013 by a decision of the National Assembly and laid the basis for the sale of the Republic's direct or indirect interests in 15 companies. The new Slovenian law on sovereign holding (*Zakon o Slovenskem državnem holdingu (ZSDH-1), the* "**SSHA-1**") entered into force on 26 April 2014. This new law was designed to centralise the management of all assets, prevent a distortion of competition in markets and the unequal treatment of companies, reduce the influence of special interest groups, decrease the risk of corruption and conflicts of interests and enhance transparency. Although the privatisation agenda is underway, it may still be subject to delays.

The Government may encounter resistance in the implementation of other structural reforms, potentially facing opposition from within the governing coalition, or from groups such as trade unions, which are entrenched in the political system or from unrest stemming from deteriorating economic conditions. The failure of the Government to implement its contemplated reforms or the failure of these reforms to achieve their stated objectives may lead to a deterioration of general economic conditions or may have an adverse effect on the Republic's ability to repay its financial obligations. Furthermore, due to the nature and extent of these reforms, negative short-term effects on growth, employment and other key economic variables may occur before any positive long-term effects of any reforms are achieved.

The Republic is a member of the EMU and, therefore, has limited ability to set monetary policy

The Republic is a member of the EMU and, therefore, has limited ability to set monetary policy. The 18 members of the EMU have transferred the power to set monetary policy to the European Central Bank ("**ECB**"). The powers of the ECB include the power to manage the monetary policy of the EMU member states, as well as to manage liquidity and stability of the financial system through open market operations, marginal lending facilities, reserve requirements and other policy instruments which may be available to the ECB in accordance with its constitutional documents. The ECB is an independent body. As a result, the Republic does not have any power to directly influence any policy decisions made by the ECB. The ECB sets monetary policy with a view to the Eurozone as a whole. Therefore, where economic events are limited to the Republic or do not affect the Eurozone as a whole, the ECB may not take such actions as may benefit the Republic, in particular, or as might be required to alleviate the effects of a financial crisis in the Republic. The absence of an independent monetary policy may contribute to a need to implement further structural reforms and financial consolidation measures to stabilise economic conditions. This may have a material adverse effect on the economy of the Republic and, consequently, on the Republic's ability to meet its obligations under any outstanding indebtedness.

Official economic data may not be directly comparable with data produced by other sources

Although a range of government ministries, including the Ministry of Finance of the Republic of Slovenia (the "**Ministry of Finance**"), along with Banka Slovenije (the "**Bank of Slovenia**"), the Statistical Office of the Republic of Slovenia ("**SORS**") and the Slovenian Securities Market Agency (*Agencija za trg vrednostnih papirjev*, the "**Securities Market Agency**"), produce statistics on the Republic and its economy, there can be no assurance that these statistics are comparable with those compiled by other bodies, or in other countries, which use different methodologies. Prospective investors in the Notes should be aware that figures relating to the Republic's GDP and many other aggregate figures cited in this Offering Circular have been prepared in accordance with EU standards and may differ from figures prepared by international bodies, such as the International Monetary Fund (the "**IMF**"), which use a different methodology. In addition, the existence of an unofficial or unobserved economy may affect the accuracy and reliability of statistical information. Prospective investors should be aware that none of the statistical information in this Offering Circular has been independently verified.

Risk Factors Relating to an Investment in the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The conditions of the Notes contain a collective action clause and may be modified, waived or amended without the consent of all the Noteholders

The conditions of the Notes contain provisions regarding acceleration and voting on amendments, modifications and waivers, commonly referred to as "collective action" clauses. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority.

The form of collective action clause contained in the Notes was agreed and published by the Economic and Financial Committee Sub-Committee on EU Sovereign Debt Markets, on 28 March 2012. In accordance with the provisions of the Treaty establishing the European Stability Mechanism (the "**ESM**") signed on 2 February 2012, this standardised clause became mandatory in all new Eurozone government securities, with a maturity above one year, issued on or after 1 January 2013. The provisions of the clause permit "cross-series modifications" to be made to one or more series of debt securities issued by the Issuer (**provided that** those debt securities also contain a cross-series modification provision), including the Notes. In the case of a cross-series modification, a defined majority of the holders of the debt securities of all series (when taken in the aggregate) that would be affected by the proposed modification may bind all holders of such series; **provided that** a lower defined majority of holders of each affected series of debt securities approve the relevant amendment (See "*Terms and Conditions of the Notes — Meetings of Noteholders; Modification*").

The conditions of the Notes contain a provision permitting the Notes and the conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error or where the amendment is of a formal, minor or technical nature or is beneficial to the interests of the Noteholders.

Any such change in the Terms and Conditions of the Notes may adversely affect the trading price of the Notes.

The conditions of the Notes restrict the ability of an individual Noteholder to declare a default and permit a majority of Noteholders to rescind a declaration of default

The conditions of the Notes contain a provision which, if an Event of Default occurs, allows the Noteholders of at least 25 per cent. in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Republic, whereupon the relevant Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

The conditions of the Notes also contain a provision permitting the holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to notify the Republic to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Republic shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

The law governing the conditions of the Notes may change

The conditions of the Notes are based on Slovenian law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to Slovenian law or administrative practice after the date of this Offering Circular.

An active trading market for the Notes may not develop

An active trading (secondary) market for the Notes may not develop. Although the Lead Managers have informed the Republic that they currently intend to make a market in the Notes offered hereby, the Lead Managers have no obligation to do so and may discontinue making a market at any time without notice. The liquidity of any market for the Notes will depend upon the number of Noteholders, the performance of the Republic, the market for similar securities, the interest of securities dealers in making a market in the Notes and other factors, including general declines or disruptions in the markets for debt securities.

Although an application has been made to list on the Ljubljana Stock Exchange and to trade the Notes on the Ljubljana Stock Exchange's regulated market, there is no assurance that such application will be accepted. Furthermore, there can be no assurance that a trading market for the Notes will develop. If a trading market does develop, there is no assurance that it will be liquid or maintained. If an active trading market in the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

The market for securities issued by the Republic is influenced by economic and market conditions in the Republic and, to a varying degree, economic conditions in other European markets, as well as global, emerging and developed markets generally. There can be no assurance that events which would cause volatility of the sort that occurred in worldwide financial markets in 1998 and 2008 will not occur again, or that any such volatility will not adversely affect the price or liquidity of the Notes.

In addition, if the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. As a result of the above factors, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

A claimant may not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions

The Republic is a sovereign state and the Notes are governed by Slovenian law. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Slovenia against the Republic.

Enforcement of such judgments in Slovenia may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. Certain assets owned by the Republic are also immune from execution by law. There is also a risk that, notwithstanding the waiver of sovereign immunity by the Republic, a claimant will not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale).

The foreign exchange reserves of the Republic are held and administered by the Bank of Slovenia, which is an independent central bank legally distinct from the Government, and in other central banks that are members of the European System of Central Banks (the "**ESCB**"). Accordingly, such reserves would not be available to satisfy any claim or judgment in respect of the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing, and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit ratings may not reflect all risks

S&P, Moody's Ltd. and Fitch are expected to assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. The Issuer cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. The Issuer has no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to the Issuer may adversely affect the market price of the Notes.

In general, European regulated investors are restricted under Regulation (EU) No 1060/2009 on credit rating agencies (the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances while the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). As at the date of this Offering Circular, each of Moody's Ltd., S&P and Fitch is established in the EU and regulated under the CRA Regulation. Moody's Inc., which issued credit ratings for the Republic's debt up until 2014, is not established as a credit rating agency in the European Union and is not registered in accordance with CRA Regulation; however, ratings issued by Moody's Inc., for debt issued by the Republic are eligible for endorsement by Moody's Ltd., which is established in the European Union and registered in accordance with CRA Regulation.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be applicable to each Note (the Slovenian language version will be included in the Registration Order and shall prevail over the English language version):

1. FORM, DENOMINATION AND TITLE; CURRENCY OF PAYMENT

The €1,000,000,000 1.750 per cent. notes due 2040 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 12 and forming a single series therewith) of the Republic of Slovenia (the "**Republic**") are in uncertificated and dematerialised registered form in the denomination of €1,000.

The Notes are issued pursuant to the Public Finance Act (*Zakon o javnih financah (ZJF)*) and in accordance with the provisions of the Dematerialised Securities Act (*Zakon o nematerializiranih vrednostnih papirjih (ZNVP-1)*, hereinafter: the "**ZNVP-1**") as entries in the central register (the "**Central Register**") maintained by KDD d.d., Tivolska cesta 48, SI-1000 Ljubljana, Slovenia ("**KDD**"). No global or definitive Notes or interest coupons will be issued in respect of the Notes in any circumstances.

The Notes are freely transferable in accordance with the provisions of the ZNVP-1, other applicable Slovenian legislation and the rules and regulations applicable to, and/or issued by, KDD. Title to the Notes will pass by registration in the Central Register.

Each person that is for the time being recorded in the Central Register as the legal holder of a particular number of the Notes (in which regard any certificate or other document issued by KDD as to the number of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Republic as the holder of such number of Notes (and the expressions "**Noteholder**" and the "**holder of Notes**" and related expressions shall be construed accordingly).

No person other than the Republic and the respective Noteholder shall have any right to enforce any term or condition of any Note. Notwithstanding the aforesaid, the right to receive payments in respect of a Note may be enforced by the Beneficiary (as defined in Condition 5.1(iv)) of such payments or by an Accountholder (as defined in Condition 5.3).

"**€**" or "**euro**" means the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

2. STATUS

The Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Republic and will at all times rank *pari passu* and without any preference among themselves. The full faith and credit of the Republic is pledged for the due and punctual payment of the principal of, and interest on, the Notes and the performance of the Republic's obligations under the Notes.

The payment obligations of the Republic under the Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Republic.

3. INTEREST

The Notes bear interest from 3 November 2016 (the "**Issue Date**") at the rate of 1.750 per cent. per annum, payable in arrear on 3 November in each year commencing on 3 November 2017 (each, an "**Interest Payment Date**"), subject as provided in Condition 5.

Each Note will cease to bear interest from the due date for final redemption. If payment of principal is improperly withheld or refused, the Beneficiary of such payment will be entitled to receive interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Beneficiary or (b) the day which is five business days after the Republic has notified the Beneficiaries that all sums due in respect of such principal and interest will be paid subject only to the receipt by the Republic of a notice specifying the details of the euro account of the relevant Beneficiary in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

The amount of interest due in respect of any Notes will be calculated by reference to the aggregate principal amount of Notes held by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01.

Where interest is to be calculated in respect of a period which is shorter than an Interest Period, it will be calculated on the basis of the number of days in the relevant period, from and including the first day of such period to but excluding the last day of such period, divided by the number of days in the Interest Period in which the relevant period falls.

As used herein:

(i) "**business day**" means any day which is a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) payment system which utilises a single shared platform and which was launched on 19 November 2007 is open for the settlement of payments in euro; and

(ii) "**Interest Period**" means the period from and including the Issue Date to but excluding the first Interest Payment Date and each period from and including an Interest Payment Date to but excluding the next Interest Payment Date.

4. REDEMPTION AND PURCHASE

4.1 Scheduled redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount, which is equal to their nominal amount, on 3 November 2040, subject as provided in Condition 5.

4.2 Purchase and cancellation

The Republic and its Agencies (as defined below) may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased may be cancelled or held and resold (provided that such resale is outside the United States, as defined in Regulation S under the United States Securities Act of 1933, as amended). Any Notes so cancelled will not be reissued.

In this Condition 4.2, "**Agency**" means any political sub-division, regional government, ministry, department, authority or statutory corporation of the Republic or the government thereof (whether or not such statutory corporation is autonomous) and "**Agencies**" shall be construed accordingly.

5. PAYMENTS

5.1 Principal and interest

Payments of principal and interest will be made in euro by transfer to the euro accounts of the Beneficiaries (as defined below) of such payments. Each payment so made will discharge the Republic's obligation in respect thereof.

In this Condition 5:

(i) "**euro account**" means, in relation to a person, an account nominated by or on behalf of such person pursuant to Condition 5.2 and into which euro payments in respect of the Notes may be credited or transferred.

(ii) "**KDD Business Day**" means any day which is a day on which KDD is open for business

(iii) "**Relevant Time**" means, in relation to any amount payable in respect of a Note, the end of the third KDD Business Day (as defined above) prior to the due date for such amount; and

(iv) "**Beneficiary**" means, in relation to any amount payable in respect of a Note, the person registered at the Relevant Time (as defined above) in the Central Register as the person entitled to receive such amount.

5.2 Notification of euro account

Each Noteholder or Beneficiary shall nominate its euro account by notifying details in respect thereof to the Republic either (a) in the manner notified to the Noteholder or Beneficiary by Uprava Republike Slovenije za javna plačila ("**UJP**") following a request from such Noteholder or Beneficiary to UJP in accordance with Condition 13 or (b) in such other manner as may from time to time be specified in a notice given by or on behalf of the Republic in accordance with Condition 13.

If a Beneficiary of any amount payable in respect of a Note fails to nominate its euro account in accordance with the foregoing before the third KDD Business Day prior to the due date for payment of such amount, such Beneficiary shall not be entitled to payment of the amount due until the fifth business day after details of its euro account have been properly nominated in accordance with the foregoing, and the relevant Beneficiary shall not be entitled to any interest or other payment in respect of any such delay.

5.3 Assignment of Clearing Systems' rights

In the case of an Event of Default as described in Condition 7.1, any right to receive payment in respect of a Note held at the Relevant Time by Clearstream Banking S.A. or Euroclear Bank SA/NV (each a "**Clearing System**", and together the "**Clearing Systems**") or by any other person on behalf of a Clearing System (each such person a "**Fiduciary**") shall be deemed assigned on the due date for such payment to the person recorded in the records of the relevant Clearing System as the holder of such Note at the Relevant Time (the "**Accountholder**") (in which regard a statement of accounts issued by the relevant Clearing System and, where applicable, its Fiduciary as to the principal amount of Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding evidence of a right to receive such payment) and such Accountholder shall be entitled to enforce the obligation of the Republic to make such payment (including any further interest due in accordance with Condition 3) to the euro account of the Beneficiary of such payment (being the relevant Clearing System or, where applicable, its Fiduciary).

5.4 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 6. No commissions or expenses shall be charged to the Noteholders or Beneficiaries in respect of such payments.

5.5 Payments on business days

If the due date for payment of any amount in respect of any Note is not a business day, the Beneficiary shall not be entitled to payment of the amount due until the next succeeding business day and shall not be entitled to any interest or other payment in respect of any such delay.

5.6 Paying agent

The Republic reserves the right at any time to appoint or terminate the appointment of a paying agent who acts solely as an agent of the Republic and does not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Beneficiaries.

6. TAXATION

All payments of principal and interest in respect of the Notes by the Republic shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic or any political subdivision or any authority thereof or therein having power to tax (a "**Tax**"), unless such withholding or deduction is required by law.

In that event, the Republic shall pay such additional amounts as will result in the receipt by the Beneficiaries of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

(i) in respect of any amount payable in respect of a Note received by or on behalf of a person who is subject to such Tax in respect of such payment by reason of his being connected with the Republic (or any political subdivision thereof) otherwise than merely by holding such Note or receiving principal or interest in respect thereof; or

(ii) in respect of any amount payable in respect of a Note received by or on behalf of a person who would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the Republic or relevant tax authority if, after having been requested to make such a declaration or claim, such person fails to do so; or

(iii) in respect of any amount payable in respect of a Note received more than 30 days after the Relevant Date (as defined below) except to the extent that the recipient thereof would have been entitled to such additional payment on the last day of such 30 day period.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the payment in question is improperly withheld or refused, the day on which the Republic has notified the relevant Beneficiary that the amount in question will be paid subject only to the receipt by the Republic of a notice specifying the details of its euro account in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

Any reference in these Conditions to principal or interest in respect of the Notes shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 6.

7. EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") occurs and is continuing:

7.1 Non-payment

The Republic fails to pay any amount of principal or interest in respect of the Notes within 30 days of the due date for payment thereof; or

7.2 Breach of other obligations

The Republic does not perform or comply with any one or more of its other obligations under the Notes, which default is incapable of remedy or, if capable of remedy, is not remedied within 45 days after notice of such default has been given to the Republic by Noteholders holding not less than 25 per cent. in aggregate of the principal amount of the outstanding Notes;

then Noteholders holding not less than 25 per cent. in aggregate of the principal amount of the outstanding Notes may, by a written notice to the Republic in accordance with Condition 13, declare the Notes due and payable, in each case at their principal amount together with accrued interest, without further formality. Upon such declaration the Republic shall give notice to the Noteholders in accordance with Condition 13.

If the Republic receives notice in writing from Noteholders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Republic shall give notice thereof to the Noteholders in accordance with Condition 13, whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before such notice is given (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other declaration or any subsequent Event of Default or any right of any Noteholder in relation thereto.

8. PRESCRIPTION

Claims for principal shall become void unless claimed for payment within five years of the appropriate Relevant Date (as defined in Condition 6). Claims for interest shall become void unless claimed for payment within three years of the appropriate Relevant Date.

9. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER

9.1 Definitions

In these Conditions, the following expressions have the following meanings:

(a) "**debt securities**" means the Notes and any other bills, debentures, notes or other debt securities issued by the Republic in one or more series with an original stated maturity of more than one year, and includes any such obligation, irrespective of its original stated maturity, that formerly constituted a component part of a debt security.

(b) "**zero-coupon obligation**" means a debt security that does not expressly provide for the accrual of interest, and includes the former component parts of a debt security that did expressly provide for the accrual of interest if that component part does not itself expressly provide for the accrual of interest.

(c) "**index-linked obligation**" means a debt security that provides for the payment of additional amounts linked to changes in a published index, but does not include a component part of an index-linked obligation that is no longer attached to that index-linked obligation.

(d) "**series**" means a tranche of debt securities, together with any further tranche or tranches of debt securities that in relation to each other and to the original tranche of debt securities are (i) identical in all respects except for their date of issuance or first payment date, and (ii) expressed to be consolidated and form a single series, and includes the Notes and any further issuances of Notes.

(e) "**outstanding**" in relation to any Note means a Note that is outstanding for the purposes of Condition 9.2.7, and in relation to the debt securities of any other series means a debt security that is outstanding for purposes of Condition 9.2.8.

(f) "**modification**" in relation to the Notes means any modification, amendment, supplement or waiver of these Conditions, and has the same meaning in relation to the debt securities of any other series save that any of the foregoing references to the Notes in this definition shall be read as references to such other debt securities or any agreement governing the issuance or administration of such other debt securities.

(g) "**cross-series modification**" means a modification involving (i) the Notes, and (ii) the debt securities of one or more other series or any agreement governing the issuance or administration of such other debt securities.

(h) "**reserved matter**" in relation to the Notes means any modification of these Conditions that would:

   (i) change the date on which any amount is payable on the Notes;

   (ii) reduce any amount, including any overdue amount, payable on the Notes;

   (iii) change the method used to calculate any amount payable on the Notes;

   (iv) change the currency or place of payment of any amount payable on the Notes;

   (v) impose any condition on or otherwise modify the Republic's obligation to make payments on the Notes;

   (vi) change any payment-related circumstance under which the Notes may be declared due and payable prior to their stated maturity;

   (vii) change the seniority or ranking of the Notes;

(viii) change any court to whose jurisdiction the Republic has submitted or any immunity waived by the Republic in relation to legal proceedings arising out of or in connection with the Notes;

(ix) change the principal amount of outstanding Notes or, in the case of a cross-series modification, the principal amount of debt securities of any other series required to approve a proposed modification in relation to the Notes, the principal amount of outstanding Notes required for a quorum to be present, or the rules for determining whether a Note is outstanding for these purposes; or

(x) change the definition of a reserved matter,

and has the same meaning in relation to the debt securities of any other series save that any of the foregoing references to the Notes in this definition shall be read as references to such other debt securities or any agreement governing the issuance or administration of such other debt securities.

(i) For the purposes of this Condition 9 only "**holder**" in relation to a Note means a Noteholder, and in relation to any other debt security means the person the Republic is entitled to treat as the legal holder of the debt security under the law governing that debt security.

(j) "**record date**" in relation to any proposed modification means the date fixed by the Republic for determining the holders of Notes and, in the case of a cross-series modification, the holders of debt securities of each other series that are entitled to vote on or sign a written resolution in relation to the proposed modification.

9.2 *Modification of Notes*

9.2.1 **Reserved Matter Modification**. These Conditions may be modified in relation to a reserved matter with the consent of the Republic and:

(a) the affirmative vote of holders of not less than 75 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called meeting of Noteholders; or

(b) a written resolution signed by or on behalf of holders of not less than 66⅔ per cent. of the aggregate principal amount of the Notes then outstanding.

9.2.2 **Cross-Series Modification**. In the case of a cross-series modification, these Conditions and the terms and conditions of debt securities of any other series, and any agreement governing the issuance or administration of debt securities of such other series, may be modified in relation to a reserved matter with the consent of the Republic and:

(a)(i) the affirmative vote of not less than 75 per cent. of the aggregate principal amount of the outstanding debt securities represented at separate duly called meetings of the holders of the debt securities of all the series (taken in the aggregate) that would be affected by the proposed modification; or

(a)(ii) a written resolution signed by or on behalf of the holders of not less than 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the series (taken in the aggregate) that would be affected by the proposed modification;

and

(b)(i) the affirmative vote of more than 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities represented at separate duly called meetings of the holders of each series of debt securities (taken individually) that would be affected by the proposed modification; or

(b)(ii) a written resolution signed by or on behalf of the holders of more than 50 per cent. of the aggregate principal amount of the then outstanding debt securities of each series (taken individually) that would be affected by the proposed modification.

A separate meeting will be called and held, or a separate written resolution signed, in relation to the proposed modification of the Notes and the proposed modification of each other affected series of debt securities.

9.2.3 **Proposed Cross-Series Modification**. A proposed cross-series modification may include one or more proposed alternative modifications of the terms and conditions of each affected series of debt securities or of any agreement governing the issuance or administration of any affected series of debt securities, provided that all such proposed alternative modifications are addressed to and may be accepted by any holder of any debt security of any affected series.

9.2.4 **Partial Cross-Series Modification**. If a proposed cross-series modification is not approved in relation to a reserved matter in accordance with Condition 9.2.2 but would have been so approved if the proposed modification had involved only the Notes and one or more, but less than all, of the other series of debt securities affected by the proposed modification, that cross-series modification will be deemed to have been approved, notwithstanding Condition 9.2.2, in relation to the Notes and debt securities of each other series whose modification would have been approved in accordance with Condition 9.2.2 if the proposed modification had involved only the Notes and debt securities of such other series, provided that:

(a) prior to the record date for the proposed cross-series modification, the Republic has publicly notified holders of the Notes and other affected debt securities of the conditions under which the proposed cross-series modification will be deemed to have been approved if it is approved in the manner described above in relation to the Notes and some but not all of the other affected series of debt securities; and

(b) those conditions are satisfied in connection with the proposed cross-series modification.

9.2.5 **Non-Reserved Matter Modification**. These Conditions may be modified in relation to any matter other than a reserved matter with the consent of the Republic and:

(a) the affirmative vote of holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called meeting of Noteholders; or

(b) a written resolution signed by or on behalf of holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

9.2.6 **Multiple Currencies, Index-Linked Obligations and Zero-Coupon Obligations**. In determining whether a proposed modification has been approved by the holders of the requisite principal amount of Notes and debt securities of one or more other series:

(a) if the modification involves debt securities denominated in more than one currency, the principal amount of each affected debt security will be equal to the amount of euro that could have been obtained on the record date for the proposed modification with the principal amount of that debt security, using the applicable euro foreign exchange reference rate for the record date published by the European Central Bank;

(b) if the modification involves an index-linked obligation, the principal amount of each such index-linked obligation will be equal to its adjusted nominal amount;

(c) if the modification involves a zero-coupon obligation that did not formerly constitute a component part of an index-linked obligation, the principal amount of each such zero-coupon obligation will be equal to its nominal amount or, if its stated maturity date has not yet occurred, to the present value of its nominal amount;

(d) if the modification involves a zero-coupon obligation that formerly constituted a component part of an index-linked obligation, the principal amount of each such zero-coupon obligation that formerly constituted the right to receive:

(i) a non-index-linked payment of principal or interest will be equal to its nominal amount or, if the stated maturity date of the non-index-linked payment has not yet occurred, to the present value of its nominal amount; and

(ii) an index-linked payment of principal or interest will be equal to its adjusted nominal amount or, if the stated maturity date of the index-linked payment has not yet occurred, to the present value of its adjusted nominal amount; and

(e) for purposes of this Condition 9.2.6:

(i) the adjusted nominal amount of any index-linked obligation and any component part of an index-linked obligation is the amount of the payment that would be due on the stated maturity date of that index-linked obligation or component part if its stated maturity date was the record date for the proposed modification, based on the value of the related index on the record date published by or on behalf of the Republic or, if there is no such published value, on the interpolated value of the related index on the record date determined in accordance with the terms and conditions of the index-linked obligation, but in no event will the adjusted nominal amount of such index-linked obligation or component part be less than its nominal amount unless the terms and conditions of the index-linked obligation provide that the amount of the payment made on such index-linked obligation or component part may be less than its nominal amount; and

(ii) the present value of a zero-coupon obligation is determined by discounting the nominal amount (or, if applicable, the adjusted nominal amount) of that zero-coupon obligation from its stated maturity date to the record date at the specified discount rate using the applicable market day-count convention, where the specified discount rate is:

(x) if the zero-coupon obligation was not formerly a component part of a debt security that expressly provided for the accrual of interest, the yield to maturity of that zero-coupon obligation at issuance or, if more than one tranche of that zero-coupon obligation has been issued, the yield to maturity of that zero coupon obligation at the arithmetic average of all the issue prices of all the zero-coupon obligations of that series of zero-coupon obligations weighted by their nominal amounts; and

(y) if the zero-coupon obligation was formerly a component part of a debt security that expressly provided for the accrual of interest:

(1) the coupon on that debt security if that debt security can be identified; or

(2) if such debt security cannot be identified, the arithmetic average of all the coupons on all of the Republic's debt securities (weighted by their principal amounts) referred to below that have the same stated maturity date as the zero coupon obligation to be discounted, or, if there is no such debt security, the coupon interpolated for these purposes on a linear basis using all of the Republic's debt securities (weighted by their principal amounts) referred to below that have the two closest maturity dates to the maturity date of the zero-coupon obligation to be discounted, where the debt securities to be used for this purpose are all of the Republic's index-linked obligations if the zero-coupon obligation to be discounted was formerly a component part of an index-linked obligation and all of the Republic's debt securities (index-linked obligations and zero-coupon obligations excepted) if the zero-coupon obligation to be discounted was not formerly a component part of an index-linked obligation, and in either case are denominated in the same currency as the zero-coupon obligation to be discounted.

9.2.7 **Outstanding Notes**. In determining whether holders of the requisite principal amount of outstanding Notes have voted in favour of a proposed modification or whether a quorum is present at any meeting of Noteholders called to vote on a proposed modification, a Note will be deemed to be not outstanding, and may not be voted for or against a proposed modification or counted in determining whether a quorum is present, if on the record date for the proposed modification:

(a) the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued;

(b) the Note has become due and payable at maturity or otherwise and the Republic has previously satisfied its obligation to make all payments due in respect of the Note in accordance with its terms; or

(c) the Note is held by the Republic, by a department, ministry or agency of the Republic, or by a corporation, trust or other legal entity that is controlled by the Republic or a department, ministry or agency of the Republic and, in the case of a Note held by any such above-mentioned corporation, trust or other legal entity, the holder of the Note does not have autonomy of decision, where:

(i) the holder of a Note for these purposes is the entity legally entitled to vote the Note for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Note for or against a proposed modification;

(ii) a corporation, trust or other legal entity is controlled by the Republic or by a department, ministry or agency of the Republic if the Republic or any department, ministry or agency of the Republic has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity; and

(iii) the holder of a Note has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Republic:

(x) the holder may not, directly or indirectly, take instruction from the Republic on how to vote on a proposed modification; or

(y) the holder, in determining how to vote on a proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or

(z) the holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Notes (if that person then held any Notes) would be deemed to be not outstanding under this Condition 9.2.7.

9.2.8 **Outstanding Debt Securities**. In determining whether holders of the requisite principal amount of outstanding debt securities of another series have voted in favor of a proposed cross-series modification or whether a quorum is present at any meeting of the holders of such debt securities called to vote on a proposed cross-series modification, an affected debt security will be deemed to be not outstanding, and may not be voted for or against a proposed cross-series modification or counted in determining whether a quorum is present, in accordance with the applicable terms and conditions of that debt security.

9.2.9 **Entities Having Autonomy of Decision**. For transparency purposes, the Republic will publish promptly following the Republic's formal announcement of any proposed modification of the Notes, but in no event less than 10 days prior to the record date for the proposed modification, a list identifying each corporation, trust or other legal entity that for purposes of Condition 9.2.7(c):

(a) is then controlled by the Republic or by a department, ministry or agency of the Republic;

(b) has in response to an enquiry from the Republic reported to the Republic that it is then the holder of one or more Notes; and

(c) does not have autonomy of decision in respect of its Holdings of Notes.

9.2.10 **Exchange and Conversion**. Any duly approved modification of these Conditions may be implemented by means of a mandatory exchange or conversion of the Notes for new debt securities containing the modified terms and conditions in accordance with Condition 11. Any conversion or exchange undertaken to implement a duly approved modification will be binding on all Noteholders.

9.3 *Calculation Agent*

9.3.1 **Appointment and Responsibility**. The Republic will appoint a person (the 'calculation agent') to calculate whether a proposed modification has been approved by the requisite principal amount of outstanding Notes and, in the case of a cross-series modification, by the requisite principal amount of outstanding debt securities of each affected series of debt securities. In the case of a cross-series modification, the same person will be appointed as the calculation agent for the proposed modification of the Notes and each other affected series of debt securities.

9.3.2 **Certificate**. The Republic will provide to the calculation agent and publish prior to the date of any meeting called to vote on a proposed modification or the date fixed by the Republic for the signing of a written resolution in relation to a proposed modification, a certificate:

(a) listing the total principal amount of Notes and, in the case of a cross-series modification, debt securities of each other affected series outstanding on the record date for purposes of Condition 9.2.7;

(b) specifying the total principal amount of Notes and, in the case of a cross-series modification, debt securities of each other affected series that are deemed under Condition 9.2.7(c) to be not outstanding on the record date; and

(c) identifying the holders of the Notes and, in the case of a cross-series modification, debt securities of each other affected series, referred to in (b) above,

determined, if applicable, in accordance with the provisions of Condition 9.2.6.

9.3.3 **Reliance**. The calculation agent may rely on any information contained in the certificate provided by the Republic, and that information will be conclusive and binding on the Republic and the Noteholders unless:

(a) an affected Noteholder delivers a substantiated written objection to the Republic in relation to the certificate before the vote on a proposed modification or the signing of a written resolution in relation to a proposed modification; and

(b) that written objection, if sustained, would affect the outcome of the vote taken or the written resolution signed in relation to the proposed modification.

In the event a substantiated written objection is timely delivered, any information relied on by the calculation agent will nonetheless be conclusive and binding on the Republic and affected Noteholders if:

(x) the objection is subsequently withdrawn;

(y) the Noteholder that delivered the objection does not commence legal action in respect of the objection before a court of competent jurisdiction within 15 days of the publication of the results of the vote taken or the written resolution signed in relation to the proposed modification; or

(z) a court of competent jurisdiction subsequently rules either that the objection is not substantiated or would not in any event have affected the outcome of the vote taken or the written resolution signed in relation to the proposed modification.

9.3.4 **Publication**. The Republic will arrange for the publication of the results of the calculations made by the calculation agent in relation to a proposed modification promptly following the meeting called to consider that modification or, if applicable, the date fixed by the Republic for signing a written resolution in respect of that modification.

9.4 *Noteholder Meetings; Written Resolutions*

9.4.1 **General**. The provisions set out below, and any additional rules adopted and published by the Republic will, to the extent consistent with the provisions set out below, apply to any meeting of Noteholders called to vote on a proposed modification and to any written resolution adopted in connection with a proposed modification. Any action contemplated in this Condition 9.4 to be taken by the Republic may instead be taken by an agent acting on behalf of the Republic.

9.4.2 **Convening Meetings**. A meeting of Noteholders:

(a) may be convened by the Republic at any time; and

(b) will be convened by the Republic if an Event of Default has occurred and is continuing and a meeting is requested in writing by the holders of not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding.

9.4.3 **Notice of Meetings**. The notice convening a meeting of Noteholders will be published by the Republic at least 21 days prior to the date of the meeting or, in the case of an adjourned meeting, at least 14 days prior to the date of the adjourned meeting. The notice will:

(a) state the time, date and venue of the meeting;

(b) set out the agenda and quorum for, and the text of any resolutions proposed to be adopted at, the meeting;

(c) specify the record date for the meeting, being not more than five business days before the date of the meeting, and the documents required to be produced by a Noteholder in order to be entitled to participate in the meeting;

(d) include the form of instrument to be used to appoint a proxy to act on a Noteholder's behalf;

(e) set out any additional rules adopted by the Republic for the convening and holding of the meeting and, if applicable, the conditions under which a cross-series modification will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities; and

(f) identify the person appointed as the calculation agent for any proposed modification to be voted on at the meeting.

9.4.4 **Chair**. The chair of any meeting of Noteholders will be appointed:

(a) by the Republic; or

(b) if the Republic fails to appoint a chair or the person nominated by the Republic is not present at the meeting, by holders of more than 50 per cent. of the aggregate principal amount of the Notes then outstanding represented at the meeting.

9.4.5 **Quorum**. No business will be transacted at any meeting in the absence of a quorum other than the choosing of a chair if one has not been appointed by the Republic. The quorum at any meeting at which Noteholders will vote on a proposed modification of:

(a) a reserved matter will be one or more persons present and holding not less than 66⅔ per cent. of the aggregate principal amount of the Notes then outstanding; and

(b) a matter other than a reserved matter will be one or more persons present and holding not less than 50 per cent. of the aggregate principal amount of the Notes then outstanding.

9.4.6 **Adjourned Meetings**. If a quorum is not present within thirty minutes of the time appointed for a meeting, the meeting may be adjourned for a period of not more than 42 days and not less than 14 days as determined by the chair of the meeting. The quorum for any adjourned meeting will be one or more persons present and holding:

(a) not less than 66⅔ per cent. of the aggregate principal amount of the Notes then outstanding in the case of a proposed reserved-matter modification; and

(b) not less than 25 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a non-reserved matter modification.

9.4.7 **Written Resolutions**. A written resolution signed by or on behalf of holders of the requisite majority of the Notes will be valid for all purposes as if it was a resolution passed at a meeting of

Noteholders duly convened and held in accordance with these provisions. A written resolution may be set out in one or more documents in like form each signed by or on behalf of one or more Noteholders.

9.4.8 **Entitlement to Vote**. Any person who is a holder of an outstanding Note on the record date for a proposed modification, and any person duly appointed as a proxy by a holder of an outstanding Note on the record date for a proposed modification, will be entitled to vote on the proposed modification at a meeting of Noteholders and to sign a written resolution with respect to the proposed modification.

9.4.9 **Voting**. Every proposed modification will be submitted to a vote of the holders of outstanding Notes represented at a duly called meeting or to a vote of the holders of all outstanding Notes by means of a written resolution without need for a meeting. A holder may cast votes on each proposed modification equal in number to the principal amount of the holder's outstanding Notes. For these purposes:

(a) in the case of a cross-series modification involving debt securities denominated in more than one currency, the principal amount of each debt security will be determined in accordance with Condition 9.2.6(a);

(b) in the case of a cross-series modification involving an index-linked obligation, the principal amount of each such index-linked obligation will be determined in accordance with Condition 9.2.6(b);

(c) in the case of a cross-series modification involving a zero-coupon obligation that did not formerly constitute a component part of an index-linked obligation, the principal amount of each such zero-coupon obligation will be determined in accordance with Condition 9.2.6(c); and

(d) in the case of a cross-series modification involving a zero-coupon obligation that did formerly constitute a component part of an index-linked obligation, the principal amount of each such zero-coupon obligation will be determined in accordance with Condition 9.2.6(d).

9.4.10 **Proxies**. Each holder of an outstanding Note may, by an instrument in writing executed on behalf of the holder and delivered to the Republic not less than 48 hours before the time fixed for a meeting of Noteholders or the signing of a written resolution, appoint any person (a "proxy") to act on the holder's behalf in connection with any meeting of Noteholders at which the holder is entitled to vote or the signing of any written resolution that the holder is entitled to sign. Appointment of a proxy pursuant to any form other than the form enclosed with the notice of the meeting will not be valid for these purposes. The holder of Notes may appoint more than one person as its proxy in respect of the Notes held by it, and such proxies may vote in a manner contrary to one another, provided that the aggregate principal amount of Notes represented by such proxies does not exceed the aggregate principal amount of outstanding Notes held by such holder.

9.4.11 **Legal Effect and Revocation of a Proxy**. A proxy duly appointed in accordance with the above provisions will, subject to Condition 9.2.7 and for so long as that appointment remains in force, be deemed to be (and the person who appointed that proxy will be deemed not to be) the holder of the Notes to which that appointment relates, and any vote cast by a proxy will be valid notwithstanding the prior revocation or amendment of the appointment of that proxy unless the Republic has received notice or has otherwise been informed of the revocation or amendment at least 48 hours before the time fixed for the commencement of the meeting at which the proxy intends to cast its vote or, if applicable, the signing of a written resolution.

9.4.12 **Binding Effect**. A resolution duly passed at a meeting of holders convened and held in accordance with these provisions, and a written resolution duly signed by the requisite majority of Noteholders, will be binding on all Noteholders, whether or not the holder was present at the meeting, voted for or against the resolution or signed the written resolution.

9.4.13 **Publication**. The Republic will without undue delay publish all duly adopted resolutions and written resolutions.

9.5 *Publication*

9.5.1 **Notices and Other Matters**. The Republic will publish all notices and other matters required to be published pursuant to the above provisions in accordance with Condition 13.

9.6 *Participation*

The following may attend and speak at a meeting:

(a) holders of Notes;

(b) representatives of the Republic;

(c) the financial advisers of the Republic; and

(d) the legal counsel to the Republic.

10. MANIFEST ERROR

The Notes and these Conditions may be modified by the Republic without the consent of the Noteholders to correct a manifest error or to cure an ambiguity for the purposes of any amendment which is of a formal or technical nature or for the benefit of Noteholders. The Republic will publish in accordance with Condition 13 the details of any modification of the Notes made pursuant to this Condition 10 within ten days of the modification becoming legally effective.

11. EXCHANGE OF THE NOTES

If (a) a modification of any provision of the Notes or these Conditions is approved, including the substitution of any person for the Republic as principal obligor under the Notes; or (b) a modification of the Notes or these Conditions is permitted pursuant to Condition 10, such modification or substitution shall, to the extent required under Slovenian law, be effected by way of deemed redemption of the Notes prior to their scheduled maturity date and by the Republic procuring that, on the Exchange Date (as defined below), Replacement Notes (as defined below) are credited to the account of each Noteholder with KDD in exchange for each Note which had been credited to the account of such Noteholder with KDD at close of business on the KDD Business Day prior to the Exchange Date.

It shall be deemed that each Noteholder has consented to the exchange of Notes in accordance with the foregoing and has authorised KDD to debit its securities account maintained with KDD accordingly.

In this Condition 11:

(i) "**Exchange Date**" means the date specified by the Republic in a notice given to the Noteholders in accordance with Condition 13 not less than seven days prior to such date; and

(ii) "**Replacement Notes**" means securities differing from the Notes solely in such respects as have been approved by a valid resolution or a written resolution of Noteholders pursuant to Condition 9 or as permitted pursuant to Condition 10.

12. FURTHER ISSUES

The Republic may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to be consolidated with and form a single series with the Notes.

13. NOTICES

A notice to a Noteholder or a Beneficiary shall be valid if either (at the sole discretion of the Republic) (a) sent by mail to such Noteholder or Beneficiary at the address registered for a Noteholder or Beneficiary in the Central Register or at the address notified by such a person to the Republic in accordance with this Condition 13 and any such notice shall be deemed to have been given on the eighth day following the day the notice was sent by mail or (b) published in a leading Slovenian language daily newspaper having general circulation in Slovenia and in a leading English language daily newspaper having general circulation in Europe and, in any event, shall be published in such other manner as may be required by the rules of any regulated market on which the Notes are at such time listed and/or traded. Any such notice given by publication shall be deemed to have been given on the date of publication or, if so published more than once on different dates, on the date of the first publication.

Notices to the Republic shall be sent as follows:

(i) in the case of requests to UJP pursuant to Condition 5.2, by letter or fax to:

Uprava Republike Slovenije za javna plačila
Urad UJP
Sektor plačilne storitve
Dunajska cesta 48
1001 Ljubljana
Slovenia
Telephone: +386 1 475 1640
Fax: + 386 1 475 1709
Attention: Head of Department

(ii) in the case of any other notices, by letter or fax to:

The Ministry of Finance
Treasury Directorate
Back Office
Župančičeva 3
1502 Ljubljana
Slovenia
Telephone: +386 1 369 6420
Fax: + 386 1 369 6439
Attention: Head of Department

or, in any case, to such other address or fax number or for the attention of such other person or department as the Republic has by prior notice to the Noteholders and Beneficiaries specified for a particular purpose.

Notices to the Republic shall be valid upon receipt by the Republic provided, however, that any such notice or communication which would otherwise take effect after 4.00 p.m. on any particular day or on any day which is not a business day in the place of the addressee shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the addressee.

All notices hereunder shall only be valid if made (a) in the case of Notices to the Noteholders or Beneficiaries, in English and Slovenian; and (b) in the case of Notices to the Republic, in English or Slovenian or in any other language provided that such notices are accompanied by a certified English or Slovenian translation thereof. Any certified English or Slovenian translation delivered hereunder shall be certified a true and accurate translation by a professionally qualified translator or by some other person competent to do so.

14. GOVERNING LAW AND JURISDICTION

14.1 Governing law

The Notes and any non-contractual obligations arising out of or in connection with these Conditions are governed by and shall be construed in accordance with Slovenian law.

14.2 Jurisdiction

The Republic agrees for the benefit of the Noteholders and Beneficiaries that the courts of the Republic of Slovenia shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (collectively, "**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

14.3 *Non-exclusivity*

The submission to the jurisdiction of the courts of the Republic of Slovenia shall not (and shall not be construed so as to) limit the right of any Noteholder or Beneficiary to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

14.4 *Consent to enforcement, etc.*

The Republic consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

14.5 *Waiver of immunity*

To the extent that the Republic may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise and whether on the grounds of sovereignty or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Republic or its assets or revenues, the Republic agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

USE OF PROCEEDS

The net proceeds from the issue of the Notes, which are expected to amount to approximately €975,940,000 (after deduction of applicable fees and commissions payable by the Republic) will be used by the Republic for a proposed offer to holders of certain of the Republic's outstanding debt securities to tender such debt securities for purchase by the Republic for cash and general funding purposes.

THE REPUBLIC OF SLOVENIA

Geography and Population

Slovenia is a European country with a total land area of 20,256 square kilometres. It is bordered by Croatia to the south and southeast, Austria to the north, Italy to the west and Hungary to the northeast and has a coastline on the Adriatic Sea of 48 kilometres to the southwest. Given its size, the Republic has a varied topography. Approximately 90 per cent. of Slovenian land is over 300 metres above sea level. Forests cover approximately half of the total land area, with agricultural land occupying approximately 85 per cent. of the remainder.

The Republic had a population of 2,063,077 as at 1 July 2015. The capital of Slovenia is Ljubljana, which has a population of approximately 287,000. According to the results of the Republic's most recent census (carried out in 2002), approximately 83.1 per cent. of the population is ethnically Slovene, 2.0 per cent. is ethnically Serb, 1.8 per cent. is ethnically Croat and 1.1 per cent. is ethnically Bosniak. The remainder of the population is comprised of groups from a variety of ethnic backgrounds. The Roman Catholic religion is the predominant religion in the Republic.

The Republic's population growth rate is relatively low, primarily due to a positive but low birth rate and a low immigration rate coupled with a stable mortality rate. Nearly 50 per cent. of Slovenians live in urban areas. The Republic's population density is 101 per square kilometre. Life expectancy is 82.7 years for women and 76.3 years for men.

Slovenia's official language is Slovene, although Hungarian and Italian are also official languages in designated municipalities.

History

Settled by Slovenes in the sixth century, the area that is now Slovenia was later ruled by Slavs, Franks and Hungarians before becoming part of the Habsburg Austro-Hungarian Empire until the Empire's fall in 1918. During that time, Slovenia maintained its own language and a distinct cultural heritage, which it still maintains today. Following the First World War, Slovenia and other south-eastern regions of the Habsburg Empire joined the Kingdoms of Serbia and Montenegro to form the Kingdom of Serbs, Croats and Slovenians, and the country was renamed Yugoslavia in 1929. During the Second World War, Yugoslavia was occupied by Germany, Italy and Hungary and the country was divided. However, at the end of the Second World War, the Communist Party came to power and the Federal People's Republic of Yugoslavia was established. It was later renamed the Socialist Federal Republic of Yugoslavia ("**SFRY**").

By the 1980s, Slovenia had established itself as the most economically advanced of the SFRY republics. However, a period of economic stagnation followed, which prompted inter-ethnic conflicts across the SFRY, particularly between the Serbs and the Albanians in Kosovo. Serbia proposed to overturn the SFRY's 1974 constitution in favour of greater economic and cultural uniformity. The people of Slovenia largely disagreed with the Serbian proposal, and, in September 1989, the National Assembly voted to assume control of its own resources and command of its own defence forces, following which Serbia announced an economic boycott of Slovenia.

In April 1990, Slovenia became the first SFRY republic to hold free elections, which resulted in the end of Communist rule in Slovenia and the formation of a centre-right opposition coalition, which won a majority of seats in the National Assembly. On 23 December 1990, over 90 per cent. of the Slovenian population voted for independence and, on 25 June 1991, Slovenia formally declared its independence. As a result, the Serbian-dominated Yugoslav People's Army marched on Slovenia, but the conflict, which resulted in the loss of 66 lives, ended after 10 days. After a six-month truce, the Yugoslav army gradually withdrew and international recognition of Slovenia followed shortly thereafter. On 23 December 1991, Slovenia adopted the constitution (the "**Constitution**"), which established it as a democratic republic with a parliament (the "**Parliament**") consisting of a National Assembly and a National Council, a government which holds executive power and is elected by the National Assembly, a President as head of state and an independent judicial system.

The Republic joined the EU and became a member of the North Atlantic Treaty Organisation ("**NATO**") in 2004, and adopted the euro in 2007. In 2010, the Republic became a member of the Organisation for Economic Co-operation and Development (the "**OECD**").

Political System

President

Slovenia is a parliamentary republic with a President (*Predsednik Republike*) as head of state. The President is elected by general election for a term of five years and may be elected for a maximum of two consecutive terms. The powers of the President include calling elections for the National Assembly, signing statutes into law, proposing a candidate to the National Assembly for the office of Prime Minister, nominating members for the Judicial Council and, in certain circumstances, dissolving the National Assembly, although the President has no authority to veto legislation approved by the National Assembly. The President is also commander-in-chief of the Republic's defence forces.

The current President, Mr Borut Pahor, also a former Prime Minister, was elected in December 2012 for a five-year term.

The National Assembly and the National Council

The National Assembly (*Državni zbor*) is the legislative authority in the Republic. It consists of 90 members, each selected by general election for a four-year term of office. Eighty-eight members of the National Assembly are chosen through a combination of geographic constituencies and party lists, resulting in an approximation of proportional representation. Two of the seats in the National Assembly are reserved for representatives of the Republic's Italian and Hungarian minorities. A two-thirds vote of all members of the National Assembly is required to amend the Constitution. The most recent election for the National Assembly was held in July 2014.

The National Council (*Državni svet*) is made up of 40 elected members, each serving a five-year term. The National Council may propose new and amended legislation to the National Assembly. In addition, the National Council may require the National Assembly to re-examine newly adopted legislation prior to its promulgation. The National Council may also require that the National Assembly call for referendums and inquiries on matters of public importance. The most recent election for the National Council was held in November 2012.

Executive Power

The executive power is vested in the Government of Slovenia (*Vlada Republike Slovenije*) which comprises: (i) a Prime Minister (*Predsednik vlade*) who is nominated by the President and elected by the National Assembly; and (ii) Ministers who are appointed to and removed from office by the National Assembly upon the proposal of the Prime Minister. Ministers cannot be members of the National Assembly or the National Council.

Judicial Power

The Supreme Court (*Vrhovno sodišča*) is the highest judicial authority in the Republic. Lower courts, comprising county courts (*okrajna sodišča*) and district courts (*okrožna sodišča*) as courts of first instance and higher courts (*višja sodišča*) as courts of second instance, have general jurisdiction over civil, commercial and criminal matters. In addition, a two-level system of specialised labour and social courts (*delovna in socialna sodišča*) has jurisdiction over individual and collective labour disputes and disputes involving social security rights. Administrative matters are handled by a specialised administrative court. A separate constitutional court (the "**Constitutional Court**") has jurisdiction over all matters relating to the constitutionality of laws and regulations and serves as the ultimate arbiter within the Republic of violations of rights and liberties guaranteed by the Constitution, following exhaustion of all other remedies.

Local Authority

As at 1 January 2015, there were 212 municipalities (*občine*, the "**municipalities**") in the Republic. Municipalities, which are financed by local taxes and transfers from the central government, are not a significant part of the central government's budget. Among other things, municipalities have the authority to manage their assets, facilitate conditions for economic development, plan spatial development, create conditions for building dwellings, manage local public services, establish primary and nursery schools, and build and maintain local roads. The administration of municipalities is managed by directly elected representatives, who are elected for four-year terms.

Recent Political Developments

In May 2014, after Prime Minister Alenka Bratušek resigned, the National Assembly was dissolved and an early parliamentary election for all 90 positions in the National Assembly was held on 13 July 2014. The Modern Centre Party, which was established as the party of Miro Cerar on 2 June 2014, received 34.5 per cent. of the votes in the parliamentary election, and won 36 seats, a plurality, in the National Assembly. The Modern Centre Party is led by Miro Cerar, a lawyer who was appointed as the new Prime Minister.

The results of the July 2014 elections for the National Assembly are set out below:

	% of Votes	Seats
Parties		
Party of Miro Cerar (SMC)[(1)(2)]	34.5	36
Slovenian Democratic Party (SDS)	20.7	21
Democratic Pensioners' Party of Slovenia (DESUS)[(1)]	10.2	10
Social Democrats (SD)[(1)]	6.0	6
Coalition United Left (ZL)	6.0	6
New Slovenia – Christian Democrats (NSI)	5.6	5
Alliance of Alenka Bratušek (ZaAB)	4.4	4
Minorities[(3)]	—	2
Total		90

Source: Electoral Commission of the Republic.

Notes:

(1) Indicates the relevant party is a member of the current governing coalition.

(2) Currently known as the Modern Centre Party.

(3) Representatives of Slovenia's Hungarian and Italian minorities have one reserved seat each.

On 18 September 2014, the National Assembly voted in the 12th Slovenian government. The governing coalition comprises the Modern Centre Party, the Pensioners' Party and the Social Democrats. The new government consists of 14 ministers and two ministers without portfolios.

On 6 July 2016, police searched the premises of the Bank of Slovenia and seized documents and computer data. The police investigation is related to the role of the Bank of Slovenia in the banking sector resolution measures taken during 2013, as well as related bank bail-in measures. Among the seized documents were several ECB documents which are not related to the investigation. The ECB has objected to the seizure of its documents and has alleged that the seizure was not executed in accordance with EU law. The court orders authorizing the search and seizure were issued on the basis of allegations that the criminal offences of abuse of office or abuse of ex officio rights had been committed by certain employees of the Bank of Slovenia. The allegations include having acted in contravention of the Banking Act in the course of drafting of and voting for a decision on extraordinary measures in relation to one bank in 2013.

The key economic priorities set by the government are: (1) the orderly de-leveraging of the corporate sector in conjunction with the transfer of liabilities to the BAMC; (2) improving corporate governance and the ongoing privatisation of designated government-owned companies; (3) the revision of tax policy to address the needs of the real sector; (4) further fiscal consolidation to meet the medium-term objective of balancing the budget; (5) implementing a balanced budget requirement (the "**Fiscal Rule**") adopted in the Republic's Constitution; (6) strengthening the framework of financial administration to enhance tax collection; and (7) gradually reducing the growth of central government debt.

Slovenia's finance minister, Dušan Mramor, resigned on 13 July 2016. The Prime Minister Miro Cerar appointed Alenka Smerkolj, the Minister for European Cohesion, as the interim finance minister. On 21 September 2016, Mateja Vraničar Erman was confirmed as the new finance minister**.**

Upcoming election dates

The next Slovenian National Assembly elections are expected to be held in the second or third quarter of 2018. The Presidential and local elections are expected to be held in the last quarter of 2017 and the third quarter of 2018, respectively.

International Relations

The Republic of Slovenia was formally recognised by the international community as an independent international state in 1992. Slovenia has gradually attained membership in most major international and regional organisations. In 1992, it became a member of the United Nations and the European Bank for Reconstruction and Development as well as a participating state of the Organization for Security and Co-operation in Europe ("**OSCE**"). In 1993, it became a member of the World Bank, the IMF, the International Bank for Reconstruction and Development and the Council of Europe (the "**Council of Europe**"). In 1994, Slovenia joined the General Agreement on Tariffs and Trade, and became a founding member of the World Trade Organisation in January 1995. Slovenia joined the EU and NATO in 2004 and joined the EMU at the beginning of 2007, making it the first of the 2004 EU accession states to have done so. Likewise, in 2008, Slovenia became the first member of the 2004 EU accession states to hold the Presidency of the Council of the EU (the "**EU Council**"). In 2005, Slovenia held the Chairmanship of the OSCE, and in 2009, it held the Chairmanship of the Committee of Ministers of the Council of Europe. Slovenia became a member of the OECD and the OECD's Development Assistance Committee in 2010 and 2013, respectively.

EU Membership

Slovenia has been a member of the EU since 2004. During this time, it became an active Member of the EU. Slovenia adopted the euro as its official currency on 1 January 2007 and joined the Schengen Area on 21 December 2007. It ran a successful Presidency of the EU Council in the first half of 2008. Slovenia has eight seats in the European Parliament and is represented in all EU institutions.

Slovenia ratified the EU's Lisbon Treaty in April 2008. The Fiscal Pact was ratified in April 2012 and in May 2013, the Fiscal Rule was included in Slovenia's Constitution. Slovenia supported all measures aimed at preserving the stability of the euro, strengthened economic governance, increased budgetary supervision by the European Commission and the rapid establishment of a centralised system of banking supervision and bank resolution in the Eurozone.

Slovenia supports efforts to strengthen the European Union with a fully integrated internal market, a stable financial environment and a solid currency. As a member of the Eurozone and an EU Member State with an export-oriented economy, Slovenia is an advocate of a tightly knit and efficient European Union.

The following table sets out the Republic's contributions to EU Financial Assistance Programmes for the years ended 31 December 2012 to 2015 and for the six months ended 30 June 2015 and 30 June 2016:

	Year ended 31 December				**Six months ended 30 June**	
	2012	**2013**	**2014**	**2015**	**2015**	**2016**
	(in € millions, except for percentage)					
Programme						
European Financial Stability Facility (EFSF)................................	708.3	898.3	946.8	891.6	891.6	891.6
European Stability Mechanism (ESM)	136.8	273.7	342.1	342.1	342.1	342.1

	Year ended 31 December				Six months ended 30 June	
	2012	2013	2014	2015	2015	2016
	(in € millions, except for percentage)					
Greece (Loan Facility Agreement)..	263.7	263.7	263.7	263.7	263.7	263.7
Total	1,108.8	1,435.7	1,552.6	1,497.4	1,497.4	1,497.4
% of GDP.......................................	3.08%	4.00%	4.16%	3.88%	3.88%	3.74%

Source: Bank of Slovenia and Ministry of Finance.

OECD Membership

As part of its decision to invite Slovenia to become an OECD Member, the OECD Council called upon Slovenia to provide a progress report to the Committee on Financial Markets ("**CMF**") within three years after the Republic's accession (21 July 2010). Slovenia was requested to report on the implementation of four recommendations for future action set out in the OECD's formal opinion. The CMF discussed the progress made at its meeting on 24 April 2013 and concluded that no further post-accession reports for Slovenia were necessary.

Since becoming a member of the OECD, Slovenia has taken an active role in OECD initiatives. Recently, Slovenia participated in OECD's Base Erosion and Profit Shifting project, which provides governments with solutions to address the issues of tax base erosion and uncontrolled profit shifting.

Central European Initiative (the "CEI")

Slovenia is a member of the CEI, an intergovernmental forum focused on supporting European integration through co-operation between CEI member states, the EU and other institutions. To that end, the CEI provides financial assistance and know-how to non-EU Member States seeking accession to the EU.

Double Taxation Agreements and Foreign Investment Treaties

To date, Slovenia has concluded bilateral agreements on the avoidance of double taxation with 61 countries (of which 58 are currently in effect), including the United States, the United Kingdom, Germany, China, France and Italy. It has also concluded bilateral agreements on the protection and promotion of investments with a number of countries, including the United Kingdom, Germany, China, Switzerland and the majority of Slovenia's neighbouring countries.

Legal and Arbitration Proceedings

The Republic is involved, as claimant, defendant or intervenient, in a number of judicial and arbitration proceedings, including those mentioned below.

The State Attorney's office represents the Republic in all proceedings before domestic courts and administrative authorities, the Grand Chamber of European Court of Human Rights (the "**ECHR**"), the Court of Justice of the European Union and the Court of Justice of the European Free Trade Association States. In proceedings in other foreign courts, the Republic is represented by attorneys qualified to practise law in the relevant jurisdiction.

As at 5 October 2016, the State Attorney's Office was representing the Republic in 1,748 open civil proceedings. The Republic was a defendant in 1,013 of these proceedings, and the compensation sought in respect of these proceedings amounted to approximately €807 million. The Government believes that the Republic will ultimately only be liable for a relatively small portion of this amount.

As at 5 October 2016, there were no open proceedings in which the Republic was a defendant and the compensation sought exceeded €100 million except that an unsuccessful claimant, a mobile operator whose claim against the Republic for compensation in the amount of €210 million was finally rejected, is challenging the final judgment in the Constitutional Court on the grounds that it violates its basic constitutional rights.

The Republic is also currently involved in two disputes with Croatia, both of which relate to the dissolution of the SFRY.

The first of these is a border dispute concerning the land and maritime boundary between Slovenia and Croatia. The two countries signed an arbitration agreement on 4 November 2009, which established an arbitration tribunal tasked with determining the maritime and land boundary between the two states, Slovenia's access to the high seas and the regime for the use of the relevant maritime areas. Following three stages of written pleadings, oral hearings took place between 2 June and 13 June 2014 at the Permanent Court of Arbitration in The Hague. In July 2015, Croatia announced its intention to withdraw from the arbitration agreement after Croatian media published alleged wiretaps of the conversations between an arbitrator and a Slovenian agent. Slovenia rejected Croatia's attempt to withdraw from the agreement. After the arbitrators appointed by Slovenia and Croatia resigned from the tribunal, the president of the tribunal appointed two new arbitrators and the tribunal has scheduled further proceedings. An oral hearing relating to the arbitration was held on 17 March 2016 and on 30 June 2016, the tribunal issued a partial award in which it decided to continue the arbitration proceedings.

The second dispute with Croatia stems from the 2001 Agreement on Succession issues and centres on foreign-currency deposits of individuals with Ljubljanska banka, d.d., Ljubljana, Glavna filijala Zagreb ("**Ljubljanska banka, Main Branch Zagreb**"). On 11 March 2013, the Prime Ministers of Slovenia and Croatia signed a memorandum of understanding which stipulated that the resolution of the dispute had to be found on the basis of the Agreement on Succession Issues, which was signed by all the successor states to the former SFRY. The Agreement on Succession Issues is the only legally binding instrument applicable to successor states for addressing the outstanding issues remaining from the former Yugoslavia. Until there is a final resolution to the dispute, the Croatian Government is obliged to ensure the stay of all judicial proceedings in Croatia relating to the transferred foreign-currency savings. It is also obliged to ensure that no new judicial or other proceedings are initiated with regard to the transferred foreign-currency savings.

Cases involving the status of foreign-currency deposits from the former SFRY have also been brought against Slovenia in domestic and international courts, including the ECHR. In line with the judgment of the Grand Chamber of the ECHR dated 16 July 2014, Slovenia is obliged to take all necessary arrangements, including legislative amendments, within one year, to allow depositors to recover their "old" foreign-currency savings under the same conditions as those who had such savings in domestic branches of Slovenian banks. The judgment applies only to foreign-currency savings that have not yet been repaid by individual successor states. The estimated amount of financial resources necessary to implement the judgment is €385 million between 2016 to 2018, of which €250 million is required for 2016. In line with the Act Regulating the Enforcement of the European Court of Human Rights Judgment in Case No. 60642/08 (*Zakon o načinu izvršitve sodbe evropskega sodišča za človekove pravice v zadevi številka 60642/08 (ZNISESČP)*), which entered into force on 4 July 2015, applicants are able to file their requests for verification from 1 December 2015 to 31 December 2017. The first payments were distributed to depositors in March 2016 and as of 30 September 2016, the Republic had paid €67.5 million to more than 5,500 beneficiaries.

In addition to the foregoing disputes, in 2012, the Grand Chamber of the ECHR found the Republic in violation of the European Convention on Human Rights in the case of *Kurić and Others v. Slovenia*. Six applicants alleged that they had been arbitrarily deprived of their status as permanent residents after Slovenia had declared independence. The persons who lost their permanent residence status became known as the "erased persons" and the process as the "erasure"). The ECHR awarded each of the applicants €20,000 in compensation for non-pecuniary damages. As for pecuniary damages, the ECHR reserved judgment, allowing the Republic and the applicants to reach a settlement within three months. The ECHR decided that the Republic had to institute a compensation scheme and pass an act on general compensation measures for the other 25,671 erased persons.

The National Assembly subsequently passed legislation creating a compensation scheme, titled the Act on Compensation for Persons who were erased from the Permanent Population Register (*Zakon o povračilu škode osebam, ki so bile izbrisane iz registra stalnega prebivalstva (ZPŠOIRSP)*, the "**Act on Compensation**"), which entered into force on 18 June 2014. Under the Act on Compensation, eligible beneficiaries are entitled to a lump-sum compensation for pecuniary and non-pecuniary damages of €50 per month from the date of erasure and, if this is not satisfactory, they are further entitled to claim additional compensation by filing a claim in court, subject to a maximum compensation of €150 per month from the date of erasure. The deadline for the submission of claims is 18 June 2017. Assuming that half of the eligible beneficiaries opt to participate in the scheme, the Republic estimates that its liability will amount to approximately €65 million (this estimate was prepared before the above-mentioned law entered into force (i.e., before 18 June 2014). As of 30 September 2016, approximately 7,404 out of 7,592 applications or 97.5 per cent., reached a final decision, amounting to €24,606,500, which represented 38.0 per cent. of the potential recoveries.

On 12 March 2014, after failing to reach a settlement for non-pecuniary damages in the case of *Kurić and Others v. Slovenia*, the ECHR issued a judgment of just satisfaction ordering the Republic to pay an additional €240,000 to the six applicants. The ECHR further noted that, although the Committee of Ministers of the Council of Europe had the authority to evaluate the general compensation measures adopted under the Act on Compensation, the awarding of lump-sum compensation in respect of pecuniary and non-pecuniary damages for each month of the erasure under the Act on Compensation appeared to be appropriate.

THE SLOVENIAN ECONOMY

Macroeconomic Developments

According to the statistical office of the EU ("**Eurostat**"), in 2009, the Republic's GDP per capita on a purchasing power parity basis was at 85 per cent. of the average of the EU Member States, making it the highest among the new central European members. Eurostat data also indicates that, in 2010, GDP per capita was at 83.0 per cent. of the average of the EU Member States' before falling to 80.0 per cent. in 2013 and increasing back to 83.0 per cent. in 2015. The Republic's gross foreign debt-to-GDP ratio reached 116.1 per cent. in 2015, below the euro area average of 125.0 per cent. According to the IMF, in 2015, the Republic's gross national savings stood at 27.5 per cent. of GDP, which was higher than the 23.2 per cent. average of the euro area states, and higher than the 21.3 per cent. gross national savings to GDP ratio the Republic recorded in 2012.

As a small open economy fundamentally dependent on exports, which represented 77.9 per cent. of GDP in 2015, the Republic was strongly affected by the economic and financial crisis as GDP dropped 7.8 per cent. in 2009. Exports fell in 2009 by 16.6 per cent. due to weaker external demand. This period of weaker external demand coincided with a fall in investment activity, as well as a period of destocking, mainly in the manufacturing and retail sectors. Exports recovered in 2010 and 2011, growing by 10.2 per cent. and 6.9 per cent., respectively, although economic conditions remained unfavourable in the Eurozone and the former SFRY countries, which represent a relatively large share of the Republic's total exports. In 2012, export growth (0.6 per cent.) slowed due to reduced external demand. Domestic demand was weaker largely as a result of the absence of large infrastructure projects and reduced activity in the construction sector, a deleveraging process underway among Slovenian enterprises and increased unemployment rates (8.2 per cent. in 2011 and 8.9 per cent. in 2012). In addition, Government austerity measures enacted in 2011 and 2012 led to a decline in Government consumption, while private consumption remained subdued due to the deterioration in the labour market and the fiscal consolidation process.

In 2012, a fall in Government consumption, private consumption and investment led to a decrease in GDP by 2.7 per cent. In 2013, the Republic recorded a fall in GDP of 1.1 per cent., largely due to a pronounced decrease in private consumption. In 2014 GDP increased 3.1 per cent., mainly due to the strengthening of export growth attributable to increased foreign demand and improved competitiveness of the tradable sector. Domestic demand also increased in 2014, representing the first recorded growth since the beginning of the financial crisis. This increase in demand was partially attributable to increased public investment in infrastructure enabled by the absorption of EU funds and growth of private consumption attributable to improvements in the labour market. Economic activity continued to recover in 2015, with GDP being 2.3 per cent. higher than in 2014. Exports grew at a similar rate in 2014 and remained the main driver of economic recovery. Increased purchases of durable goods and other goods contributed to continued recovery of private consumption. However, construction investment was lower in 2015 after recording strong growth since mid-2013.

Positive trends continued in the first six months of 2016 with GDP being 2.5 per cent. higher than in the same period of 2015. Although exports remain the key driver of economic growth, in recent quarters the economic recovery has become more broad-based, as other segments of the economy have also been improving. The continuation of favourable export trends during 2016 stems from a rise in foreign demand and competitive gains made in the manufacturing sector in recent years. With a significant improvement in the labour market, where the growth of employment and wages is on the rise, stronger growth has also been recorded for household income, which is reflected in stronger growth in private consumption. However, investment activity over the first six months of 2016 was lower than the same period in the prior year, primarily due to a significant contraction in government investment, caused by delays in receiving certain funds earmarked for Slovenia by the EU. These delays were caused by changes in the EU budgetary process. Good business performance and the prospects for stable economic growth in the future have led to continued growth in private investment in machinery and equipment.

Prevailing adverse international economic conditions within the international banking and financial markets led the Republic to take a series of preventive measures to offset their impact on the Slovenian economy, similar in nature to those taken by other countries in the Eurozone. The Government also implemented measures to boost tourism and to support the development of technological (research and development) centres and infrastructure, and has introduced subsidies for new entrants to the Slovenian market in order to promote competition. Moreover, in 2013, the Government established the Slovenian

Public Agency for Entrepreneurship, Innovation, Development, Investment and Tourism (*Javna agencija Republike Slovenije za spodbujanje podjetništva, inovativnosti, razvoja, investicij in turizma*, "**SPIRIT Slovenia**") which has become the national access point for comprehensive support for companies at all levels of development. The agency was designed to serve as a "one stop shop" covering a variety of functions, including implementing policies on economic competitiveness, ensuring support for companies in international business, managing the brand of Slovenia as a tourist destination and promoting the Republic and its regions as favourable locations for foreign investment.

Starting in 2011, and continuing in 2012 and 2013, the Government's policy focus was on consolidating public finances, addressing the impact of the financial crisis on banks' balance sheets and implementing structural reforms to improve the resilience of the economy. The latter includes pension and labour reform and a framework for enhancing corporate governance and privatisation of public sector enterprises.

In the first few months of 2013, the Republic introduced changes to the pension system (See "*Public Finance — Pension and Disability Expenditures and Revenues*"), labour market reform measures (See "*The Slovenian Economy — Labour Market*") and a framework for enhancing corporate governance and privatisation of public sector enterprises (See "*Public Finance — Consolidated Government Holdings and Privatisation*"). The impact of the ongoing economic crisis and worsening of conditions in the banking sector has led the Government to adopt a comprehensive strategy to deal with bank assets including purchases, guarantees and recapitalisations (See "*Measures to Strengthen the Stability of Banking Sector Act and Banking Reform*").

The objective of the original policy response to the crisis was to limit the negative impact of lower external demand on existing production capacity and jobs. These policy measures were aimed at: (i) slowing down the impact of the global financial crisis on enterprises; (ii) enhancing financial liquidity of enterprises and safeguarding existing jobs; and (iii) increasing expenditure in research and education to improve the growth potential of the economy. The package was also focused on lowering taxation of labour through gradually abolishing the payroll tax and implementing changes to both the personal and corporate income tax regimes. These tax reforms included phasing out taxes on company payrolls and the simplifying of corporate and personal income taxes in conjunction with the incorporation of incentives for higher earnings (See "*Public Finance — Fiscal Policy and Reform — Taxation and Taxation Policy*").

The following table sets out certain macroeconomic data regarding the Slovenian economy for the years ended 31 December 2010 to 2015 and the six months ended 30 June 2015 and 30 June 2016:

	Year ended 31 December						**Six months ended 30 June**	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**
	(€ millions, current prices, except where indicated)							
Nominal GDP (€ billions)	36,252.4	36,896.3	36,002.5	35,917.1	37,332.4	38,570.0	18,808.6	19,510.3
Real GDP growth	1.2%	0.6%	(2.7)%	(1.1)%	3.1%	2.3%	2.3%	2.5%
GDP per capita in U.S.$ (current prices)	23,457	25,019	22,490	23,161	24,055	20,740	10,118	10,546
Current account balance (% of GDP)(1)	(0.1)%	0.2%	2.6%	4.8%	6.2%	5.2%	4.8%	8.1%
Unemployment rate	7.3%	8.2%	8.9%	10.1%	9.7%	9.0%	9.4%	8.3%
Consumer price growth – year end	1.9%	2.0%	2.7%	0.7%	0.2%	(0.5)%	(0.9)%	0.1%
General government balance (% of GDP)	(5.6)%	(6.7)%	(4.1)%	(15.0)%	(5.0)%	(2.9)%	(3.6)%	(1.5)%

Source: Statistical Office, Institute for Macroeconomic Analysis and Development, Bank of Slovenia.

Note:

(1) Data from balance of payments statistics.

Gross Domestic Product and Gross Value Added

The following table sets out the nominal values of GDP components for the years ended 31 December 2010 to 2015 and the six months ended 30 June 2015 and 30 June 2016:

	Year ended 31 December						Six months ended 30 June	
	2010	2011	2012	2013	2014	2015	2015	2016
	(€ millions, current prices)							
GDP	36,252	36,896	36,003	35,917	37,332	38,570	18,809	19,510
Exports of goods and services	23,306	25,965	26,381	27,005	28.518	30,060	14,713	15,392
Imports of goods and services	22,786	25,288	24,859	24,988	25,736	26,543	13,054	13,310
Private consumption.....	20,316	20,668	20,436	19,766	20,153	20,112	9,703	9,798
Government consumption.................	7,353	7,537	7,296	7,072	7,000	7,204	3,546	3,721
Gross fixed capital formation......................	7,727	7,451	6,934	7,175	7,316	7,525	3,726	3,534
Changes in inventories and valuables................	336	563	(185)	(113)	82	214	175	375

Source: SORS, Institute for Macroeconomic Analysis and Development.

Slovenia measures the value of goods and services produced in a sector of the economy using the measure of Gross Value Added ("**GVA**") plus taxes on services and products less subsidies on services and products is equal to GDP. GVA is used to measure the growth in output of each sector of the Slovenian economy because information about taxes and subsidies on services and products is not available for individual sectors.

The following table sets out GVA in current prices and as a percentage of total GVA for the years ended 31 December 2011 to 2015 and the six months ended 30 June 2015 and 30 June 2016:

	Year ended 31 December										Six months ended 30 June			
	2011		2012		2013		2014		2015		2015		2016	
	(€bn)	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*
Services	21.44	66.8	20.68	66.2	20.32	65.6	20.81	64.5	21.61	64.9	10.38	63.76	10.83	64.10
of which:														
Wholesale and retail trade, transportation and storage, accommodation and food service	6.44	20.1	6.23	19.9	6.27	20.2	6.51	20.2	6.80	20.4	3.24	19.9	3.37	19.9
Public administration(1)	5.67	17.6	5.60	17.9	5.42	17.5	5.38	16.7	5.50	16.5	2.70	16.6	2.85	16.9
Professional, scientific and technical, administrative and support service activities((2)	3.02	9.4	2.96	9.5	2.98	9.6	3.19	9.9	3.32	10.0	1.52	9.3	1.57	9.3
Real estate activities.....	2.47	7.7	2.33	7.5	2.25	7.3	2.22	6.9	2.31	6.9	1.11	6.8	1.18	7.0
Financial and insurance activities	1.65	5.1	1.35	4.3	1.25	4.0	1.30	4.0	1.39	4.2	0.69	4.2	0.68	4.0
Information and communication............	1.31	4.1	1.34	4.3	1.30	4.2	1.35	4.2	1.39	4.2	0.68	4.2	0.73	4.3
Other services(3)...........	0.89	2.8	0.86	2.8	0.85	2.7	0.86	2.7	0.90	2.7	0.44	2.7	0.45	2.7
Industry(4)	8.04	25.0	8.09	25.9	8.35	27.0	8.81	27.3	9.08	27.3	4.60	28.2	4.79	28.4

	Year ended 31 December										Six months ended 30 June			
	2011		2012		2013		2014		2015		2015		2016	
	(€bn)	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*
of which:														
Manufacturing	6.73	21.0	6.75	21.6	6.95	22.5	7.43	23.1	7.74	23.2	3.89	23.9	4.12	24.4
Construction	1.88	5.9	1.82	5.8	1.65	5.3	1.84	5.7	1.83	5.5	0.89	5.5	0.77	4.5
Agriculture, forestry and fishing	0.73	2.3	0.65	2.1	0.65	2.1	0.78	2.4	0.79	2.4	0.41	2.5	0.51	3.0
Gross value added	32.11	100.0	31.23	100.0	30.97	100.0	32.23	100.0	33.31	100.0	16.28	100.0	16.90	100.0

Source: SORS, Institute for Macroeconomic Analysis and Development.

Notes:

(1) Includes defence, compulsory social security, education, health and social work activities.

(2) Includes architectural and engineering activities.

(3) Includes other non-specified services.

(4) Includes manufacturing, mining and quarrying, electricity, gas, stream and air conditioning supply, water supply, sewerage, waste management and remediation activities.

GVA declined to €31.23 billion in 2012 from €32.11 billion in 2011, largely due to a decline in the service sector. In 2013, GVA declined to €30.97 billion as compared with the €31.23 billion recorded in 2012. The main factors underlying these trends were: (i) reduced foreign demand, which negatively affected services (particularly transport services and services related to tourism) and the manufacturing sector in the first year of the crisis, as it is dependent on exports; and (ii) the completion of highway construction during the pre-crisis period. The effects of the economic crisis on the manufacturing and construction sector, in turn, negatively impacted market services, especially goods transport, wholesale trade, provision of labour force and architectural and engineering services. In 2014, GVA increased to €32.23 billion, from €30.97 billion in 2013 and to €33.31 billion in 2015. The increase was largely attributable to increases in the services and industry sectors. Recent trends and yearly comparisons in the main sectors of Slovenia's economy are discussed below.

Services

Positive trends in the international community and manufacturing sectors spurred growth in several services sub sectors in 2010 and 2011. In particular, an increase in foreign demand led to positive growth in the GVA of transport services and services related to tourism, whereas the GVA of architectural, engineering and real estate declined. Decreased private consumption and negative trends in manufacturing and construction spurred a fall in all service sub sectors in 2012. In 2012 the GVA declined in particular in wholesale and retail trade, accommodation and food services, arts, entertainment and recreation and other personal service activities as well as professional, scientific and technical, administrative, support service and real estate activities. The GVA of services declined further in 2013 (to €20.32 billion) principally in market services, financial and insurance activities, although most sectors significantly improved towards the end of the year. Positive trends in the international environment and domestic demand spurred growth in services in 2014 and 2015. The annual growth improved in most market services, especially in financial and insurance activities, trade, transportation, hotels and restaurants and in administrative and support service activities (due to a significant increase in the employment activities). The services sector accounted for 64.5 per cent. and 64.9 per cent. of the Republic's total GVA in 2014 and 2015, respectively. Wholesale and retail trade, transportation and storage, and accommodation and food services represented the largest segment of the services sector in 2015 (20.4 per cent. of GVA), of which wholesale and retail trade represented the largest portion of the segment. Public services represented 16.5 per cent. of GVA for the year. The service sector experienced continued growth in the first six months of 2016. Growth was strongest in information and communication, real estate activities, as well as in trade, transportation and hotels and restaurants services.

Industry

The industry sector experienced growth of GVA since 2010. In 2015, the industry sector's GVA was 27.3 per cent. of the Republic's total GVA, most of which was contributed by the manufacturing sub sector (23.2 per cent. of GVA). The industry sector's GVA increased by 3.1 per cent. and 4.3 per cent. in

2015 and in the first six months of 2016 (on a year-on-year basis), respectively. The increases were largely due to strong growth in manufacturing.

Manufacturing

The GVA of the manufacturing sector increased from 2010 to 2015 from 20.2 to 23.2 per cent. of the Republic's total GVA. The increase throughout the period was mainly led by medium high and high tech industries, whereas medium low tech industries and low tech industries stagnated at the beginning, decreased slightly in 2012 and partially in 2013. In 2013, manufacturing GVA decreased by 0.4 per cent. despite growth in the last quarter of the year, largely as a result of weaker domestic demand and low foreign demand, which remained at 2012 levels (as measured by turnover). The decrease in production was especially pronounced in certain low technology industries (including textiles, wood and furniture) and medium and high technology industries (including motor vehicles, trailers and semi-trailers).

In 2014, manufacturing GVA grew by 5.3 per cent. year-on-year, increasing in almost all industries, especially in export oriented industries such as production of ICT equipment and electrical appliances, the leather industry and production of motor vehicles. In the second half of 2014, growth was highest in production of motor vehicles (over 25 per cent.), due to the beginning of production of new passenger cars. Production in most low and medium-low technology intensive industries increased as well, while production in textiles lagged behind 2013 levels.

In 2015, manufacturing GVA grew by 2.0 per cent. year-on-year, increasing in almost all industries, particularly in the production of motor vehicles and some low and medium-low technology intensive industries, including the leather, wood, metal and rubber industries.

In the first six months of 2016, manufacturing GVA grew by 7.1 per cent. year-on-year across almost all industries, with the exceptions of the leather and chemical industries. Manufacturing, which represents over 90 per cent. of the Republic's export of goods, comprised 23.2 per cent. of GVA in 2015, of which chemicals and pharmaceuticals comprised 16.8 per cent., metal production 19.2 per cent., electrical and optical equipment 12.5 per cent., motor vehicles and other transport equipment 9.0 per cent., and machinery and equipment 6.5 per cent.

Construction

While the construction sector experienced contraction of GVA in 2010, 2011 and 2012, construction activity began to stabilise in the middle of 2013, recorded significant growth in 2014 and contracted in 2015. The GVA of this sector decreased from €2.01 billion in 2010 to €1.83 billion in 2015, primarily due to a decrease in highway construction during the period (resulting in a decrease in civil engineering), a crisis in the real estate market and lower investment in non-residential construction. In 2014, GVA in construction was 11.0 per cent. higher than in 2013. The substantial increase in activity was mainly due to public investment in infrastructure related to the absorption of EU funds. In 2015, construction activity contracted 0.6 per cent., largely due to a decrease in local infrastructure investment. In the first six months of 2016, GVA in construction declined by 14.2 per cent. on a year-on-year basis, due to reduced government investment resulting from the 2014–2020 Multiannual Financial Framework of the EU. Housing prices were 0.6 per cent. higher in first six months of 2016 than the first six months of 2015.

Inflation

The Republic's rate of inflation was generally low in 2010 and 2011, reaching approximately 2 per cent., driven principally by weak economic activity, and lower energy and food prices and excise duties. In 2012, the inflation rate was 3.1 per cent., which was 0.9 per cent. higher than the Eurozone average, this being mainly due to the rise in energy prices (in particular liquid fuels) and a slightly higher growth in services prices. In 2013 the inflation rate reached 0.9 per cent. driven by higher food and services prices as well as the Government's increase of value-added tax ("**VAT**") in July 2013. In 2014, the Republic experienced deflation of 0.1 per cent. Amid the continuation of weak domestic demand and a notable decline in commodity prices in the second half of 2014, prices for most goods were down year-on-year. The deflation was mainly the result of lower prices of energy and, to some extent, food and durable goods, offset in part from a positive contribution of services, largely due to higher prices of supplementary health insurance and packaged holidays. In 2015, Slovenia experienced continued deflation of 0.6 per cent. Consumer prices fell in 2015, mainly due to the lower prices of energy and durable goods. Prices of food, particularly unprocessed food, increased year-on-year. Prices of services recorded lower growth than in previous year, largely due to the base effect, which faded out in 2015. In the first six months of 2016 price movements continued to be affected by declining prices of energy and non-energy industrial goods, while prices of food and services increased. The following table sets out the annual inflation rate (as measured by the Harmonised Index of Consumer Prices), which is used by the ECB as a general indicator of inflation and price stability for the years ended 31 December 2010 to 2015 and for the six months ended 30 June 2015 and 30 June 2016:

	Year ended 31 December						Six months ended 30 June	
	2010	2011	2012	2013	2014	2015	2015	2016
				(%)				
Eurozone	2.2	2.7	2.2	0.8	(0.2)	0.2	0.2	0.1
Slovenia	2.2	2.1	3.1	0.9	(0.1)	(0.6)	(0.9)	0.1

Source: Eurostat.

Labour Market

Unemployment

According to Eurostat, at the beginning of the global financial crisis, the Republic recorded the fifth lowest total unemployment rate among the EU Member States (7.3 per cent. in 2010).

The unemployment rate increased from 7.3 per cent. in 2010 to 9.7 per cent. in 2014. Due to increased economic activity, the International Labour Organization's ("**ILO**") unemployment rate started decreasing in the beginning of 2014 and stood at 8.0 per cent. as of 30 June 2016 (seasonally adjusted). According to Eurostat data, as at 31 August 2016, the average harmonised unemployment rate (seasonally adjusted) in Slovenia stood at 7.8 per cent. and was lower than the EU average of 8.6 per cent. Due to the economic crisis and widespread use of temporary employment among youth (persons between the ages of 15 and 24 years), youth unemployment rates increased by 5.5 percentage points from 2010 to 2014 reaching 20.2 per cent. in 2014 (which was lower than the 21.6 per cent. rate in 2013). In the first six months of 2016, the youth unemployment rate decreased by 1.6 percentage points on a year-on-year basis to 15.7 per cent., and was lower than the EU average of 19.1 per cent. for the same period.

The Government responded to the deteriorating situation in the labour market by enhancing active employment policy programmes and enacting two intervention acts. The Subsidising of Full Time Work Act (*Zakon o delnem subvencioniranju polnega delovnega časa (ZDSPDČ)*) and the Partial Reimbursement of Payment Compensation Act (*Zakon o delnem povračilu nadomestila plače (ZDPNP)*), enacted in January and May of 2009, respectively, were aimed at preserving jobs and easing the decline in employment rates. These acts provided for a partial reimbursement of payment compensation to employees on temporary layoff. The Government also provided subsidy schemes for shorter working hours and temporary layoffs. In 2013, the Employment Relationship Act (*Zakon o delovnih razmerjih (ZDR 1)*) and the Labour Market Regulation Act (*Zakon o urejanju trga dela (ZUTD)*) entered into force. The reforms sought to reduce the level of segmentation in the labour market due to the differing status of workers with fixed term contracts as compared to those with contracts for an indefinite period ("**permanent contracts**") and therefore improve labour market flexibility.

In 2013, the Government established a working group to monitor the impact of the adopted labour market reforms and identify areas where additional measures were needed for the promotion of job creation and for the elimination of labour market segmentation. The working group appointed by the Government analysed the initial results of labour market reform adopted in March 2013 and entered into effect in April 2013. The working group's findings were published in the Report of the Working Group for Monitoring the Effects of Changes in the Labour Market Regulation in 2013 (*Poročilo delovne skupine za spremljanje učinkov sprememb v regulaciji trga dela v letu 2013*). The analysis indicated that the increased flexibility provided by the reforms helped increase the number of permanent contracts and significantly reduced the costs of employment for unemployed young people under 30 years by reducing the levels of employers' contributions for social security insurances.

Taking into account the labour market reform adopted in 2013, the Republic's employment protection legislation index (as measured by the OECD) for protection of regular workers against individual dismissals fell below the OECD average, representing increased flexibility in the labour market.

The labour market situation started to improve at the beginning of 2014. According to the Statistical Register of Employment, the number of persons in employment (employed and self-employed persons, excluding self- employed farmers) in July 2016 was 2.5 per cent. higher than in July 2015. Registered unemployment also decreased (seasonally adjusted) and averaged 97.9 thousand in August 2016, down 9.3 per cent. year-on-year.

The Republic believes that its labour force is one of the most productive and best educated among the EU Member States that joined during or after 2004. Labour productivity growth, measured as GDP per employee, was 1.4 per cent. in 2015. The share of the population aged 25-64 years with tertiary education has grown steadily, reaching a 30.8 per cent. average for the first half of 2016, and was the fifth highest among the new EU Member States. Among the adult population, 87.4 per cent., as an average for the first half of 2016, have attained at least upper secondary education.

The following table sets out the average rate of unemployment and certain statistics about education for the years ended 31 December 2010 to 2015 and the six months ended 30 June 2015 and 30 June 2016:

	Year ended 31 December						**Six months ended 30 June**	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**
Statistical survey of unemployed persons (ILO methodology) data(1)								
Total labour force.........	1,041.4	1,019.4	1,013.4	1,007.7	1,014.9	1,007.8	1,005.7	989.0
Employed....................	966.0	936.1	923.8	905.9	916.8	917.4	910.7	906.8
Unemployed................	75.4	83.2	89.6	101.8	98.1	90.3	95.0	82.3
Change in the total number of unemployed	14.4	7.8	6.4	12.2	(3.7)	(7.8)	(6.3)	(12.8)
Unemployment rate......	7.3%	8.2%	8.9%	10.1%	9.7%	9.0%	9.4%	8.3%
Share of adult population with at least upper secondary school education.....................	83.3%	84.5%	85.0%	85.5%	85.7%	86.8%	86.5%	87.4%
Share of adult population, aged 25-64 years, with tertiary education.....................	23.7%	25.1%	26.4%	27.9%	28.6%	30.2%	30.3%	30.8%
Labour Office register(1)								
Unemployed................	100.5	110.7	110.2	119.8	120.1	112.7	117.1	108.7
Change in the total number of unemployed	14.2	10.2	(0.5)	9.6	0.3	7.4	(7.4)	(8.4)
Unemployment rate......	10.7%	11.8%	12.0%	13.1%	13.1%	12.3%	12.7%	11.8%

Source: SORS, SI Stat portal page, Eurostat portal page.

Notes:

(1) The primary methodological differences between the statistical survey of unemployed persons (ILO methodology) ("Survey") data and Labour Office register ("**Register**") data are: (i) the source data (Register data cover the total population, while Survey data are obtained from a statistical sample), (ii) the reporting period (Register data are extracted on the last day of the month, while Survey data refer to the activity of respondents in the week before the interview), (iii) the observation period (Register data are compiled on the last day of the month, while Survey data are compiled quarterly) and (iv) the definition of unemployed persons (persons registered by the Labour Office fulfil certain legal criteria for unemployment, while unemployed persons according to the Survey are persons who, in the week before the interview, (a) did not perform any work for payment, profit or family gain, (b) have been actively seeking work and (c) are prepared to accept work offered within two weeks).

Wages

The following table sets out average monthly wages and its growth in real for the years ended 31 December 2010 to 2015 and the six months ended 30 June 2015 and 30 June 2016:

	Year ended 31 December						**Six months ended 30 June**	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**
	(€ millions, current prices, except percentages)							
Average gross monthly wages	1,494.88	1,524.65	1,525.47	1,523.18	1,540.25	1,555.89	1,536.12	1,570.67
Real growth rate in %....	2.1%	0.2%	(2.4)%	(2.0)%	0.9%	1.2%	1.0%	2.4%
Private sector.................	1,353.41	1,388.65	1,395.84	1,404.40	1,424.32	1,431.84	1,414.20	1,438.95
Real growth rate in %....	3.7%	0.8%	(2.0)%	(1.2)%	1.2%	1.0%	0.8%	2.3%
Public sector..................	1,760.91	1,778.45	1,762.88	1,740.78	1,757.29	1,793.96	1,765.42	1,824.28
Real growth rate in %....	(1.0)%	(0.8)%	(3.4)%	(3.0)%	0.7 %	1.7%	1.7%	2.9%

Source: SORS.

From 2010 to 2013, growth in average gross wages was strongly affected by the global economic crisis, a rise in the minimum wage, a renewed system of wages in the public sector and government austerity measures. The rise in the average gross wage per employee by 2.1 per cent. in real terms in 2010 and by 0.2 per cent. in 2011 was attributable to growth in private sector wages mainly due to a rise in the minimum wage. In the public sector, growth in wages levelled off in 2010 and 2011 due to government austerity measures, which have been gradually implemented since 2009 and have been aimed at addressing general economic and public financing conditions. In 2012 and 2013, the average gross wage per employee decreased in real terms (by 2.4 per cent. and by 2.0 per cent., respectively). In each case, the decrease in wages was largely due to declining economic activity and the impact of fiscal austerity measures. As part of adopted measures for reducing the public deficit, public sector wages declined by 3.4 per cent. and 3.0 per cent. in 2012 and 2013, respectively. In the private sector, the average gross wage per employee also declined in that period, falling by 2.0 per cent. in 2012 and by 1.2 per cent. in 2013. After declining two years in a row, the average gross wage per employee increased in 2014 and 2015 by 0.9 and 1.2 per cent., respectively, in real terms. In 2014, the increase was primarily due to growth of private sector wages (by 1.2 per cent.), which was largely attributable to economic recovery and increased productivity, while the gross earnings in public sector also increased (by 0.7 per cent.) under the impact of public corporations wage growth and the granting of suspended promotions to public servants in April 2014. In 2015, the growth of average gross wage per employee slowed in nominal terms, but strengthened in real terms after taking deflation into account. In the public sector average gross wage per employee was 1.7 per cent. higher in real terms, mainly due to public servants' promotions and further growth in public corporations, while, in the private sector it rose at a slower pace (1.0 per cent.), particularly due to the absence of price pressures and changes in employment structure. In the first six months of 2016, the average gross wage per employee rose significantly compared to the same period a year before in both the private (2.3 per cent) and public sector (2.9 per cent). In the private sector, the increase was due mainly to the impact of good business performance, while in the public sector the increase was attributable to growth in the general government as a result of promotions of civil servants in 2015.

Wage moderation in the public sector has been an important part of fiscal austerity measures in recent years. At the end of 2011, the National Assembly passed the Act for Additional Intervention Measures for 2012 (*Zakon o dodatnih interventnih ukrepih za leto 2012 (ZDIU12),* the "**Act on Additional Intervention Measures**"), which froze public sector wages, pensions and subsidies to households until mid-2012. An amendment to this Act was passed by the National Assembly on 17 April 2012, with the aim of stabilising public finances through changes to holiday allowances payable to public sector employees and those in companies where the state or a local government hold a share exceeding 25 per cent. On 11 May 2012, the National Assembly passed a supplementary budget and the Act on the Balancing of Public Finances (*Zakon za uravnoteženje javnih financ (ZUJF)*, the "**Fiscal Balance Act**"). The Fiscal Balance Act lowered the wages of all public servants by 8 per cent., and, at the same time, paid the last two quarters of funds to eliminate wage disparities agreed as part of the public wage reform in 2008.

In May 2013, the Government reached an agreement with leaders of unions of public sector workers on additional wage cuts, enabling the Government to carry out the planned reduction of public sector wages. As a result of this agreement and the effects of the wage policy measures that have been in place since 2012, the public sector average gross wage declined in real terms in 2013. This was the fourth consecutive year of decline in public sector average gross wages. The May 2013 agreement resulted in a linear and progressive reduction of the basic wages of all public servants (by an average of 1.3 per cent.). It also abolished the increased seniority bonus paid to women (for each completed year of service over 25 years), reduced the allowances for specialisation, masters and doctoral studies by 50 per cent. and decreased sickness benefits and premiums of collective supplementary pension insurance. In addition, under the agreement, the Government continued to suspend regular performance related and work load related bonuses for public servants until the end of 2014. In April 2014, public servants were entitled to payment relating to promotions which were suspended from 2011 and 2012. Holiday benefits continued to be selectively disbursed in 2014. A new agreement to contain public sector wages was agreed with trade unions in 2014 after the expiry of the previous agreement. All measures from the prior agreement were extended into 2015, with the exception of payment relating to public servants' promotions, which were paid out in December 2015 for the 2015 financial year and in December 2016 for the 2016 financial year. Additionally, work load related bonuses and premiums of collective supplementary pension insurance were lowered under the new agreement.

As a result of all above mentioned measures, the total wage bill decreased by 6.3 per cent. in nominal terms from 2011 to 2014.

In November 2015, a new agreement was entered into between the government and the public sector trade unions. In addition to the promotion payments, which were agreed to in 2014, the new agreement will provide for a partial release of annual leave bonus in 2016 and increased basic wages for public servants (by an average of 1.3 per cent.). The agreement will also extend some austerity measures for another year. In particular, work load-related bonuses and premiums of collective supplementary pension insurance for civil servants will not be extended beyond the lowered levels of the 2015 agreement and additionally, there are no plans to pay performance-related bonuses in 2016.

PUBLIC FINANCE

General Government Sector

According to the Slovenian business registry (the Agency of Slovenia for Public Legal Records and Related Services, or ("**AJPES**"), there were 2,734 spending units in the general government sector as of 31 December 2015. The central government, a sub sector of the general government, comprised 555 spending units. The local government, another sub sector of the general government, comprised 2,176 spending units.

There are also specially allocated Social Security Funds which are comprised of three spending units: (i) the Health Insurance Institute (*Zavod za zdravstveno zavarovanje Slovenije*), which is responsible for collecting and distributing mandatory health insurance funds, (ii) the Pension Insurance Institute (*Zavod za pokojninsko in invalidsko zavarovanje*), which is responsible for collecting and distributing mandatory pension and disability insurance funds, and (iii) the Kapitalska družba, d.d. ("**KAD**"), which is responsible for managing 10 per cent. of shares in companies that were privatised in the early 1990s and allocated to the fund in order to support the financing of the pension system.

Budgetary Process

The fiscal year in the Republic is the calendar year. Slovenia's central government budget is prepared on a two-year roll over basis. The Public Finance Act (*Zakon o javnih financah (ZJF)*, the "**Public Finance Act**") addresses, among other things, the composition of the central government budget and financial plans, the budget documents to be submitted to the National Assembly by the Government and the date for their submission. This act also deals with the process for adjusting budget proposals, adopting the budget and the imposition of restrictions on adopting the budget. The Public Finance Act also regulates the preparation of, and procedures governing, municipalities' budgets and for other entities of the general government in a manner identical to the rules governing the central government budget.

The Public Finance Act, the Decree on the documents of development planning bases and procedures for the preparation of the central and local government budgets and the National Assembly of Slovenia Rules of Procedure set out a timetable for the budgetary process. The Republic adopted budgets for 2016 and 2017 in November 2015.

Strengthening Fiscal Framework and Compliance with EU Fiscal Requirements

On 2 March 2012, the Republic, together with 24 other EU Member States (excluding the United Kingdom and the Czech Republic), entered into the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union as stipulated by the November 2011 revised Stability and Growth Pact. The Treaty requires, among other things, that the signatories achieve a balanced or surplus budget for the general government. To this end, in May 2013, the Republic adopted an amendment to its Constitution introducing a fiscal rule and imposing an obligation to plan the annual budget in a manner enabling the attainment of a balanced budget.

Measures to strengthen the fiscal framework are based on the amended Constitution of the Republic, adopted in May 2013, in which the Republic has fulfilled its commitment to include a medium term balanced budget rule in the Slovenian legal system and improve institutional regulation in relation to enhanced economic management at the EU level. The commitment will be implemented through the following measures:

- The Fiscal Rule Act (*Zakon o fiskalnem pravilu (ZFisP),* the "**Fiscal Rule Act**"), which was adopted by the National Assembly on 10 July 2015, lays down the manner and time frame for the implementation of the medium term balance between the revenues and expenditures of general government budgets and define the medium term fiscal target, the balanced budget rule itself and the competences of the fiscal council.
- A New Public Finance Act, which will adjust the provisions of the current Public Finance Act relating to the preparation, implementation and monitoring of the budget of all general government institutional units to reflect the Fiscal Rule Act. A draft of the new Public Finance Act is expected to be adopted by the Government and sent to the National Assembly by the end of 2016.

The consolidation of the Government's finance arrangements into a single treasury system that operates through a Treasury Single Account (the "**TSA**") which acts as a management system of public finance flows and a uniform funds management system for all indirect budget users. The Republic has separate TSA systems for the state and for municipalities. The Republic expects that additional consolidation of general government funds through the TSA system will result in: (1) the further inclusion of indirect budgetary users in the TSA unified funds management system; and (2) the further inclusion of the TSAs of municipalities in the state TSA system. A detailed approach will be established to implement the consolidation. As a result, the consolidation may take several years to be finalised. Both developments are expected to lead to the centralisation of the funds of budgetary users in a single account, which in turn will provide the Government with an integrated overview of the condition and management of budgetary users' funds. The process is expected to help lower liquidity borrowing costs, improve the quality of fiscal information and optimise revenues from surplus TSA funds.

A constitutional amendment to referendum legislation adopted in May 2013, which limits the grounds on which a referendum can be called to those having no impact on public finances; a referendum can presently be exclusively called by voters (and no longer by deputies or the National Council). This has limited the possibilities of slowing down or halting measures and reforms having an impact on public finances.

Consolidated General Government Budget

The Republic uses the European System of National and Regional Accounts ("**ESA2010**") methodology according to EU accession obligations. ESA2010 is an accrual based methodology that is also used for the assessment of sustainability of public finances within the context of the Stability and Growth Pact by the EU.

In 2014, the total expenditure amounted to 49.9 per cent. of GDP. This figure included bank recapitalisations, which amounted to 1.6 per cent. of GDP.

The following table sets out the consolidated general government revenues and expenditures for the years ended 31 December 2011 to 2016 (projected) (according to ESA2010 methodology):

	Year ended 31 December(1)					
	2011	**2012**	**2013**	**2014**	**2015**	**2016(2)**
	(€ millions, except for percentages)					
Total revenues	16,018	16,002	16,247	16,766	17,384	—
as a % of GDP	43.4%	44.5%	45.2%	44.9%	45.1%	—
Total expenditures	18,445	17,476	21,642	18,621	18,516	—
as a % of GDP	50.0%	48.6%	60.3%	49.9%	48.0%	—
General government balance	(2,456)	(1,474)	(5,395)	(1,855)	(1,131)	(871)
as a % of GDP	(6.7)%	(4.1)%	(15.0)%	(5.0)%	(2.9)%	(2.2)%
as a % of GDP excluding bank recapitalisations	(5.7)%	(3.9)%	(4.3)%	(3.2)%	—%	—%

Source: Slovenia EDP Report, SORS, April 2016.

Notes:

(1) Excessive Deficit Procedure ("**EDP**") Reports are revised each year in April and October.

(2) Projected.

The following table sets out the sub sector balances of the general government budget for years ended 31 December 2011 to 2016 (projected) (according to ESA2010 methodology):

	Year ended 31 December[1]					
	2011	2012	2013	2014	2015	2016[2]
	(€ millions, except for percentages)					
Central Government balance...............	(2,485)	(1,391)	(5,409)	(1,885)	(1,273)	(871)
Local government balance	34	22	(50)	(43)	97	19
Social security funds balance	(5)	(104)	65	73	45	(32)
General government balance...............	(2,456)	(1,474)	(5,395)	(1,855)	(1,131)	(871)
as a % of GDP.....................................	(6.7)%	(4.1)%	(15.0)%	(5.0)%	(2.9)%	(2.2)%
as a % of GDP excluding bank recapitalisations...................................	(5.7)%	(3.9)%	(4.3)%	(3.2)%	—	—

Source: Slovenia EDP Report, SORS, April 2016.

Notes:

(1) EDP Reports are revised each year in April and October.

(2) Projected.

General government expenditures as a percentage of total GDP fluctuated from 2011 to 2014. The Republic has a very rigid public expenditure structure with a relatively high share of social policy-related programmes. The Government increased these programmes prior to 2011 due to several measures designed to address the economic crisis. In 2012, these programmes and other measures were increasingly scrutinised as the Government increased its efforts to make the budget more flexible and to improve the long term sustainability of public finance. In 2013, bank recapitalisation in the amount of 10.1 per cent. of GDP increased the share of social policy-related programmes to 60.3 per cent. of GDP. In 2014, the share decreased to 49.8 per cent. of GDP, reaching the same level as in 2011.

From 2012 to 2014, the Republic introduced several tax measures in order to improve competitiveness and enhance growth of its economy and to promote stable tax revenues (See "*Fiscal Policy and Reform*" and "*Fiscal Policy and Reform — Taxation and Taxation Policy*").

Between 2009 and 2014, €5.10 billion was allocated to the Republic by various EU programmes. As at 31 December 2015, 97.1 per cent. and 82.2 per cent. of the amounts apportioned to structural funds and agriculture, respectively, have been utilised. The majority of funds provided by the EU were received through the operational programmes for structural funds (the regional development, social fund and the cohesion fund).

In 2010, the general government budget deficit was 5.7 per cent., largely due to a reduction in tax revenues attributable to the financial crisis and automatic stabilisers such as unemployment benefits. In 2011, the deficit reached 6.7 per cent. of GDP, with one off measures accounting for 1.0 per cent. of the deficit (recapitalisation of NLB, Adria Airways, d.d, Peko, d.d., Nafta Lendava, d.o.o., continued payments of guarantees due for Slovenske železnice, d.o.o., and contributions to the first Greek bail-out programme).

In 2012, the Government adopted a set of comprehensive fiscal consolidation measures, which include structural shifts in public expenditures (Act on Additional Intervention Measures, Fiscal Balance Act). As a result, the general government deficit fell to 3.6 per cent. of GDP in 2012.

In 2013, total general government deficit amounted to 15.0 per cent. of GDP. The 2013 fiscal policy goal was a general government deficit of 5.7 per cent. of GDP including one off measures in the amount of €620 million or 1.7 per cent. of GDP. In an effort to achieve this goal, The Government increased VAT rates in mid-2013 and introduced other revenue-increasing measures and lowered labour costs in the public sector and other recurrent costs financed from the budget (See "*Taxation and Taxation Policy*"). One-off expenditures in the deficit for 2013 were much higher than expected and entailed mostly expenditures for banking recapitalisation. The total impact of recapitalisations in 2013 in ESA2010 terms amounted to €3.633 billion or approximately 10.1 per cent. of GDP (See "*Measures to Strengthen the Stability of the Banking Sector Act – Banking Reform*").

Fiscal targets for 2014 have been met according to the supplementary budget for 2014. Data for 2014 show that the general government deficit reached 5.0 per cent. of GDP, including two major one-off expenditures: 0.9 per cent. GDP for bank recapitalisations and 0.7 per cent. of GDP for depositors of Ljubljanska Banka (according to court ruling see "*The Republic of Slovenia — Legal and Arbitration Proceedings*").

On 20 February 2015, a supplementary budget put the general government deficit in ESA2010 terms at 2.9 per cent. of GDP. No recapitalisations from state budget funds were executed in 2015. It is expected that any future recapitalisation needs will be covered by the bank resolution fund, which was established by the Bank Resolution Authority and Fund Act (*Zakon o organu in skladu za reševanje bank (ZOSRB)*, the "**Bank Resolution Authority and Fund Act**") and entered into force in 2014. The bank resolution fund is financed by banks and managed by the central bank. The headline deficit for 2015 was targeted to be 3 per cent. of GDP and reached 2.9 per cent. of GDP according to the EDP statistical report. The supplementary budget for 2015 was fully utilised and the public wage bill and revenue measures were also implemented in 2015. Measures related to the refugee crisis were covered under the adopted budgets.

The Republic adopted budgets for 2016 and 2017 on 16 November 2015. A general government deficit of 2.2 per cent. and 1.6 per cent. is planned for 2016 and 2017, respectively. The 2016 budget extends several temporary measures that were adopted in recent years to contain expenditure and increase revenue. In addition, measures to contain the public sector pay-bill have been prolonged in the 2016 budget.

Pension and Disability Expenditures and Revenues

In the first few months of 2013, the Republic introduced changes to the pension system. The Pension Act, which came into force on 1 January 2013 among other measures increased the statutory "full" retirement age to 65 years for men and women if they fulfil 15 years of contributions and raised the effective retirement age by increasing the required years in employment to 40 with minimum age of 60 in order to obtain an old age pension. The law was implemented to stabilise total pension expenditures at their then current level for at least a seven-year period. Compared with expenditure before the reform, pension expenditure is expected to decrease in the first seven years after the implementation of the pension reform and thereafter gradually increase while maintaining the difference in expenditure realised in the initial seven-year period. Since the implementation of the act the Republic has recorded a decrease in the number of new old-age pensioners as well as an increase in the average pension contribution period of old-aged pensioners.

In 2017, the Republic plans to adopt further measures aimed towards ensuring the long term sustainability of pensions and disability insurance after 2020. The revisions will have a dual goal of ensuring the fiscal sustainability of the pension system and providing adequate and viable pensions.

The following table sets out revenues, transfers and expenditures of the Pension Institute for the years ended 31 December 2010 to 2014 and the preliminary revenues, transfers and expenditures for 2015:

	Year ended 31 December[(1)]					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**[(2)]
	(€ millions, except for percentages)					
Revenues	4,804.9	4,941.0	4,851.0	4,949.0	4,977.7	4,984.1
as a % of GDP	13.3%	13.4%	13.5%	13.8%	13.3%	12.9%
Revenues from contributions, capital income and sundry	3,469.2	3,440.9	3,434.8	3,364.2	3,371.7	3,523.0
as a % of GDP	9.6%	9.3%	9.5%	9.4%	9.0%	9.1%
Transfers from central budget	1,335.7	1,500.1	1,416.2	1,584.8	1,606.1	1,461.1
as a % of GDP	3.7%	4.1%	3.9%	4.4%	4.3%	3.8%
Expenditures	4,804.9	4,941.0	4,851.0	4,949.0	4,977.7	4,984.1
as a % of GDP	13.3%	13.4%	13.5%	13.8%	13.3%	12.9%

Source: Pension Institute Financial Report 2008 2014, Preliminary revenues, transfers and expenditures for 2015.

Note:

(1) The Government is obliged by law to cover any gap between regular revenues of the Pension Institute and total expenditures. The obligation is reflected in the annual central government budgets.

(2) Preliminary.

Central Government Budget

The statistics on central government budget is disclosed in the tables below, for information on measures accompanying the realisation of central government budget see "*General Government Budget*".

The following table sets out the balances of the central government budget for the years ended 31 December 2013 to2015 and the adopted budget for the years ended 31 December 2016 and 2017:

	Year ended 31 December				
				Adopted Budget	
	2013	**2014**	**2015**	**2016**	**2017**
	(€ millions, except for percentages)				
Central government budget, cash flow:					
Revenues	7,779.4	8,459.5	8,520.9	8,700.8	8,705.6
Expenditure	9,314.5	9,654.9	9,797.7	9,540.1	9,423.4
Deficit	(1,535.1)	(1,195.5)	(1,276.7)	(839.3)	(717.8)
Deficit in % of GDP	(4.2)%	(3.2)%	(3.3)%	(2.1)%	(1.7)%
General Government sector, ESA2010 (estimates)					
Deficit in % of GDP(1)	(4.3)%	(3.2)%	(2.9)%	(2.2)%	(1.6)%
Deficit in % of GDP(2)	(15.0)%	(4.9)%	—	—	—

Source: Ministry of Finance.

Notes:

(1) Excluding bank recapitalisations.

(2) Including bank recapitalisations.

The following table sets out the actual revenues and expenditures of the central government budget for the years ended 31 December 2012 to 2015 and adopted budgets for the years ended 31 December 2016 and 2017 (on a cash basis):

	Year ended 31 December(1)					
					Adopted Budget	
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
	(€ millions)					
Individual income taxes	929.8	740.5	789.6	961.3	977.5	998.1
Corporate income tax	576.9	265.2	468.4	594.8	558.8	578.1
Other taxes on income and profit	2.6	4.2	2.0	3.6	2.1	2.1
Social security contributions	53.5	51.8	56.6	58.5	60.9	62.8
Taxes on payroll and workforce	25.6	23.4	20.2	19.7	19.0	19.0

	Year ended 31 December[1]					
					Adopted Budget	
	2012	2013	2014	2015	2016	2017
			(€ millions)			
Domestic taxes on goods and services	4,823.9	4,978.6	5,135.6	5,299.5	5,461.8	5,612.5
Taxes on international trade and transactions	82.5	77.5	77.7	82.5	88.5	94.0
Other taxes	7.7	31.5	28.4	2.8	0.3	0.3
Non tax revenues	526.0	612.1	805.4	560.9	478.8	455.9
Capital revenues, grants and transfer revenues	16.4	60.8	39.3	58.7	52.5	36.7
Receipts from EU	842.1	933.8	1.036.2	878.7	1,000.7	845.9
Total revenues	7,887.0	7,779.4	8,459.5	8,520.9	8,700.8	8,705.6
Current expenditures	2,515.0	2,665.4	2,873.0	2,965.2	3,120.8	2,991.1
Wages and contributions	1,168.4	1,082.8	1,070.4	1,068.6	1,105.0	1,125.1
Goods and services	682.8	646.2	651.5	688.7	682.6	696.9
Interest payments	632.5	827.0	1.082.6	1,028.8	1,059.4	1,008.7
Reserves	31.3	109.5	68.4	179.0	273.7	160.5
Current Transfers	5,347.1	5,346.9	5,214.7	5,034.4	5,202.1	5,148.4
Subsidies	455.3	472.2	423.1	356.5	494.4	484.2
Transfers to individuals and households	1,375.7	1,241.9	1,197.8	1,184.0	1,220.3	1,171.9
Unemployed allowances	263.1	260.2	209.2	184.1	178.3	167.2
Child allowances	578.8	521.2	499.6	494.1	502.5	500.5
Social assistance allowances	216.0	200.3	221.6	242.4	247.5	223.7
Other transfers to individuals and households	317.7	260.1	267.4	263.4	292.0	280.4
Transfers to organisations and institutions	3,516.2	3,632.8	3,593.9	87.0	88.1	96.8
Current transfers to pension fund	339.4	330.0	177.7	298.6	279.0	274.0
Supplementary transfers to pension fund	1,020.5	1,202.0	1,381.5	1,118.2	1,075.0	1,101.0
Current transfers to public institutions	1,754.7	1,692.7	1,654.5	1,648.6	1,722.1	1,730.1
Other transfers to organisations and institutions	121.3	76.6	104.9	182.7	166.6	132.2
Capital expenditure	239.8	386.2	531.1	685.5	417.8	478.7
Capital transfers	501.3	490.5	633.2	679.7	387.6	386.0
Payments to EU budget	390.3	425.5	402.9	432.9	411.8	419.2
Total expenditure	8,993.5	9,314.5	9,654.9	9,797.7	9,540.1	9,423.4
Budget surplus/deficit	(1,106.5)	(1,535.1)	(1,195.5)	(1,276.7)	(839.3)	(717.8)
Primary surplus/deficit	(505.2)	(738.2)	(153.7)	(264.5)	207.6	282.6
Lending minus repayments	(504.9)	(3,738.4)	(851.7)	(191.0)	(464.3)	(473.3)
Borrowing	2,947.4	7.008.0	7,495.2	3,575.6	2,592.6	4,109.4

	Year ended 31 December[1]					
					Adopted Budget	
	2012	2013	2014	2015	2016	2017
			(€ millions)			
Amortisation of debt	1,269.2	1,870.8	3,489.9	2,317.4	3,826.0	2,918.4
Changes in cash and deposits	66.8	(136.2)	1,958.1	(209.5)	(2,537.0)	(0.0)
Net financing	1,106.5	1,535.1	1,195.5	1,276.7	839.3	717.8

Source: Ministry of Finance, Bulletin of Government Finance.

Note:

(1) The methodology used for compiling the general government data within the EU is the ESA2010 accrual based statistical methodology. However, as in numerous other EU Member States, annual budgets are presented and approved based on a cash based methodology.

Fiscal Policy and Reform

The 2015 and 2016 Stability Programmes

Since 2006, the Republic has had a stability programme in place in accordance with relevant EU Council regulations. The latest updates to the Stability Programme were made in April 2016. At the end of May 2014, the European Commission presented recommendations in respect of Slovenia's stability programme, which were a continuation of the process from 2013. They acknowledge certain improvements especially in the banking sector, but called for further fiscal consolidation to improve the long term stability of public finance, further labour reforms, the restructuring of banking sector, further privatisation and improving competitiveness through deregulation and an increase in foreign direct investment. In its assessment of the National Reform Programme for 2013 (the "**National Reform Programme**"), the European Commission noted that the Republic implemented pension reform and labour reform in early 2013, but further reforms will be needed in both fields to ensure a long term structural effect. As a priority, the Republic was urged to carry out a system wide asset quality review and stress tests, which were completed in December 2013 and the Republic recapitalised several banks in response to the results. See "*Monetary and Financial System — Measures to Strengthen the Stability of the Banking Sector Act*". The European Commission's recommendations in respect of the 2015 Stability Programme were released on 13 May 2015 and adopted by the EU Council in July 2015. In accordance with EU recommendations and OECD guidelines, the Republic has also adopted legislation to improve the corporate governance of its state owned enterprises. See "*Consolidated Government Holdings and Privatisation*".

The two main economic policy objectives for the 2015 Stability Programme were the encouragement of economic growth and fiscal consolidation. In order to encourage economic growth, the 2015 Stability Programme sought to improve economic competitiveness and increase employment rates while considering demographic and environmental opportunities and constraints. To achieve long-term economic growth and job creation, Slovenia has outlined measures in key areas with a view towards increasing productivity and efficiency and ensuring appropriate levels of social inclusion and justice. At the beginning of 2015, the Government and its social partners, which includes employers' associations and trade unions, concluded a social contract for 2015-2016, outlining the key labour-related areas and the measures to be implemented in co-operation with the social partners.

The Republic aimed to achieve a general government deficit of 2.9 per cent. of GDP in 2015, 2.3 per cent. in 2016 and a general government structural balance in 2020. In addition to the policies and measures set out in the 2015 Stability Programme, the Republic will implement further fiscal consolidation measures in order to achieve a permanent balanced structural position, in line with the preventive arm of the Stability and Growth Pact (Regulation 1466/97 and amendments) and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

The main objectives and policies of the 2015 Stability Programme conform to the priority areas of the Annual Growth Survey by the EU Council. These objectives and policies include promoting investments, implementing structural reforms and strengthening fiscal responsibility.

The 2016 Stability Programme was adopted on 25 April 2016. In terms of Slovenia's fiscal policy, the 2016 Stability Programme's main purpose is to aid in achieving the 2016 Medium-Term Budgetary Objective in line with Fiscal Rule Act and EU regulations.

The 2016 Stability Programme seeks to achieve this objective by focusing on structural measures including the restructuring of certain tax levies, reducing administrative burdens and improving the efficiency of public tax collection. Moreover, the Government's expenditures are expected to include certain short-term measures, such as reducing wages and other labour costs in the public sector. Certain other measures will be systematically implemented over the course of 2016 with an objective of generating comparable financial benefits.

Slovenia has been formally under an excessive deficit procedure since 2 December 2009. According to new EU legislation on economic governance, the Republic was required to prepare an Economic Partnerships Programme in October 2013, the purpose of which was to provide information concerning the implementation of the recommendations of the European Council and present the priority measures and policies to ensure an effective and lasting correction of the excessive deficit. The implementation of the Programme and the yearly budgetary plans consistent with it are monitored by the European Commission and the European Council. Slovenia submitted a draft budgetary plan to the European Commission on 15 October 2015, pursuant to Regulation No 473/2013/EU. According to the European Commission, although Slovenia's draft budgetary plan was broadly compliant with the provisions of the Stability and Growth Pact, it ran the risk of significantly deviating from its 2016 Medium-Term Budgetary Objective.

On 5 March 2014, the European Commission issued in depth reviews to examine the origin, nature and severity of macroeconomic imbalances identified within some of the EU Member States. Among some other EU Member States Slovenia was, in the opinion of the European Commission, experiencing excessive macroeconomic imbalances. In the review, the European Commission recognised the progress being made by the Republic; however, the European Commission highlighted the need to maintain momentum for reforms, and accelerate the implementation of the structural reform programme, especially on the five key areas (1) financial sector; (2) fiscal and economic policy making to maintain market access at affordable rates; (3) restoration of cost competitiveness to boost export performance; (4) policies to address the corporate debt overhang; and (5) a significant reduction in the involvement of the Slovenian state in the corporate and financial sector.

Separately, the European Commission proposed a recommendation regarding measures for the Republic to take in order to ensure a timely correction of its excessive deficit: (1) the Republic should take the necessary steps to ensure that the structural targets recommended in 2013 by the Council are met and (2) the Republic should report on measures implemented in response to the European Commission's recommendation in a dedicated section in its Stability Programme. The European Commission conducted a review of the macroeconomic imbalances in the Republic's economy in mid-October 2014 and provided country specific recommendations to address macroeconomic imbalances in anticipation of a discussion of such imbalances and recommendations at the European Commission's November 2014 economic policy committee meeting. At the end of February 2015, the European Commission issued a report, together with an assessment of macroeconomic imbalances in the Republic. The report found that although the Republic was still experiencing imbalances which will require specific monitoring, such imbalances were not excessive and can be addressed through the implementation of policy actions. The Republic is in the process of addressing these imbalances and believes that improved export performance and growth have reduced risks compared to those faced in 2014, particularly the risks linked to external sustainability. However, factors such as weak corporate governance, high levels of state ownership, high corporate leverage and increasing public debt pose risks for financial stability and growth and warrant close attention. The Republic addressed the issues raised in the European Commission's report in the National Reform Programme and the 2015 Stability Programme, which were published in April 2015.

Slovenia continued the process of specific monitoring of macroeconomic imbalances in 2015 and 2016, with regular reporting to the EU's Economic Policy Committee. An assessment conducted by the Economic Policy Committee in November 2015 found that Slovenia implemented several of the recommended measures and that the reforms adopted by the Republic in previous years have continued to be beneficial.

On 18 May 2016, the European Commission issued a recommendation for abrogating the Council decision on the existence of excessive deficit in Slovenia. Following the abrogation, the Republic will be in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. Member States which withdrew from the procedure of excessive general government deficit must meet the rule of reducing the excessive debt, i.e. debt exceeding 60 per cent. of GDP, which also determines the speed of reducing the debt. The conditions of 'sufficient rate of reducing' and 'satisfactorily speed' are defined in Council Regulation (EC) No 1467/97 and are met if the excessive debt is on average reduced by one-twentieth a year within three years following the reference value. If the condition is met, it indicates that excessive debt may be eliminated in 20 years.

Taxation and Taxation Policy

The following table sets out the main categories of general government revenue as a percentage of GDP for the years ended 31 December 2010 to 2014:

	Year ended 31 December				
	2011	**2012**	**2013**	**2014**	**2015**
	(€ millions, except for percentages)				
Personal income tax	2,054.3	2,077.1	1,868.0	1,915.5	1,986.3
as a % of GDP	5.6%	5.8%	5.2%	5.1%	5.1%
Corporate income tax	667.6	576.9	265.2	468.4	594.8
as a % of GDP	1.8%	1.6%	0.7%	1.3%	1.5%
Value Added Tax	2,992.4	2,905.0	3,029.1	3,153.3	3,228.7
as a % of GDP	8.1%	8.1%	8.4%	8.5%	8.4%
Excise duty	1,462.4	1,560.3	1,490.7	1,491.3	1,515.3
as a % of GDP	4.0%	4.3%	4.1%	4.0%	3.9%
EU funds	814.9	845.1	938.4	1,040.3	878.7
as a % of GDP	2.2%	2.3%	2.6%	2.8%	2.3%

Source: Ministry of Finance Bulletin of Government Finance.

In order to promote corporate sector resilience and to encourage generation of additional revenues several changes have been introduced to the corporate and personal income tax since 2010. The corporate income tax rate was gradually reduced from 20 per cent. in 2010, to 18 per cent. in 2012 and to 17 per cent. beginning in 2013. Business activities were enhanced by increasing tax incentives for investment as well as research and development. However, a limitation on tax loss utilisation came into force, which limited such tax loss utilisation to 50 per cent. of the tax base covering a prior tax period. Beginning in 2013, further changes to corporate income tax and to personal income tax were aimed at the simplification of administrative procedures for the taxation of the business income of entrepreneurs and companies by introducing the so-called lump sum deduction tax. The income threshold for VAT registration was increased at the same time. Starting on 1 January 2014, the automatic adjustment of tax credits and net annual tax basis in the scale for assessing personal income tax to reflect changes in consumer prices was eliminated. On 1 January 2014, additional measures to abolish certain tax benefits for daily migrants and residents over 65 years of age were introduced. A fourth income tax bracket with a tax rate of 50 per cent., which applies to earnings exceeding five times the average wage, was introduced as a temporary measure for 2013 and 2014 as part of the measures adopted within the Fiscal Balance Act in mid-2012 and was extended through 2017. As a temporary measure for 2016 and 2017, the minimum threshold for the third tax bracket, which carries a tax rate of 41 per cent., increased from €18,960 per year to €20,400 per year. On 1 January 2015, some additional changes to corporate income tax and to personal income tax came into force to improve the lump sum deduction regime.

Beginning on 1 January 2013, the individual income tax rate for capital gains and gains of derivative financial instruments was increased from 20 to 25 per cent. In March 2013, a new tax on fees charged with respect to certain financial services became effective. Due to the abolition of the bank balance sheet tax in 2015 (Bank Balance Sheet Tax Act – *Zakon o davku na bilančno vsoto bank (ZDBVB)*), the tax rates on financial services and on insurance transactions increased from 6.5 per cent. to 8.5 per cent. in 2015. Financial services concerning trading with securities and management of investment funds are tax exempt.

In July 2013, additional changes to VAT were introduced as part of the policy to ensure the stability of government revenue. The Government increased the general VAT rate by 2 percentage points (from 20 per cent. to 22 per cent.) and reduced VAT rate by 1 percentage point (from 8.5 per cent. to 9.5 per cent.). At the same time, a 10 per cent. tax on the sale price of lottery tickets was introduced. Due to the decision of the Constitutional Court in March 2014 repealing the Act on Real Estate Tax (*Zakon o davku na nepremičnine (ZDavNepr*)) that came into force on 1 January 2014, the Republic had to take action and introduce measures to compensate for the loss of government revenue. Accordingly, certain excise duties were increased in April and May 2014, including the excise duty on tobacco products, the excise duty on alcohol and alcoholic beverages (other than wine), and the excise duty on certain energy products. Additionally, the exemption from the excise duty on bio fuels if blended with propellant fuels, in May 2016 and an Excise enjoyed by petroleum product retailers as compensation for the higher cost of purchasing or producing bio fuels was abolished.

Further, the Republic has already adopted measures to increase the efficiency of collecting taxes and reducing the extent of the "shadow economy" (e.g. introduction of tax registers) as well as to simplify tax compliance. In 2014, the Government introduced additional measures to improve the taxation of undeclared income of individual taxpayers. On 1 August 2014, the tax and customs administrations merged into a joint finance administration of the Republic in order to increase resources for tax audits and help reduce tax evasion.

The merger also empowered customs services to take measures against undeclared wages and employment.

In 2015, changes in the Tax Procedure Act (*Zakon o davčnem postopku (ZDavP-2)*) introduced solutions for invoices issued for cash payment transactions without the use of computer software or an electronic device. Additional measures which came into force in 2016 utilise electronic commerce tools, specifically electronic delivery for the Financial Administration, which seek to increase the efficiency of tax collection. The Republic has entered into an intergovernmental agreement with the United States of America, which facilitates the implementation of the U.S. Foreign Account Tax Compliance Act, and complements the current arrangements on co-operation between the Republic and the United States on the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and wealth. This will be the basis for enhancing the sharing of information with other countries.

The Republic's key priorities with respect to taxation policy and legislation in the medium- and long-term are twofold. First, the Government seeks to reduce administrative costs while continuing to combat the shadow economy. Second, in order to promote growth, the Government will seek to optimise the distribution of tax burdens by, among other things, modernising the taxation of real property and other activities. One of the first measures designed to reduce the shadow economy was the Act on Fiscal Verification of Invoices (*Zakon o davčnem potrjevanju računov (ZDavPR)*), which came into force in August 2015. This act provided a procedure for cash registers to transfer data from invoices to the Financial Administration of the Republic by electronic means beginning on 2 January 2016. The second measure, which aimed to provide greater legal certainty for taxpayers, reduce strain on the economy and contribute to the voluntary collection of tax by reducing administrative barriers and improving competition in the business environment, was the change to the Tax Procedure Act, which came into force on 1 January 2016. The act introduced advanced pricing arrangements and instituted additional options making it easier for taxpayers to repay tax debt.

To reduce administrative barriers further, the Republic adopted amendments to the VAT Act (*Zakon o davku na dodano vrednost (ZDDV-1)*) and simplified administrative procedures for importers, which came into force on 1 January 2016 and became applicable in July 2016. The general VAT rate of 22 per cent. and reduced VAT rate of 9.5 per cent., which were both introduced in 2013, remained unchanged under the new amendments. A second set of measures aimed to simplify tax procedures is expected to be finalised in 2016. These measures include the Act Implementing the Customs Legislation of the EU (*Zakon o izvajanju carinske zakonodaje Evropske unije (ZICZEU)*), which came into force in May 2016 and an Excise Duty Act (*Zakon o trošarinah (ZTro-1),* the "**Excise Duty Act**") which came into force on

1 August 2016. The Excise Duty Act implemented new rules that are expected to simplify certain procedures, including registration and deregistration procedures, that are more favourable to taxpayers. It also introduced a reduced tax rate for small breweries and high quantity electricity consumers. Finally, in order to simplify tax procedure, the National Assembly adopted amendments to the Tax Procedure Act (*Zakon o davčnem postopku – ZDavP-2*) on 27 September 2016, which are intended to further reduce administrative barriers by allowing pre-filled tax forms and establishing additional options for the payment of tax debts (for example, allowing a deferral of the due date for payment of taxes and contributions for five days after the submission of a tax return). The new measures are expected to provide greater legal certainty to taxpayers, while lessening the burden on the economy and contributing to the voluntary payment of taxes. Tax restructuring measures are primarily directed towards reducing the tax burden on the labour force, particularly for employees that contribute the most to growth in GVA. The amendments to the Personal Income Tax Act (*Zakon o dohodnini – ZDoh-2*) that were adopted in the National Assembly on 27 September 2016 and will come into force on 1 January 2017 will reduce personal income tax payable on portions of a taxpayer's salary that are paid on the basis of business performance. This provision will not reduce social security contributions. These amendments will also change the tax schedule and rates of personal income tax and income threshold for additional general allowance. As a countermeasure to offset the fiscal impact of the reduction in personal income tax, amendments to the Corporate Income Tax Act (*Zakon o davku od dohodkov pravnih oseb – ZDDPO-2*) were also adopted by the National Assembly on 27 September 2016 but will, due to the request by the National Council for re-examination, only come into force if passed by an absolute majority of the members of the National Assembly. These amendments would raise corporate income tax rates from 17 per cent. to 19 per cent. and are expected to come into force on 1 January 2017.

Consolidated Government Holdings and Privatisation

On 28 December 2012, the SSHA entered into force. The Act consolidated all assets which were under state ownership into a newly established fund, Slovenski državni holding d.d. (the "**SSH Fund**"), under the ownership and control of the Government. On 26 April 2014, the SSHA 1 entered into force. The new law modifies the way that the Slovenian state functions in its capacity as the owner of capital assets and provides that such role is distinct from other state functions. The new law centralises the management of all assets and is intended to prevent a distortion of competition in markets and unequal treatment of companies, reduce the influence of interest groups, corruption risk and conflicts of interests and enhance transparency. The SSHA-1 complies with OECD guidelines on the corporate governance of state-owned enterprises.

On 21 June 2013, the National Assembly authorised the Slovenska odškodninska družba, d.d. ("**SOD**", now the "**SSH**"), as the manager of assets owned by the Republic, as well as the (directly or indirectly) state owned companies with public functions to sell their investments in 15 companies. The National Assembly adopted the decision on the sale of assets for two groups of companies, those for which the procedures necessary for a successful sale had already begun before the adoption of the decision and those for which the procedure of sale of assets had not yet commenced. The foregoing provides an overview of the successful, unsuccessful and ongoing privatisations.

Successful privatisations:

- Helios – The sale of a 73 per cent. majority interest in Helios was completed in April 2014.
- Fotona proizvodnja optoelektronskih naprav d.d. – A sales agreement to sell a 70 per cent. stake in the company was completed in March 2014.
- Aerodrom Ljubljana – An agreement to sell 73 per cent. of Aerodrom Ljubljana was signed on 5 September 2014 and completed in October 2014.
- Žito – The sale of a 51.55 per cent. stake in the company was signed on 21 April 2015 and completed in October 2015.
- NKBM – On 30 June 2015, the Republic agreed to sell its entire interest in NKBM to Apollo Global Management and the European Bank for Reconstruction and Development. The transaction was completed on 21 April 2016.

- Elan – An agreement to transfer 100 per cent. of the company to Merrill Lynch International and Wiltan Enterprises Limited was signed on 30 July 2015 and the transaction was completed in September 2015.
- Adria Airways Tehnika – The sale of 100 per cent. of Adria Airways Tehnika to Linetech Holding was completed in November 2015.
- Adria Airways – An agreement to sell 91.58 per cent. to 4K KNDNS GmbH was completed on 15 March 2016.

Unsuccessful privatisations:

- Telekom Slovenija – On 3 August 2015, the sole bidder for the purchase of a 72.75 per cent. stake in Telekom Slovenija indicated that it did not wish to proceed with the sale process.
- Cinkarna Celje – The company has not been sold as a result of certain environmental issues relating to operations.

Ongoing privatisations:

- Cimos – On 14 October 2016, the SSH and BAMC agreed to sell the company to TCH Cogeme for €110 million. The transaction is expected to close in the first quarter of 2017.
- MLM – In January 2016, a public announcement of an invitation to express interest began the sale process of 99.97 per cent. of the company.
- NLB – The sale of NLB is in the preparation phase.
- Unior – The sale of over 50 per cent. of the shares of Unior is in the preparation phase.

The proceeds derived from the privatisation of the Republic's assets shall be reflected as revenue in the Republic's budget. Any revenue received is due to be used for the repayment of debt, in accordance with the Public Finance Act.

In accordance with SSHA-1, on 13 July 2015 the National Assembly adopted the first State Asset Management Strategy (the "**Strategy**"). The Strategy aims to prevent conflicts of interest, distortion of competition in the markets and unequal treatment of companies by introducing a framework for providing independent, professional and effective management of state-owned assets while separating government functions from the management process. The objectives of the Strategy are to increase the value of state assets, to provide for the highest possible yield to the owners and to attain other potential strategic objectives. The Strategy classifies 24 state-owned companies as "strategic" (for which the state will maintain a minimum level of ownership of over 50 per cent.), 21 companies as "important" (for which the state will maintain a minimum level of ownership of over 25 per cent.) and 46 "portfolio" companies (which the Republic aims to privatise). On 16 December 2015, the Republic adopted an asset management plan for 2016 along with criteria for measuring the performance of state-owned assets. Under the asset management plan, the Republic will aim to begin the privatisation of 31 state-owned portfolio companies, including NLB bank.

On 17 July 2015, the National Assembly appointed new members to SSH's supervisory board, who are experts in finance, corporate management, liability management, asset management and corporate law. In addition, on 27 October 2015, the supervisory board appointed new members to SSH's management board. The aforementioned measures, which constitute key elements of the Republic's corporate governance system, seek to harmonise SSHA-1 with the OECD guidelines for corporate governance of state-owned enterprises. On 4 July 2016, the supervisory board met in an extraordinary session to deal with the resignation notice submitted by Marko Jazbec, the president of the management board. A consensual early termination of Mr. Jazbec's term in office was adopted, with effect on 14 July 2016.

Lidia Glavina, a current member of SSH's supervisory board, was appointed as the temporary president of the management board. A nomination committee has been formed to expedite the nomination of a new president. In addition, on 12 October 2016 Ms. Anja Strojin Štampar resigned from the management board.

PUBLIC DEBT

Government Debt and Guarantees

General Government Debt

General government debt comprises debt of the central government, local governments and social security funds. The following table sets out the Republic's outstanding general government debt as a percentage of nominal GDP as at 31 December 2012 to 2015:

	As at 31 December			
	2012	2013	2014	2015
	(€ millions, except for percentages)			
Outstanding general government debt	19,404	25,505	30,199	32,070
Nominal GDP	35,988	35,907	37,303	38,543
General government debt as % of nominal GDP[(1)]	53.9%	71.0%	81.0%	83.2%

Source: *EDP Report, 19 April 2016, Eurostat.*

Note:

(1) EDP Reports are revised each year in April and October.

In accordance with Article 87 of the Public Finance Act, the debt of certain other public entities is not included in general government debt. Such entities include non-profit public economic entities, entities wherein the Government holds a majority influence on entity governance, and other entities that are not part of the general government but are classified as public entities. As at 30 June 2016, there were 521 all public entities, of which 80 had debt outstanding (44 of which were general government entities), predominantly in the field of transport, communications, electricity and natural gas.

The following table sets out the debt of these public entities (without the general government entities) as a percentage of nominal GDP as at 31 December 2012 to 2015 and as at 30 June 2015 and 30 June 2016:

	As at 31 December				As at 30 June	
	2012	2013	2014	2015	2015	2016
	(€ millions, except for percentages)					
Outstanding debt of other public entities (without the general government entities)	5,282.5	5,200.1	4,714.3	4,612.9	4,766.7	4,412.0
Nominal GDP	36,002.5	35,917.1	37,332.4	38,570.0	38,570.0	40,004.0
Outstanding debt of other public entities as % of nominal GDP	14.7	14.5	12.6	12.0	12.4	11.0

Source: Ministry of Finance, SURS.

The following table sets out the debt of these public entities (without the general government entities) by currency as at 30 June 2016:

	As at 30 June 2016			
	Short-term	Long-term	Total	As % of total
	(€ millions, except for percentages)			
EUR	290.4	4,089.9	4,380.3	99.3

	As at 30 June 2016			
	Short-term	Long-term	Total	As % of total
	(€ millions, except for percentages)			
CHF	0	31.0	31.0	0.7
U.S.$	0	0.7	0.7	0.0
Total	290.4	4,121.6	4,412.0	100.0

Source: Ministry of Finance.

Largely due to the expenditures from bank recapitalisations in 2013, general government debt reached 71.0 per cent. of GDP in 2013. Central government debt represented approximately 97.8 per cent. of general government debt as at 31 December 2013 compared to 97.0 per cent. of general government debt as at 31 December 2012 and 96.5 per cent. of general government debt at the end of 2011. The central government has set legal limits regarding the borrowing capacity of local governments. These include stipulations that debt service not exceed 8 per cent. of the previous year's revenues, decreased for certain categories of transfer revenues, which keeps the local government share of total general government debt small.

Central government borrowing and debt management is regulated by the Public Finance Act. Annual borrowing is limited to cover the central government budget deficit and the pre financing of central government debt repayments over the next two years. The exact amounts permitted, the choice of debt instruments that may be used and the envisaged debt management operations are set out in the financing programme of the central government budget for each given year. The main financing instruments are euro denominated Slovenian law governed bonds and treasury bills as domestic instruments. On the primary market, however, the bulk of these issues are acquired by investors that are operating across the euro market. The proportion of bonds held by Slovenian residents has stabilised at around 15 to 20 per cent. of each bond issued by the central government, while short term treasury bills are for the most part held by domestic entities. Slovenian government bonds are regularly traded on the Ljubljana Stock Exchange or on the Luxembourg Stock Exchange (the "**LuxSE**") and electronic platforms that are recognised as official bond markets. In order to reduce the risk of currency fluctuations, the Republic enters into currency hedge arrangements with respect to all non euro-denominated borrowings as a matter of policy. By currency, central government budget debt consisted of 79.9 per cent. euro-denominated debt, 19.9 per cent. USD-denominated debt and 0.1 per cent. of other currencies as at 30 September 2016.

Central government guarantees

The following table sets out the Republic's government guarantees as at 31 December 2011 to 2015 and as at 30 June 2015 and 30 June 2016:

	As at 31 December					As at 30 June	
	2011	2012	2013	2014	2015	2015	2016
	(€ millions)						
Guarantees for the general government entities	571.7	560.2	1,568.1	2,092.1	1,477.0	2,087.2	1,440.2
Guarantees for other public entities	4,579.7	4,391.3	4,748.2	4,480.3	4,087.3	4,266.2	3,821.2
Guarantees for commercial banks under financial crisis programme	1,554.9	200.0	398.9	118.8	—	—	—
Guarantees for debt of privately owned entities	166.4	117.7	77.7	31.5	20.5	25.7	18.0

	As at 31 December					As at 30 June	
	2011	2012	2013	2014	2015	2015	2016
				(€ millions)			
Guarantees to EFSF	118.5	1,232.3	1,461.0	1,549.3	1,470.6	1,590.0	1,515.2
Other	4.7	4.4	4.0	3.9	3.6	4.0	3.8
Total	6,995.9	6,505.8	8,257.9	8,275.7	7,059.1	7,973.0	6,798.5

Source: Ministry of Finance.

The central government issues guarantees to certain entities predominantly within the public sector, on a case by case basis, for projects such as the construction of highways and railways. The total amount of central government guarantees outstanding as at 30 June 2016 was €6,798.5 million, comprising €4,207.2 million of non-crisis guarantees and €2,591.3 million of crisis guarantees. The outstanding "non-crisis guarantees" for the debt of public and government controlled entities was approximately €4,193.6 million, while the guarantee for the debt of private entities was approximately €12.3 million. For the purpose of facilitating borrowing in the markets under the "crisis prevention programme", €2.2 billion of guarantees were extended to four banks: Nova Ljubljanska banka, Abanka, Factor banka and Deželna banka Slovenije. The debt of commercial banks under the "financial crisis programme" and the measures to strengthen bank stability was largely settled on 31 July 2012 and fully extinguished by 30 June 2015. Moreover, under the "crisis prevention programme" the debt of entities amounts to €16.1 million, the debt of households to €2.5 million, another €1,515.2 million is outstanding in respect of the Republic's portion of bonds issued under the European Financial Stability Facility ("**EFSF**") and €1,057.4 million is outstanding in respect of guarantees extended to the BAMC under the measures to strengthen bank stability.

Central Government Debt

Central government debt comprises debt of the central government budget. The following table sets out the Republic's internal and external state debt structure as at 31 December 2011 to 2015 and as at 30 September 2015 and 30 September 2016:

	As at 31 December					As at 30 September	
	2011	2012	2013	2014	2015	2015	2016
				(€ millions)			
Internal.........................	14,090.1	14,052.3	14,762.9	15,988.3	17,256.4	17,258.1	19,622.6
T bills..........................	883.4	1,560.6	1,647.6	1,391.4	1,048.8	1,031.3	589.5
Long term Securities....	12,824.6	11,678.7	12,421.8	13,971.6	15,684.0	15,681.4	18,600.7
Special Drawing Rights	30.2	29.6	28.4	28.5	32.4	31.9	31.9
Loans...........................	351.9	783.4	665.1	596.7	491.1	513.4	400.6
External[(1)]....................	1,066.6	2,783.8	7,232.6	10,026.9	10,022.7	10,022.6	8,677.4
Long term Securities....	1,000.0	2,726.9	6,913.6	9,483.4	9,483.4	9,483.4	8,142.6
International financial institutions and official bilateral creditors	66.6	56.9	319.0	543.5	539.3	539.2	534.8
Total	15,156.8	16,836.1	21,995.5	26,015.1	27,279.1	27,280.7	28,300.0

Source: Ministry of Finance.

Note:

(1) In the above table, external debt is the debt that has been issued under foreign (mostly English) law and listed on stock exchanges outside the Republic, mostly on the LuxSE. Other definitions are sometimes based on the place of the issuer or residence of the holder.

The majority of central government debt instruments since 2008 have been issued in euro under Slovenian law and entered into a local clearing, settlement and depositary institution. For statistical and legal purposes, they are considered internal debt. The Notes contemplated in this Offering Circular will be classified as internal debt, and will therefore result in an increase in internal debt.

The following table sets out central government debt by currency as at 31 December 2012 to 2015 and as at 30 September 2015 and 30 September 2016:

	As at 31 December								As at 30 September			
	2012		2013		2014		2015		2015		2016	
	(€ millions)	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*
Special Drawing Rights......	29.6	0.2	28.4	0.1	28.5	0.1	32.4	0.1	31.9	0.1	31.9	0.1
EUR..................................	15,079.6	89.6	17,553.4	79.8	19,003.2	73.0	20,263.3	74.3	20,265.4	74.3	22,625.5	79.9
USD..................................	1,726.9	10.2	4,413.6	20.1	6,983.4	26.8	6,983.4	25.6	6,983.4	25.6	5,642.6	19.9
Total..................................	16,836.1	100.0	21,995.5	100.0	26,015.1	100.0	27,279.1	100.0	26,809.5	100.0	28,300.0	100.0

Source: Ministry of Finance.

Debt Service

The average maturity for the Republic's debt portfolio is seven years and the debt maturity profile is relatively evenly spread in future years.

The following table sets out historic central government debt service payments with respect to principal and interest for the years ended 31 December 2011 to 2015:

	Year ended 31 December				
	2011	2012	2013	2014	2015
			(€ millions)		
Debt service					
Principal Payments..	960.4	1,269.2	1,870.8	3,489.9	2,317.4
Interest Payments...	510.6	632.5	827.0	1,082.6	1,028.8
Total..	1,471.0	1,901.7	2,697.8	4,572.5	3,346.2

Source: Ministry of Finance.

The following table sets out projected government debt service payments with respect to principal and interest (before taking account of any payment obligations in respect of the issue of the Notes described in this Offering Circular) for the periods indicated:

	Principal Payments	Interest Payments	Total
		(€ millions)	
Year ended 31 December[1]			
2016..	3,585.0	1,043.9	4,628.9
2017..	2,751.0	919.1	3,670.1
2018..	1,978.9	838.2	2,817.1
2019..	2,365.7	756.5	3,122.2
2020..	1,665.1	683.4	2,348.5
2021..	2,675.2	615.1	3,290.3

	Principal Payments	Interest Payments	Total
		(€ millions)	
Year ended 31 December[1]			
2022	2,095.0	514.1	2,609.1
2023	1,636.5	388.2	2,024.8
2024	2,708.6	320.8	3,029.4
2025	2,143.0	226.3	2,369.3
2026	1,518.0	182.5	1,700.5
2027	18.0	105.2	123.2
2028	18.0	104.9	122.8
2029	168.0	104.4	272.4
2030	18.0	99.3	117.3
2031	18.0	98.9	116.9
2032	2,018.0	98.5	2,116.5
2033	18.0	53.1	71.1
2034	10.7	52.8	63.5
2035	2,010.7	52.6	2,063.3
2036	10.7	22.5	33.2
2037	10.7	22.3	33.0
2038	10.7	22.2	32.9
2039	10.7	22.0	32.7
2040	0.0	21.9	21.9
2041	0.0	21.9	21.9
2042	0.0	21.9	21.9
2043	0.0	21.9	21.9
2044	0.0	21.9	21.9
2045	700.0	21.9	721.9

Source: Ministry of Finance.

Note:

(1) Debt service projections for the central government budget of Slovenia are calculated on the outstanding debt as at 30 September 2016.

See "*Balance of Payments and Foreign Trade — Gross External Debt*" for more information.

Credit Rating

Since 1996, Slovenia has been rated by all three major credit rating agencies.

The following table sets out the Republic's credit ratings as at 28 October 2016:

Agency	Long term domestic currency	Long term foreign currency	Country ceiling	Outlook
S&P	A	A	—	Stable
Moody's Ltd.	Baa3	Baa3	Aa3	Positive
Fitch	A-	A-	AAA	Stable

Source: Respective agency websites.

From the second half of 2011 and into 2013, the above agencies repeatedly lowered the Republic's credit ratings, largely due to the Eurozone crisis, the domestic government deadlock throughout part of this period and the negative outlook for the banking sector. In 2014 the trend turned upwards. On 24 January 2014, Moody's Inc. upgraded its outlook on the Republic's Ba1 sovereign rating from negative to stable. On 2 May 2014, Fitch stabilised the outlook on the Republic's BBB+ ratings, following the completion of key banking sector operation and improvement in economic prospects. On 27 June 2014, S&P revised the outlook from stable to negative due to a rising debt burden and weak economic growth prospects. However, it upgraded the outlook back to stable in December 2014. On 23 January 2015, Moody's Ltd. upgraded the Republic's rating to Baa3 with a stable outlook. On 19 June 2015, S&P revised the Republic's outlook from stable to positive and on 18 December 2015, it affirmed its rating of A- with a positive outlook. On 9 October 2015, Fitch affirmed the Republic's rating of BBB+, but upgraded the outlook to positive. On 25 March 2016, Fitch affirmed its rating of BBB+ with a positive outlook. On 17 June 2016, S&P upgraded the Republic's rating to A with a stable outlook. On 16 September 2016, Moody's Ltd upgraded its outlook on the Republic from stable to positive. On 23 September 2016, Fitch upgraded its rating of the Republic to A- with a stable outlook.

The following table sets out the changes in the Republic's credit rating in the period from 2012 to 25 October 2016:

Agency	2012	2012	2012	2013	2013	2014	2015	2016(1)
Standard & Poor's Ratings	A+	—	A	A-	—	—	—	A
Moody's Ratings(2)	A1	A2	Baa2	Baa2	Ba1	—	Baa3	—
Fitch Ratings	A	—	A-	—	BBB+	—	—	A-

Source: Respective agency websites.

Notes:

(1) As of 30 August 2016.

(2) Includes ratings from Moody's Inc. up until 2014 and Moody's Ltd. from 2015 to 2016.

MONETARY AND FINANCIAL SYSTEM

Overview

The Bank of Slovenia is the central bank of the Republic and forms part of the Eurosystem. As such, it participates in the Eurosystem decision making process regarding the formulation and implementation of monetary policy. The Eurosystem's primary objective is to maintain price stability. As part of the Eurosystem, the decisions regarding the money supply as well as interest rates decisions rest with the Governing Council of the European Central Bank ("**ECB Governing Council**"). At the end of 2013, the Slovenian financial sector's assets stood at €56.8 billion or 157.2 per cent. of GDP. In 2014, the Slovenian financial sector's assets declined by 3.7 per cent. and stood at €54.8 billion or 147 per cent. of GDP. In 2015, the assets of the Slovenian financial sector fell by 2.6 per cent. and stood at €53.4 billion or 138.5 per cent. of GDP. Banks are the most important financial intermediaries with around three-quarters of total financial sector assets, while the insurance, leasing, investment and pension systems also play a large role. The Slovenian banking system was exposed to significant credit risk and income risk in 2011, 2012 and 2013. In 2014 and 2015, credit risk declined, although income risk remained significant. From 2009 onwards, various measures were implemented to offset the impact of the prevailing adverse international economic conditions.

In 2015 and 2016 the banking system operated in a stable economic environment with a favourable outlook for future growth. In the third quarter of 2016, income and credit risks appear to have lessened, as compared to prior periods, due largely to the resolution of a substantial number of banks' non-performing claims. High impairment charges, which have had a negative effect on banking profits, have been significantly lower in 2016 compared to previous years. This trend is expected to continue due to expected further improvements in the quality of banks' credit portfolios.

Diminishing dependence on wholesale funding, access to liquidity from the ECB and stable growth in the proportion of funding accounted for by domestic deposits are all contributing to a reduction in financing risk. Bank solvency is at a favourable level, significantly above the euro area average.

Bank of Slovenia

The Bank of Slovenia was established on 25 June 1991 with the promulgation of the first Bank of Slovenia Act (*Zakon o Banki Slovenije (ZBS)*). It is a legal entity governed by public law, with autonomy over its finances and administration. With Slovenia's adoption of the euro on 1 January 2007, the Bank of Slovenia became part of the Eurosystem, which comprises the ECB and the national central banks ("**NCBs**") of the euro area countries. The Eurosystem is responsible for defining and implementing the euro area's monetary policy.

The Eurosystem is led by the ECB Governing Council as the highest decision making body of the ECB and is primarily responsible for conducting monetary policy. The ECB Governing Council consists of six members of the Executive Board and Governors of the NCBs. Its main responsibility is to adopt guidelines and take the actions necessary to ensure the performance of tasks entrusted to the Eurosystem. The formulation of monetary policy for the euro area includes, but is not limited to, decisions relating to monetary objectives, key interest rates, the supply of reserves in the Eurosystem, and the adoption of guidelines for the implementation of those decisions. The Bank of Slovenia has been part of the European System of Central Banks ("**ESCB**"), which comprises the ECB and NCBs of all EU Member States, since it joined the EU.

As part of the Eurosystem and in accordance with the principle of decentralisation, the Bank of Slovenia implements Eurosystem monetary policy, manages the ECB's and its own foreign reserves, manages and supervises payment systems, issues and withdraws euro banknotes, collects statistics for the ECB, assists the ECB with the translation and preparation of publications and participates in economic analysis and research. In accordance with the Statute of the ESCB and of the ECB (the "**ESCB Statute**"), the Bank of Slovenia also performs other functions **provided that** such tasks do not interfere with the objectives and tasks of the ESCB. Such functions are the responsibility of the Bank of Slovenia and are not regarded as being part of the functions of the ESCB. These include tasks pursuant to the Bank of Slovenia Act (*Zakon o Banki Slovenije (ZBS-1)*), such as managing the accounts of budget users and co-operating with other central banks and international financial organisations.

The Governor of the Bank of Slovenia is a member of the ECB Governing Council and is thus actively involved in the monetary policy decision making process. The accession of Lithuania to the euro area in 2015 triggered a change in the voting rights of the ECB Governing Council members, as envisaged by the ESCB Statute. Under the rotation system, the Governors are allocated to different groups based on the size of their country's economy and financial sector. The Governors from the countries ranked first to fifth – currently, Germany, France, Italy, Spain and the Netherlands – share four voting rights. All others (14 since Lithuania adopted the euro) share 11 voting rights. Voting rights for both groups rotate monthly. In addition, the ECB's Executive Board members hold permanent voting rights. The ECB Governing Council acts by simple majority, unless otherwise provided for in the ESCB Statute. The Governor is also a member of the General Council of the ECB, which consists of the President and the Vice President of the ECB and the Governors of the NCBs of all EU Member States and acts predominantly in an advisory capacity. As a transitional body, the General Council of the ECB will be dissolved once all EU Member States have introduced the single currency.

The Bank of Slovenia participates in activities of the European Systemic Risk Board ("**ESRB**"). The ESRB is an independent EU body responsible for the macro prudential supervision of the financial system of the EU as a whole, and for monitoring and assessing risks to its stability. The Governor and the Vice Governor responsible for banking supervision are members of the ESRB's general board, which takes the decisions necessary to ensure the performance of the tasks entrusted to the ESRB. At the micro prudential level, the Bank of Slovenia is engaged in the work of the European Banking Authority (the "**EBA**").

Building on the Banking Union as currently framed within the EU, the Bank of Slovenia also participates in the ECB's Single Supervisory Mechanism ("**Single Supervisory Mechanism**").

In November 2014, a new system of banking supervision for Europe was established - the Single Supervisory Mechanism ("**SSM**"). The SSM comprises the ECB and the national supervisory authorities of the participating countries.

Its main aims are to:

- ensure the safety and soundness of the European banking system;
- increase financial integration and stability; and
- ensure consistent supervision.

The ECB directly supervises the 129 most significant banks of the participating countries, comprising almost 82 per cent. of banking assets in the euro area. This includes three Slovenian banks (NLB, NKBM, and Abanka). Ongoing supervision of these banks is carried out by Joint Supervisory Teams ("**JSTs**"). Each bank has a dedicated JST, comprising staff of the ECB and national supervisors.

Banks that are not considered significant are known as "less significant" institutions. They continue to be supervised by their national supervisors, in close co-operation with the ECB.

Directive 2014/59/EU on the recovery and resolution of credit institutions and investment firms ("**BRRD**") and Regulation (EU) No 806/2014 on the establishment of a Single Resolution Mechanism ("**SRM**") provide national authorities with common powers and instruments to pre-empt bank crises and to resolve any financial institution in an orderly manner in the event of failure, while preserving essential bank operations and minimising taxpayers' exposure to losses. The Slovenian Banking Act (*Zakon o bančništvu (ZBan-1)*), which entered into force in 2006 (the "**2006 Banking Act**") already contained most of the measures that are contemplated in the BRRD. The Resolution and Compulsory Dissolution of Credit Institutions Act (*Zakon o reševanju in prisilnem prenehanju bank (ZRPPB),* the "**ZRPPB**"), which entered into force in June 2016, fully implemented the BRRD and aligned it with the regulation on SRM. The ZRPPB regulates: (i) Bank of Slovenia's responsibilities and procedures for the implementation of its tasks and powers as the banking resolution authority; (ii) bank resolution planning and (iii) the resolution procedures and powers related to the resolution tools. In addition, the ZRPPB designated the Bank of Slovenia as the competent authority for the implementation of compulsory liquidation proceedings for banks as well as the competent authority to initiate bankruptcy proceedings with the relevant court.

On 31 December 2014, the Bank Resolution Authority and Fund Act came into force, giving the Bank of Slovenia the role of the national resolution authority. A resolution fund was established in March 2015.

Banks have paid-in founding assets in the total amount of €195 million and at any time banks must be able to provide cash to the fund in the amount of 1 per cent. of total covered deposits (approximately €150 million) for potential extraordinary payments. Contributions by the banks to the fund are all treated as their investments in the fund. The resolution fund will be in place, by law, until the end of 2024. All relevant information of the resolution fund's operations is publicly available on a dedicated web page of the Bank of Slovenia.

In December 2014, the Bank of Slovenia began implementing the requirements of the BRRD, which include an active role in the Single Resolution Board ("**SRB**") and establishing an independent resolution unit. The resolution unit is responsible for preparing, or participating in the preparation of, the resolution plans for institutions active in Slovenia and participating in collecting "ex-ante" contributions from banks to the Single Resolution Fund in accordance with the BRRD.

On 1 December 2015, an amendment to the Bank Resolution Authority and Fund Act came into force, which authorised the collection of contributions from banks in Slovenia, as required by the BRRD. On 28 January 2016, €15.7 million in contributions from banks in Slovenia was transferred to the Single Resolution Fund. In June 2016, €12.5 million in contributions was transferred to the Single Resolution Fund.

Monetary Policy

Objectives

The primary objective of the Bank of Slovenia is identical to the primary objective of the ECB's monetary policy, namely to maintain price stability. The ECB aims to maintain inflation rates below, but close to, 2 per cent. over the medium term.

Policy Instruments

While monetary policy decisions are taken by the decision making bodies of the ECB, the responsibility to execute monetary policy, i.e. use of monetary policy instruments, remained with the Bank of Slovenia after the changeover to the euro at the beginning of 2007. In order to achieve the primary objectives of monetary policy, i.e. maintenance of price stability, the Eurosystem has at its disposal the following set of monetary policy instruments: (i) open market operations; (ii) standing facilities; and (iii) minimum reserves. These operations must be conducted with eligible counterparties. The Bank of Slovenia acts as counterparty in relation to counterparties with a place of residence in the Republic of Slovenia.

(i) The role of open market operations is to steer short term market interest rates by managing the liquidity position of the banking system and signal the monetary policy stance via the rate of one of them, the main refinancing operation, which serves as the key policy rate. Open market operations are initiated by the Eurosystem, which decides on the instruments to be used and on their terms and conditions. Operations may be in the form of reverse transactions (collateralised loans or repos), outright purchases, debt certificates, foreign exchange swaps or fixed term deposits.

   Under normal circumstances, open market operations are carried out as variable rate auctions. To mitigate the effects of the financial crisis, the Eurosystem introduced a fixed rate full allotment procedure in its liquidity providing open market operations in October 2008. The fixed rate full allotment procedure has been prolonged several times and will remain in place at least until December 2017. Since 2008, additional non-standard monetary policy measures have been implemented in the form of additional longer term open market operations. Such operations have been conducted against a broader scope of eligible collateral. The required minimum reserve ratio was lowered in December 2011, freeing additional liquidity for banks.

   With the aim of addressing the malfunctioning of securities markets, the Eurosystem was purchasing outright government and covered bonds in the market. In 2009 and 2011, covered bonds were purchased under the first and second covered bond purchase programmes ("**CBPP**" and "**CBPP2**"), each lasting for one year. From May 2010, the Eurosystem introduced the

Securities Markets Programme ("**SMP**") to address the sovereign debt crisis in the euro area. The SMP sought to ensure depth and liquidity in public and private debt securities markets, with a focus on dysfunctional market segments. In September 2012, the SMP was replaced by the Outright Monetary Transactions programme ("**OMT**"), under which the ECB would make purchases in secondary sovereign bond markets. These purchases were conditional on the respective countries' compliance with an appropriate EFSF/ESM programme.

(ii) To address persistently low inflation in an environment of subdued economic growth and to anchor the medium-to long term inflation expectations in the euro area, the ECB announced a combination of measures in June 2014 with the aim of providing additional monetary policy accommodation and of supporting lending to the real economy. Besides further reductions in the key interest rates, this package included a series of new targeted longer term refinancing operations ("**TLTROs**"), with the take up of funds linked to the amount of loans to the euro area non-financial private sector. The TLTROs were carried out quarterly from September 2014 until June 2016. Furthermore, in September 2014, the ECB decided to increase the liquidity in the markets even further by announcing purchases of private sector assets. In October 2014, the ECB launched the third covered bond purchase programme ("**CBPP3**") while the purchases within the asset-backed securities purchase programme ("**ABSPP**") started in November 2014. To counter the risks of a prolonged period of low inflation, in January 2015 the Governing Council expanded the non-financial sector purchase programme to include purchases of public sector securities issued by euro area governments and agencies as well as European institutions ("**PSPP**"). The purchases commenced on 9 March 2015. In December 2015, as concerns about the inflation outlook persisted, the Governing Council broadened the range of the purchased assets to regional and local government bonds and extended the execution of the asset purchase programme until at least March 2017. To increase price stability, the Governing Council announced additional comprehensive package of easing measures in March 2016. In addition to further reductions in all three policy interest rates, the ECB expanded the asset purchase programme by increasing monthly purchases from €60 billion to €80 billion, and broadened the universe of eligible securities by including corporate bonds in the list of Eurosystem's asset purchases ("**CSPP**"), which began in June 2016. Furthermore, a second series of targeted longer-term refinancing operations ("**TLTRO II**") was launched in order to reinforce the ECB's accommodative monetary policy stance, further ease private sector credit conditions and stimulate credit growth.

(iii) To steer the overnight liquidity and overnight interest rates as well as to signal the monetary policy stance, standing facilities rates are set. Eligible counterparties with a liquidity deficit can obtain overnight liquidity from the Bank of Slovenia against eligible collateral via a marginal lending facility. Counterparties with a liquidity surplus can deposit their daily surpluses in the deposit facility with the Bank of Slovenia. The rate of the former sets the upper boundary and the rate of the latter the lower boundary for money market rates.

(iv) In order to stabilise money market interest rates, credit institutions in the Republic, as in the rest of the euro area, are required to keep a set level of reserves on their accounts on average over the maintenance period with the Bank of Slovenia. Minimum reserves are defined in relation to certain liability items with agreed maturity of up to two years in the institutions' balance sheets, and are remunerated at the ECB key policy rate.

Money Supply

Following the Republic's adoption of the euro, the monetary aggregates and counterparts of monetary aggregate M3 compilation represent the national contribution of the Republic to the aggregated euro area data, published by the ECB. Nevertheless, monetary analysis is carried out by looking at M3 domestic counterparts, in particular credit dynamics. Monetary aggregates for individual euro area countries are not available.

Exchange Rate Policy

Since joining the EMU, the authority over exchange rate policy has been shifted to the ECB. The Bank of Slovenia participates in the process of determining this policy through its co-operation within the Eurosystem. In that respect, the Republic does not have any separate exchange rate policy which would be different from the policy of the EMU.

Interest Rates

Since the introduction of the euro in the Republic in January 2007, the ECB key policy rate has been the official interest rate of the Bank of Slovenia. As a result of the global financial crisis, from October 2008 until May 2009, the ECB cut the key policy rate from 4.25 per cent. to 1.00 per cent. The rate increased twice in 2011, primarily in order to contain inflationary pressures caused by rising commodity prices; however, the interest rate was lowered several times after the tensions related to the European sovereign debt crisis re-escalated in mid-2011. Amid declining growth and inflation prospects in the euro area, the ECB took the following steps:

- the key interest rate was gradually lowered to historically low levels, reaching nil per cent. in March 2016;
- parallel to the key interest rate, the marginal lending and deposit facility rates were gradually lowered, while the width of the standing facilities corridor was first reduced from the traditional spread of +/-1.00 pps to +/-0.25 pps and later changed to an asymmetrical corridor. As of April 2016, the spread stood at +0.25/-0.40 pps. In July 2012, the marginal deposit rate was brought to zero. Subsequently, it was lowered four more times, most recently in March 2016 to -0.40 pps; and
- forward guidance was introduced in July 2013 to ensure that market expectations on future monetary policy were consistent with the policies of the Governing Council of the ECB. By way of forward guidance, the ECB indicated that the policy rates were expected to remain at low levels for an extended period of time.

Financial System

At the end of 2012, the Slovenian financial sector's assets stood at €64.1 billion or 177.9 per cent. of GDP. In 2013, the Slovenian financial sector's assets declined by 11.3 per cent. and stood at €56.8 billion or 157.2 per cent. of GDP. In 2014, the Slovenian financial sector's assets declined by 3.7 per cent. and stood at €54.8 billion or 147 per cent. of GDP. In 2015, the assets of the Slovenian financial sector fell by 2.6 per cent. and stood at €53.4 billion or 138.5 per cent. of GDP.

Banks are the most important financial intermediaries with nearly three-quarters of total financial sector assets. In 2014, the largest group among non-monetary financial institutions was insurers (which accounted for 45.8 per cent. of total non-monetary financial institutions assets), followed by leasing companies (which accounted for 16.9 per cent.). In 2015, the largest group among non-monetary financial institutions remained insurers (which accounted for 46.6 per cent. of total non-monetary financial institutions assets). The proportion of leasing companies further decreased to 14.8 per cent. of total non-monetary financial institution assets in 2015.

The following table sets out certain statistical information about the Slovenian financial system as at 31 December 2014 and 2015:

	As at 31 December[1]							
	Total assets		**As % of total assets**		**As % of GDP**		**Growth, %**	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
	(€ millions)				*(%)*			
Monetary financial	38,714	37,383	70.6	70.0	103.8	97.0	(4.0)	(3.4)

	As at 31 December[1]							
	Total assets		As % of total assets		As % of GDP		Growth, %	
	2014	2015	2014	2015	2014	2015	2014	2015
	(€ millions)				(%)			
institutions[2]................								
Non-monetary financial institutions.....	16,114	15,997	29.4	30.0	43.2	41.5	(2.9)	(0.7)
Insurers	7,385	7,460	13,5	14,0	19,8	19,4	6.4	1.0
Pension Funds.............	1,530	1,591	2.8	3.0	4.1	4.1	6.9	4.0
Investment Funds.........	2,156	2,525	3.9	4.4	5.8	6.0	15.9	7.8
Leasing companies.......	2,726	2,382	5.0	4.5	7.3	6.2	(28.8)	(12.6)
BHs, MCs and others ...	2,318	2,240	4.2	4.2	6.2	5.8	(8.8)	(3.4)
Total............................	54,828	53,380	100.0	100.0	147.0	138.5	(3.7)	(2.6)

Source: Bank of Slovenia, ISA, Securities Market Agency, AJPES.

Notes:

(1) The figures for leasing companies, brokerage houses, management companies and others are obtained from the AJPES database of closing accounts based on the standardna klasifikacija dejavnosti 2008 ("SKD 2008") classification of business activities. The figures for leasing companies consist of all companies included under the financial leasing, activity code K64.91, according to the SKD 2008.

(2) Does not include the central bank.

Cross ownership between domestic financial institutions as the proportion of the overall financial sector accounted for by the banks, insurers, pension funds and other financial intermediaries was 16.2 per cent. as at 31 December 2012. In 2013, cross ownership between domestic financial institutions decreased due to governmental intervention in the banking sector. Government ownership in the financial sector increased from 26.9 per cent. to 51.4 per cent. in 2013. Consequently, the proportion of other segments' ownership decreased. The share of government ownership in the financial sector was approximately 51 per cent in both 2014 and 2015.

Banking System

As at 30 September 2016, following the mergers of Banka Celje and Abanka in October 2015, NKBM and PBS in September 2016 and Factor banka and Probanka with the BAMC in February 2016, the Slovenian banking system comprised 13 banks (including seven subsidiary banks), three branches of foreign (Eurosystem) banks and three savings banks. As of September 2016, following the sale of NKBM to a foreign investor in April 2016, the banking system comprised five banks under majority domestic ownership and eight banks under majority foreign ownership.

The largest banks by market share are as follows:

	Market Share as at 31 December (on a stand-alone basis)		
	2013	2014	2015
		(%)	
NLB	23.6	23.5	23.3
Abanka	7.5	6.9	10.2
NKBM	9.7	9.6	9.5
SID banka	9.4	9.5	8.6
SKB banka d.d. (SocGen group)	6.1	6.7	6.9
Unicredit banka Slovenija	6.2	6.8	6.8
Banka Koper d.d. (SanpaoloIMI group)	5.7	6.1	6.1

Source: Bank of Slovenia.

Set forth below is sector data for the seven biggest banks as at 31 December 2015.

	As at 31 December 2015 (on a stand-alone basis)				
	Majority Ownership	Total assets	Return on assets	Operational costs/Average total assets	Capital adequacy
		(€'000)	(%)	(€'000)	(%)
NLB	Domestic	8,706,785	0.5	2.14	22.57
Abanka	Domestic	3,828,462	1.49	2.83	22.86
NKBM	Domestic	3,563,355	0.97	2.04	28.07
SID banka	Domestic	3,198,967	0.33	0.34	29.48
SKB banka d.d. (SocGen group)	Foreign	2,560,982	1.37	2.06	16.05
Unicredit banka Slovenija	Foreign	2,545,039	0.35	1.42	22.04
Banka Koper d.d. (SanpaoloIMI group)	Foreign	2,272,483	0.52	2.02	17.64

Source: Bank of Slovenia.

The loss generated by the banking sector in 2014 amounted to €114.1 million, a substantial decrease from the €3,585.5 million loss sustained in 2013. The banking sector had a realised profit of €115.3 million in 2015 and €310.8 million in the first eight months of 2016.

Assets

As at 31 December 2013, the banking system's total assets amounted to €40.5 billion, having declined by €5.8 billion or 12.5 per cent. in year on year terms. Total assets further contracted in 2014, declining by €1.58 billion to €38.7 billion (105.7 per cent. of GDP) as at 31 December 2014, a decrease of 3.9 per cent. from the previous year. In 2015, the banking system's total assets decreased by €1.3 billion to €37.4 billion and in year-on-year terms they fell by 3.4 per cent. As at 31 August 2016, the banking system's total assets amounted to €36.5 billion.

On the investment side, banks have been reducing loans to the non-banking sectors since 2008. The decline of loans to non-banking sectors in 2013 and 2014 was the result of the transfer of non-performing claims to the BAMC as part of the recapitalisation process. The contraction of loans to the non-banking sector during this period was primarily due to a decrease in loans to the corporate sector. In 2014, the total amount of loans to the non-banking sectors declined by €2.7 billion or 11.5 per cent. in year on year terms. In the same period, the amount of loans to non-financial corporations declined by €2.3 billion. The long-term contraction in lending to the non-banking sector was the result of the general economic situation and domestic supply and demand factors. The key factors that contributed to the decline in demand of non-financial corporations for bank loans were the decline in corporate sales revenues and new orders, high corporate indebtedness, rising financial leverage due to losses, which reduce capital, the lack of payment discipline, a reduction in the value and liquidity of assets accepted as eligible loan collateral and the interest rate spread between Slovenian banks and euro area banks. On the supply side, lending activity was restricted by deterioration in the quality of their credit portfolio, maturing of liabilities and difficulties in rolling over maturing liabilities.

As at 31 December 2015, the total amount of loans to the non-banking sector was €20.3 billion, a figure which was 5.9 per cent. lower than the corresponding figure from the prior year. In the same period, loans to the non-financial corporate sector decreased by €988 million, but in year-on-year terms decreased by 10.8 per cent. The decrease in corporate loans in 2015 was due to the improved economic climate. As at 31 August 2016, the total amount of loans to the non-banking sector was €19.6 billion. Since 31 December 2015, loans to the non-financial corporate sector decreased by €470 million. In August 2016, loans to the non-financial corporate sector decreased by 11.2 per cent. in year-on-year terms.

The value of loans to households amounted to €8.5 billion as at 31 December 2013, having declined by €380 million or 4.3 per cent. in 2013. The contraction of loans to households continued in 2014, decreasing by €140 million or by 1.7 per cent. in year-on-year terms. The proportion of total loans to households accounted for by housing loans increased from 47 per cent. as at 31 December 2009 to approximately 63 per cent. as at 31 December 2014. The key reasons for this increase lie in decreasing growth in housing loans and negative growth in household borrowing in consumer loans since the middle of 2010. From 2010 to 2013, banks tightened their credit standards for housing and consumer loans. Uncertainty in the labour market, a lack of confidence and uncertainty in the real estate market had an adverse impact on growth in household loans in 2014.

In 2015, the amount of loans to households increased by €102 million to €8.4 billion, representing a year-on-year increase of 1.2 per cent. In August 2016, the growth rate increased to 2.2 per cent in year-on-year terms. Positive developments in the labour market, increase in purchasing power and low interest rates have contributed to an increased demand for housing loans in 2015. In year-on-year terms housing loans had increased by 3.2 per cent. as at 31 August 2016.

Housing loans are predominately denominated in euro. However, 15.2 per cent. of housing loans were denominated in Swiss francs as at 31 December 2013. As at 31 December 2015, 11.4 per cent. of housing loans were denominated in Swiss francs. In August 2016, this value decreased further, to 10.0 per cent. Therefore, the development of the euro/Swiss franc exchange rate still remains important for Slovenian households.

Household loans with a variable interest rate represented 76 per cent. of the total value of new housing loans in 2015. As a result, rising interest rates are a risk for Slovenian households. However, an increase in the proportion of new fixed interest rate loans was evident. The increase in the proportion of new long-term, fixed interest rate loans in a period of low interest rates and relatively small spreads between fixed and variable interest rates is an indication of caution on the part of households.

In December 2015, interest rates on housing loans were 2.2 per cent., 0.7 percentage points lower than in December 2014, and higher than the euro area average of 2.0 per cent. In the first eight months of 2016, interest rates on housing loans decreased to 2.0 per cent. Interest rates on consumer loans also decreased in 2015 to 4.2 per cent. in December 2015 (compared to 4.8 per cent. in December 2014), remaining lower than the euro area average of 4.8 per cent. In August 2016, interest rates on consumer loans slightly increased and stood at 4.3 per cent.

In 2015, interest rates on corporate loans in Slovenia also declined. As at 31 December 2015, they stood at approximately 2.9 per cent. on loans of up to €1 million (a decline from 4.5 per cent. as at 31 December 2014) and at 2.2 per cent. on loans of more than €1 million (a decline from 3.4 per cent. as at 31 December 2014). As of 31 August 2016, interest rates on corporate loans of up to €1 million decreased to 2.5 per cent. and interest on corporate loans of more than €1 million increased to 2.3 per cent. The spread over euro area interest rates on corporate loans of more than €1 million reached 0.6 percentage points as at 31 December 2015 (1.6 per cent. in the euro area) and 1.0 percentage point in August 2016. The spread on corporate loans up to €1 million reached 0.3 percentage points as at 31 December 2015 (2.6 per cent. in the euro area) and 0.1 percentage points in August 2016.

Funding

Banks continued to restructure their funding by making debt repayments on foreign wholesale markets. At the end of December 2013, the share of wholesale funding decreased further to 17.4 per cent. of total assets mostly due to net repayments from liabilities to foreign banks. This trend continued in 2014 and 2015 as the share of wholesale funding declined to 16 per cent. at the end of 2014 and to 12.5 per cent. at the end of December 2015. As at 31 August 2016, the share of wholesale funding further declined to 10.4 per cent. The proportion of total assets accounted for by sources raised at the ECB increased in 2012 as banks partly used the long term loans raised at the Eurosystem to reduce external debt. The banks continued to reduce their debt at foreign banks. Banks reduced their debt to foreign banks by €2.3 billion in 2013; however, the process of deleveraging slowed in 2014. Debt owed to foreign banks fell to €4.5 billion at the end of December 2014 and to €3.5 billion at the end of December 2015. Debt repayments on the wholesale market, liabilities to foreign banks and issued securities amounted to €0.8 billion in 2014 and, as at the end of 2015, debt repayments increased to €1.5 billion. The total amount of banking sector wholesale funding stood at €6.2 billion as at 31 December 2014 and declined to €4.7 billion at the end of December 2015 and to €3.8 billion at the end of August 2016.

At the end of December 2013, liabilities to the Eurosystem totalled €3.7 billion, representing 9.2 per cent. of the banking system's total assets. In 2014, that share decreased by 6.3 percentage points from the prior year. This decrease was the result of repayment of funds obtained in three-year long-term refinancing operations ("**LTROs**") maturing in the first quarter 2015. Liabilities to the Eurosystem fell sharply in 2014. By 31 December 2014, the banks had made early repayments of €3,312 million or 90 per cent. of liabilities totalling €3,699 million from 3-year LTROs concluded in the first quarter of 2012. In 2014, banks participated in the ECB's TLTROs, securing which amounted to €707 million as at 31 December 2014. In the 10 months ended 31 October 2015, banks increased liabilities arising from the ECB's TLTRO to €731 million. The share of total liabilities to the Eurosystem in total assets decreased to 2.9 per cent. at the end of December 2014 and to 2.4 per cent. at the end of December 2015. The share of total liabilities stood at 1.4 per cent. in August 2016.

Deposits by the non-banking sector remain the most important source of bank funding. They accounted for 51.7 per cent. of the banking system's total funding at the end of December 2012. Their share grew to 55.9 per cent. at the end of December 2013, 63 per cent. at the end of December 2014 and exceeded 67 per cent. at the end of December 2015.

The stock of deposits by the non-banking sector increased by €1.9 billion in 2014 to €24.4 billion. The growth in year on year terms improved by 13.8 percentage points to 8.3 per cent. The main reason for such growth was a strong increase of government deposits resulting from a rise in their overnight placement with banks. In 2015, non-banking sector deposits increased by €0.7 billion, and achieved solid year-on-year growth of 2.1 per cent. Household deposits grew by €0.73 billion during 2014 or by 5.1 per cent. on year on year terms at the end of December 2014. In 2015 household deposits increased by €468 million. In year-on-year terms, the growth of household deposits contracted to 3.4 per cent. as at 31 October 2015. The high growth in household deposits in 2014 was the result of the restoration of confidence in the banks following the withdrawal of deposits in 2013 in the wake of the Cyprus crisis and the uncertainty surrounding the results of the stress tests of Slovenian banks. The share of household deposits in total bank assets has increased by 9.7 percentage points from 2012 until the end 2015 and represented 42 per cent. of total assets at the end of 2015. Deposits by non-financial corporations increased by 11.5 per cent. in 2014 and by 13.5 per cent. year-on-year in December 2015.

Growth in household deposits continued in 2016, comprising 44.6 per cent. of total assets and representing the most important source of funding. The stock of household deposits increased by €723 million in the first eight months of 2016 to €16.3 billion as at 31 August 2016, resulting in year-on-year growth of 6.3 per cent.

In the maturity breakdown, an increase was recorded by demand deposits while both short term and long term deposits decreased in 2012. In 2013, the share of demand deposits increased by 2.7 percentage points the share of short term deposits decreased by 0.5 percentage points to 28.4 per cent., the share of long term deposits decreased by 2.0 percentage points to 30.3 per cent. The share of demand deposits rose to 45.7 per cent. in December 2014 and the share of short-term deposits decreased to 24.2 per cent. In December 2015, the shares were 55.4 per cent., 16.9 per cent. and 27.7 per cent., respectively. In August 2016, the shares were 62.3 per cent., 13.2 per cent. and 25.7 per cent. respectively.

Interest rates on household deposits of up to one year fell in 2012, decreasing to 1.5 per cent. in December 2013, 0.7 per cent. in December 2014 and to 0.3 per cent. at the end of December 2015, 0.4 percentage points below the December 2015 euro area average. As at 31 August 2016, interest rates on household deposits of up to one year stood at 0.2 per cent. Interest rates on deposits of more than one year decreased in 2015, by 0.7 percentage points to 0.7 per cent. in December 2015. The interest rate decreased to 0.5 per cent. in August 2016.

The table below provides a breakdown, by sector and maturity, of deposits of the non-banking sector:

	Year ended 31 December					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
			(%)			
Maturity breakdown	100.0	100.0	100.0	100.0	100.0	100.0
Demand deposits	35.1	35.8	38.7	41.4	45.7	55.4
Short term deposits	33.1	30.9	28.9	28.4	24.2	16.9
Long term deposits	31.8	33.4	32.3	30.3	30.1	27.7
Sector breakdown	100.0	100.0	100.0	100.0	100.0	100.0
Non-financial corporations	17.0	15.8	15.6	18.6	19.0	21.1
Households[(1)]	62.4	61.7	63.5	65.0	63.1	63.2
Government	12.8	14.1	12.7	7.3	9	8.3
Other financial institutions	5.4	6.0	5.3	4.4	4.7	4.2
Foreigners	2.3	2.4	3.0	4.6	3.5	3.1

Source: Bank of Slovenia.

Note:

(1) Including non-profit institutions serving households.

In December 2013, the coverage of loans to the non-banking sector by deposits by the non-banking sector stood at 104.4 per cent. at large domestic banks and at 103 per cent. at small domestic banks, while the figure at banks under the majority of foreign ownership was 81 per cent. The coverage of loans to the non-banking sector by deposits rose to 113 per cent. at the end of 2014 and increased to 124 per cent. at the end of 2015 and to 130 per cent at the end of August 2016. As at 31 December 2015, the values of coverage at large and small domestic banks were 133 per cent. and 163 per cent., respectively, which were higher than the corresponding figure for majority foreign-owned banks of 110 per cent.

The loan to deposit ratio ("**LTD**"), the ratio between loans to entities in the non-banking sector and deposits by non-banking sectors entities, fell from 161.5 per cent. in 2008 to 79.2 per cent. at the end of May 2016.

Credit and Income Risk

The Slovenian banking system has been exposed to significant credit risk, which remains one of the most significant systemic risks in the banking system. However, conditions in the Slovenian banking system have been stabilising in recent months. Recently, due to the efforts of the Bank of Slovenia, banks are approaching bad assets portfolios more actively by selling off relevant portions of their portfolio and restructuring and increasing the volume of write-offs.

The share of classified claims (financial assets measured at amortised cost and contingencies and commitments including off-balance sheet items) in arrears over 90 days has declined following the introduction of more active management of bad assets in the banking system, including transfers of bad assets to BAMC, consolidation of banks, the supervised wind-down process of two banks accompanied by managing non-performing assets with restructuring, write-offs, collateral collection and selling off relevant portions of bank portfolios. The proportion of non-performing claims declined from 18.1 per cent. as at 30 November 2013 to 9.9 per cent. in December 2015 and further declined to 7.6 per cent. as at 31 August 2016.

Claims in arrears over 90 days totalled €3.5 billion as at 31 December 2015, and €2.2 billion as at 31 August 2016, compared to €8.1 billion as at 30 November 2013, before the commencement of the banking stabilisation process. The decrease of such claims is largely attributable to the transfer of non-performing loans to the BAMC, the merger of Factor banka and Probanka with the BAMC, the larger volume of write-offs and an overall improvement in credit portfolios. Taken together, these measures have enabled banks to improve the overall quality of their credit portfolios.

A large portion of non-performing loans, totalling €0.7 billion, represents non-performing loans made to non-residents. The total share of non-performing loans (to non-residents) to total volume of non-performing loans increased from 12 per cent. prior to the first transfer of non-performing loans to the BAMC to 17.1 per cent. as at 31 December 2015. The percentage total share of non-performing loans (to non-residents) to total volume of non-performing loans decreased to 17 per cent as at 31 August 2016.

Claims in arrears over 90 days against households, which represents one of the banks' least risky client segments, stabilised in 2015 and further decreased in 2016. However, the share of households' claims settled more than 90 days in arrears increased by 0.3 percentage points as at 31 December 2014 to 5.3 per cent. (including sole-traders) and decreased to 4.7 per cent. as at December 2015 and to 3.5 per cent. as at 31 August 2016.

The share of non performing claims of non-financial corporations reached 28.1 per cent. as at 30 November 2013 before falling to 20.5 per cent. as at 31 December 2013 as a result of the transfer of non performing claims to the BAMC. The share of non performing claims of non-financial corporations fell to 17.7 per cent. as at 31 December 2014, largely due to the transfer of non-performing claims to the BAMC. As at December 2015, the share of non-performing claims of non-financial corporations decreased to 15.4 per cent. and to 9.3 per cent. as at 31 August 2016.

Non-performing claims in the construction sector fell from 64.9 per cent. as at 30 November 2013 to 49 per cent. as at 31 December 2013 after the first transfer non-performing loans to the BAMC and from 50.8 per cent. as at 30 September 2014 to 46.1 per cent. as at 31 October 2014 after the second transfer of non-performing loans. As at 31 December 2014, the construction sector's share of non performing claims of non-financial corporations stood at 44.2 per cent. As at December 2015, the construction sector's share of non-performing claims decreased to 39.6 per cent. and further to 26.3 per cent. as at 31 August 2016.

As at 31 December 2014, non-performing claims in the real estate activities sector, and the wholesale and retail trade sector stood at 31.3 per cent. and 18.8 per cent., respectively. As at December 2015, such claims stood at 39.6 per cent. and 16.3 per cent., respectively. As at 31 August 2016, non-performing claims in the real estate activities sector and the wholesale and retail sector decreased to 25.9 per cent. and 12 per cent., respectively.

The share of non-performing claims of other financial institutions (i.e. holding companies, insurance companies, pension funds, investment funds and leasing companies) was 22.1 per cent. as at 31 October 2014. Following the three transfers of non-performing loans to the BAMC, the share of non performing claims of other financial institutions fell to 16 per cent. as at 31 December 2014. As at December 2015, the share of non-performing claims of other financial institutions stood at 12.5 per cent. and decreased to 6.5 per cent. as at 31 August 2016.

The banks sharply increased their recognition of impairments and provisions in December 2013, in light of the findings of a comprehensive asset quality review conducted in 2013 described in "*Monetary and Financial System — Measures to Strengthen the Stability of the Banking Sector Act*". Impairments and provisions increased by 138.1 per cent. in 2013, resulting in a loss of €3,585.5 million after taxation. One of the other main reasons for the impairments was that, in accordance with a decision of the Bank of Slovenia, two banks in a controlled winding-down process increased impairments for non performing claims, resulting in a loss of €625 million. These results were confirmed by an independent auditor. However, net impairments and provisions fell from €3,809 million in 2013 to €650 million in 2014 and to €313 million in 2015, respectively. In 2015, impairments and provisioning costs decreased by 58 per cent. and banks realised a profit of €158 million before tax. In the first eight months of 2016, banks disclosed a positive result from net impairments and provisioning costs, which contributed to a combined profit of €351 million before tax.

In 2013, net interest income fell 20.1 per cent. to €708 million. In 2014, net interest income reached €832 million, an increase of 17.5 per cent. compared to the prior year. The main reason for an increase of net interest in 2014 was the decline of interest rates on deposits. In 2015, net interest income decreased to €746 million as a result of a decline in lending interest rates and moderate credit contraction. From 1 January 2016 to 31 August 2016, the net interest income stood at €452 million, which was a 10 per cent. decrease in comparison with the same period in 2015, mainly caused by declines in lending rates and in returns on securities, and the contraction in the number of loans that reduce the banks' income generation base, partially offset by a decrease in the banks' net interest expenses. A sharp decrease in the level of interest rates and an increase in the proportion of sight deposits mean that the banks have less room for additional cuts in interest expenses.

Adequacy of Liquidity

The Bank of Slovenia monitors liquidity in the banking sector in accordance with applicable regulations. In reports on their liquidity position, the assets and liabilities of banks are classified by residual maturity. This classification consists of three "buckets", financial instruments maturing: (i) within 30 days; (ii) within 180 days; and (iii) after 180 days. Applicable regulations require that, on a daily basis, each bank calculates the ratio between the sum of its financial assets that will mature within 30 days and the sum of its liabilities that will mature in the same time frame. Banks are required to maintain a liquidity ratio of at least 1.0 at all times. While applicable regulations do not impose formal requirements related to instruments falling into the other "buckets" with longer maturities, the Bank of Slovenia does monitor similar liquidity ratios using the additional buckets.

The liquidity of the banking system remained at a satisfactory level in 2014 and 2015 and has remained at a satisfactory level in 2016. The first bucket liquidity ratio stood at 1.65 as at 31 December 2014, 1.48 as at 31 December 2015 and 1.49 as at 31 August 2016. The interest rate spread decreased from 2.25 as at 31 December 2014 to 2.23 as at 31 December 2015 and 2.20 as at 31 August 2016.

Capital Adequacy

The regulatory framework for capital adequacy is directly determined by the CRR which entered into force on 1 January 2014 and effectively incorporates in the EU the Basel III framework.

The capital adequacy ratio stood at 19.03 per cent. as at 30 June 2016, which represented increases of 1.04 percentage points and 0.26 percentage points as at 31 December 2014 and 31 December 2015, respectively. The common equity tier 1 capital ratio stood at 18.57 per cent. as at 30 June 2016, which was an increase of 1.31 percentage points and 0.45 percentage points as at 31 December 2014 and 31 December 2015, respectively. The share of total capital in total assets increased from 11.29 per cent. at 31 December 2014 to 12.35 per cent. as at 31 December 2015 and to 13.38 per cent. as at 30 June 2016. The share of total capital in total assets is calculated as capital in the balance sheet divided by assets in the balance sheet, where the capital in the balance sheet is calculated as the sum of paid-up capital, share premium, equity instruments issued other than capital, accumulated other comprehensive income, other reserves, treasury shares and profit or loss attributable to owners of the parent.

Bank of Slovenia Act

The Bank of Slovenia Act is fully harmonised and compatible with European legislation, as applicable in EU Member States that have introduced the euro as the official currency. The Bank of Slovenia's rules and regulations are similar to those of the ECB/ESCB.

In its role as the supervisor of the banking system, the Bank of Slovenia is competent and responsible for conducting comprehensive supervision of the banks, including granting authorisations for various banking operations. The Bank of Slovenia is also competent and responsible for the oversight of securities settlement systems on the basis of the Bank of Slovenia Act, while its responsibility is further complemented by the Market in Financial Instruments Act, which empowers the Bank of Slovenia with the responsibility of conducting oversight of the central securities depositary in respect of the systemic risk of the settlement system. The oversight activities are also conducted in co-operation with the Securities Market Agency. The Bank of Slovenia is also responsible for the supervision of exchange offices.

In November 2014, the European Single Supervisory Mechanism became effective and an important part of the supervisory responsibilities, which included authorisations of the Banka of Slovenia in the banking area, was transferred to the ECB in accordance with the Single Supervisory Mechanism legal framework.

Banking Regulation

2006 Banking Act

The 2006 Banking Act provided a legislative framework for banking operations and supervision on consolidated and individual bases. It creates conditions for prudent risk management in banks (i.e. capital requirement calculation, capital adequacy and risk management) and provides supervisory measures for prompt corrective actions towards problem banks. It also stipulates strict requirements for external auditors. The 2006 Banking Act reflected CRD legislation and EU Directives, and was amended multiple times, including in 2012 to authorise the Bank of Slovenia to solve issues faced by distressed banks and address adverse financial conditions in the banking system by imposing the extraordinary measures to ensure the stability of the financial system (the "**extraordinary measures**") and in November 2013 to adopt the Ficod1 Directive.

The November 2013 amendments to the 2006 Banking Act also introduced a bail-in as a new extraordinary measure to enable the administrative burden sharing of hybrid and subordinated instruments. The new extraordinary supervisory measure may be applied by the Bank of Slovenia for providing the necessary capital to achieve capital adequacy, if a bank is failing or is likely to fail. The measure applies to the write off or conversion of qualified liabilities (equity, subordinated debt), which can be used when it is unlikely to achieve short- and long term capital adequacy or liquidity positions with other measures. The extraordinary measures are to be used in the public interest to prevent a threat to the stability of the financial system.

The provisions of the 2006 Banking Act relating to the extraordinary measures remained in force following the implementation of the 2015 Banking Act (as defined below) until the 2006 Banking Act and the 2015 Banking Act (as defined below) were replaced by the provisions of the ZRPPB on 25 June 2016. However, relevant provisions related to the extraordinary measures of the 2006 Banking Act continue to apply to the proceedings relating to decisions issued by the Bank of Slovenia made prior to the enactment of the ZRPPB. This includes the November 2013 amendments to the 2006 Banking Act that introduced the bail-in measure. By a decision dated 19 October 2016, which became public on 27 October 2016, the Constitutional Court confirmed that these provisions are consistent with the Constitution of the Republic, except for the provision relating to the conditions which must be satisfied for successful claims of the persons affected by the bail-in against the Bank of Slovenia, which the Constitutional Court found to be in breach of the Constitution of the Republic. The Constitutional Court ordered the National Assembly to amend the relevant legislation within six months of the publication of this decision in order to remedy the breach so that the conditions which must be satisfied for successful claims of the persons affected by the bail-in against the Bank of Slovenia are no longer in breach of the Constitution of the Republic.

In addition to the amendments in November 2013, the 2006 Banking Act also introduced resolutions concerning banks' transfers of assets, sales of shares and compulsory increases of capital.

2015 Banking Act

A new banking act was adopted on 31 March 2015 and entered into force on 13 May 2015 (*Zakon o bančništvu (ZBan-2*)*,* the "**2015 Banking Act**"). The 2015 Banking Act implemented Directive 2013/36/EU and accounted for Regulation 1024/2013/EU. In addition, the new legislation adjusted supervisory procedures pursuant to the requirements of the Single Supervisory Mechanism and introduced the recovery planning requirements and the early intervention measures of Directive 2014/59/EU. A separate law implementing certain measures of Directive 2014/59/EU entered into force in June 2016.

Act on the Macro Prudential Supervision of the Financial System

In December 2013, the Act on the Macro Prudential Supervision of the Financial System (*Zakon o makrobonitetnem nadzoru finančnega sistema (ZMbNFS)*) came into force. The main objective of this Act is the establishment of a committee which will be entrusted with the task of formulating macro prudential policy in the Republic, contribute to safeguarding the stability of the entire financial system, and prevent or reduce the accumulation of systemic risk. The act is designed to facilitate improved macro prudential supervision over financial institutions operating in different segments of the financial system. The newly established committee is constituted of representatives from each national supervisor, including the Bank of Slovenia, the Securities Market Agency and the Insurance Supervisory Agency (*Agencija za zavarovalni nadzor,* the "**Insurance Supervisory Agency**" or "**ISA**") as well as the Ministry of Finance.

Measures to Strengthen the Stability of the Banking Sector Act and Banking Reform

Prevailing adverse international economic conditions within the international banking and financial markets have led the Republic to take a series of preventive measures to offset the impact on the Slovenian financial system, similar in nature to those taken by other countries in the Eurozone. These measures were in conformity with relevant decisions adopted by the EU Council. See "*Public Finance — Fiscal Policy and Reform*" for more detail.

Slovenia's first round of reform measures concerning the financial sector were of a preventive nature and were adopted by the National Assembly in November 2008. They consisted of an unlimited government guarantee for retail deposits and an authorisation for the Government to take four types of policy measures, subject to the approval of the relevant regulator. These were: (i) loans to credit institutions, insurance companies, reinsurance companies and pension companies; (ii) state guarantees to credit institutions; (iii) capital investments in credit institutions, insurance companies, reinsurance companies and pension companies; and (iv) purchases of receivables from credit institutions. The Government was authorised to take individual measures up to 31 December 2010. From 2009 to 2011, various measures were also implemented to offset the impact of the prevailing adverse international economic conditions. Measures taken to protect the Slovenian financial system included the use of treasury deposits in the first quarter of 2009, a time when the financial crisis was most acute, to strengthen the resilience of the banking system. In order to facilitate the normal flow of credit to the economy, borrowing guarantees were granted to four commercial banks, NLB, Abanka, Factor banka and Deželna banka Slovenije d.d., totalling €2.2 billion and a €1.2 billion guarantee scheme for bank loans to enterprises with up to 10 years maturity was opened. In 15 auctions, the commercial banks were awarded partial guarantees for €840 million of their loans pursuant to this scheme. Additionally, the Government recapitalised SID Bank (€160 million), the state owned export and development bank, and the Slovene Entrepreneurship Fund, a public fund assisting new investments.

In March 2011, new rules on the co-operation of supervisory authorities were adopted in order to enhance banking supervision. The rules call for a coordinating body composed of all national supervisors including the Bank of Slovenia, the Securities Market Agency and the Insurance Supervision Agency to meet on a regular basis to exchange the information.

Following the first round of stress tests conducted by the European Banking Authority and the Bank of Slovenia, NLB launched a €250 million capitalisation, €243 million of which was provided by the Government in 2011.

In light of further recapitalisation needs of NLB, the Government and two state owned funds (both shareholders of NLB) executed a backstop arrangement to ensure that the criterion of 9 per cent. core Tier 1 capital was satisfied. This backstop arrangement entailed a number of measures including the buy-back of outstanding lower Tier 2 and hybrid instruments, an increase of its share capital through cash contributions by state owned shareholders (which accounted for €61 million), and the issuance of a contingent capital loan ("**CoCo Instrument**") funded by the Government (which accounted for €320 million). These measures were effected during the period from 29 June to 2 July 2012. In December

2012, the Republic and KBC reached an agreement, which enabled the Republic to take over 22.04 per cent. of KBC's stake in NLB. The Republic's share in NLB was thereby increased to 86.15 per cent. Due to the high impairments in 2012, the capital adequacy of NLB fell and, consequently, in February 2013, the CoCo Instruments converted into equity. With the conversion of the CoCo Instruments, the Republic increased its share of NLB to 92.45 per cent.

In December 2012, Nova KBM, in which the Republic is the largest shareholder, successfully completed a project aimed at improving its Core Tier 1 capital ratio to 9 per cent. thus meeting the requirements of the EBA to strengthen its capital position. The project consisted of a number of interdependent and complex activities that were carried out in coordination with the Government, the Bank of Slovenia and the bank itself. These activities included the sale of the bank's 51 per cent. shareholding in Zavarovalnica Maribor, a redemption/conversion of subordinated instruments, and the raising of a CoCo Instrument. The Republic contributed €100 million for the CoCo Instrument with a fixed interest rate of 10 per cent. per annum. In April 2013, NKBM converted the €100 million CoCo Instrument into equity. With the conversion, the Republic's share increased to approximately 79 per cent.

Despite carrying out the above mentioned recapitalisations of banks, it had been shown that the banking sector was still exposed to ongoing risks due to: (i) its relatively low capitalisation; and (ii) an increase in non-performing loans due to a slow recovery of the Slovenian economy. In order to deal with these risks, and to provide for the recapitalisation of banks, the National Assembly has adopted a law to strengthen the stability of banks (*Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank (ZUKSB)*, the "**Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability**") which came into force in December 2012. The purpose of the law is to establish the framework for the use of public funds for bank recapitalisation and the transfer of impaired assets to a bank asset management company (BAMC) established to deal with non-performing loans and distressed assets taken over from the balance sheets of certain banks.

Under this new law, the BAMC, a state-owned asset management company, was established in March 2013. The BAMC operates in a manner that will ensure the efficient use of public funds and the recovery of the public funds engaged in the operation of banks, promoting lending to the non-financial sector, supporting the privatisation of banks and assessing responsibility for bad assets. In accordance with the provisions of the law, the Ministry of Finance prepared a comprehensive implementing act (the "**BAMC Regulation**") which provides the criteria and conditions which banks have to meet in order to qualify for the determination and implementation of particular measures according to the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability.

In December 2013, the Bank of Slovenia and the Government announced the results of the comprehensive review of the banking sector, which included a system wide asset quality review and stress tests. The purpose of the comprehensive review was to assess, with the help of independent international experts, the robustness of the Slovenian banking system in an adverse macroeconomic scenario, and to determine any capital shortfall that could arise at an individual bank or consequently across the entire banking system in the event of such a scenario being realised.

According to the results of the stress tests, the capital shortfall at the banks covered by the review amounted to €4.779 billion under the adverse scenario. The following table sets out the capital deficit by bank as at 31 December 2013:

	Capital deficit under the adverse scenario	Total Capital Requirement
	(€ million)	
NLB	1,904	1,551
NKBM	1,055	870
	Capital deficit under the adverse scenario	**Total Capital Requirement**
	(€ million)	
Abanka	756	591
Banka Celje[(1)]	388	190
Gorenjska banka[(2)]	328	N/A
Hypo Alpe Adria Bank[(2)]	221	N/A
Raiffeisen banka[(2)]	113	N/A
Unicredit banka Slovenije[(2)]	14	N/A
Total	4,779	3,202

Source: Bank of Slovenia.

Notes:

(1) Banka Celje has been recapitalised by the state with full respect of EU state aid rules in December 2014.

(2) The indicated banks have been given the first six months of 2014 to strengthen their balance sheets through private investment and have not received any capital from the Government.

Due to the requirements of the EU state aid rules, shareholders and subordinated debt holders have to participate in the burden sharing to limit the amount of state recapitalisations to the minimum necessary. In the case of the three biggest banks (NLB, NKBM and Abanka), cancellation of the existing shares in the amount of €335 million and a complete write off of subordinated debt in the amount of €426 million has been performed. In addition, Probanka and Factor banka, which were in the process of winding-down, had their shares cancelled and wrote down subordinated instruments in the total amount of €64 million. Beneficiaries of deposits and non-subordinated debt were excluded from such requirements.

With respect to resolution measures adopted relating to failing banks, the 2006 Banking Act contained provisions which denied affected shareholders and subordinated creditors the right to challenge the cancellation of shares and write-offs of subordinated debt instruments (also known as "**bail-in**") in court, leaving civil claims for damages against the Bank of Slovenia as their only remedy. Nevertheless, certain affected shareholders and subordinated creditors initiated administrative court proceedings seeking, among other things, the annulment of the decision of the Bank of Slovenia on the bail-in of NLB, NKBM, Abanka, Factor banka and Probanka contending a breach of their constitutional rights. Some affected creditors and shareholders also directly initiated proceedings at the Constitutional Court arguing that several provisions of the 2006 Banking Act were unconstitutional. Some of the courts dealing with these cases, including in one case, the Supreme Court of the Republic of Slovenia, expressed doubts regarding the constitutionality of the relevant provisions of the 2006 Banking Act. In accordance with the rules of procedure, these courts suspended the proceedings and referred the matters to the Constitutional Court, thus joining the requests for the constitutional review of those provisions submitted by other persons and institutions (see "*Monetary and Financial System — Banking Regulation — 2006 Banking Act*"). The Constitutional Court has referred several questions relating to this case to the Court of Justice of the EU which issued its judgment on 19 July 2016. By a decision dated 19 October 2016, which became public on 27 October 2016, the Constitutional Court confirmed that the challenged provisions are consistent with the Constitution of the Republic, except for the provision relating to the conditions which must be satisfied for successful claims of the persons affected by the bail-in against the Bank of Slovenia, which the Constitutional Court found to be in breach of the Constitution of the Republic and ordered the National Assembly to amend the legislation within six months after the publication of this decision in order to remedy the breach. As the Constitutional Court did not repeal any of the challenged provisions, the Bank of Slovenia's bail-in decisions, such as the decisions to bail-in each of NLB, NKBM, Factor banka and Probanka, remain unaffected by such decision of the Constitutional Court. The amendments to the legislation may result in claims by the affected shareholders and subordinated creditors against the Bank of Slovenia in the future.

After receiving a formal confirmation of restructuring plans from European Commission and accepting state aid commitments, the Government provided the requisite funds to NLB and NKBM in December 2013. The capital increases at the two banks were carried out two thirds in cash and one third in marketable sovereign securities. After completing the recapitalisations, NLB and NKBM had overall capital adequacy ratios of approximately 15 per cent. On the basis of the EC confirmation, both banks transferred to the BAMC their mostly non performing claims in the aggregate nominal amount of €3.3 billion for a purchase price of €1.01 billion (transfer value) at the end of the 2013. To finance the purchase of the non-performing claims, the BAMC issued a bond of €1 billion in December 2013.

The privatisation of NLB and NKBM was set to follow the completion of the recapitalisation and transfer of assets to the BAMC. On 30 June 2015, the Republic entered into a contract to sell the Government's entire interest in NKBM to Apollo Global Management and the European Bank for Reconstruction and Development. The transaction was completed on 21 April 2016. In the case of NLB, the Republic has made a commitment to reduce the Government's participating interest to no more than 25 per cent. plus one share by 31 December 2017.

In December 2013, the European Commission approved a partial recapitalisation of Abanka in the amount of €348 million, which was made in cash. Afterwards, a restructuring plan of Abanka was formulated, and submitted to the European Commission in February 2014. In August 2014, the European Commission confirmed that the restructuring plan was consistent with the rules of state aid. The remainder of the recapitalisation in the amount of €243 million and the transfer of non-performing loans to the BAMC were carried out in early autumn 2014. The nominal value of Abanka transferred non-performing loans amounted to €1.144 billion, which represented €424 million of transfer value. For the purposes of this transfer an additional €0.42 billion bond was issued in October 2014 by the BAMC.

The stress tests conducted in 2013 indicated that UniCredit Banka Slovenija d.d. ("**UniCredit Banka Slovenija**"), Banka Celje, Hypo Alpe-Adria-Bank d.d. ("**Hypo Alpe Adria Bank**"), Raiffeisen banka d.d. ("**Raiffeisen banka**") and Gorenjska banka d.d., Kranj ("**Gorenjska banka**") could face a shortfall in available capital by the end of 2015. These banks were mandated by the Bank of Slovenia to strengthen their capital adequacy by increasing their income, achieving better loan recovery, redeeming collateral on non-performing loans, selling claims, transferring investments to companies in the same group, undergoing a capital increase, finding new investors and taking other measures. Additionally, the

Government indicated that, should the capital shortfall not be sufficiently covered by the end of 2014, then, in accordance with the applicable rules relating to state aid, it would provide a backstop mechanism for the banks. Based on an assessment by the Bank of Slovenia, the Government concluded that Banka Celje was unlikely to strengthen its capital adequacy through private funding alone. Banka Celje failed to attract at least €160 million of private capital by 25 April 2014 and consequently the government decided that Banka Celje was eligible for state aid in the form of recapitalisation and the transfer of its bad assets to the BAMC. At the same time, the Bank of Slovenia extended the deadline for a recapitalisation of Gorenjska banka until 31 December 2014 and the Government prolonged the validity of its backstop for the bank. Other banks have ensured capital adequacy by internal measures.

The stress tests also identified a €328 million capital shortfall in Gorenjska banka, which resulted in the Government providing a "back stop" for the bank. In June 2015, a review of Gorenjska banka by the Bank of Slovenia revealed that Gorenjska banka had a capital shortfall of €13 million. To account for the shortfall, Gorenjska banka raised approximately €13 million from a sale of newly issued shares to AIK banka and other investors in January 2016.

As part of the state aid process for Abanka, the Republic committed to carry out a merger of Abanka and Banka Celje after acquiring a majority stake in Banka Celje, and submitted a restructuring plan to the European Commission in October 2014, which served as the basis for the state aid decision on Banka Celje. Consequently, an authorisation of state aid for Banka Celje in the form of recapitalisation and the transfer of bad assets to the BAMC was granted in December 2014. The Government provided the requisite funds in the amount of €190 million, approximately half of which was in cash and half of which was in marketable sovereign securities. In addition, Banka Celje transferred non-performing loans amounting to €411 million (€127 million of transfer value) to the BAMC. In December 2014, the BAMC issued a bond of €127 million for the purchase of non-performing loans from Banka Celje. On 5 October 2015, Abanka and Banka Celje completed the merger. The Government is to dispose of its entire participating interest in the merged bank by 30 June 2019.

In September 2013, based on the initiative of the Bank of Slovenia, the Government adopted two measures to enable the wind-down of Factor Banka and Probanka. The Government (i) guaranteed ELA provided by the Bank of Slovenia (providing government guarantees in the amount of €490 million for Probanka and €540 million for Factor banka) and (ii) pledged to recapitalise both banks if their solvency was threatened in order to protect the overall financial stability of the Republic. In December 2013, the European Commission granted the aid and confirmed liquidation plans for the banks. In the same month both banks were recapitalised with an amount of €269 million for Factor banka and €176 million for Probanka. The recapitalisation of the banks was carried out by converting the existing deposits of the Republic in the banks, and by the issue of marketable sovereign securities. In line with the ECB decision, the ELA programme was completed in June 2014. While the budget for 2014 had already been adopted, there was no legal basis for granting loans to banks during the budgetary year. Since the state was unable to grant loans in order to finance the repayment of ELA, the guarantees were called on 30 June 2014. Probanka's exposure to the ELA (excluding the amount which was collateralised) amounted to €241 million and Factor banka's to €187 million. By realising the guarantee, the Government became entitled to recourse against Factor banka and Probanka. In line with the stress tests performed in 2013 as well as reports of the Bank of Slovenia on the operations of banks after the implementation of measures set out by the Republic, the recapitalisation amounts suffice to carry out an orderly winding-down and consequently paid-up guarantees are considered as liquidity assistance to the banks. In February 2016, the Government merged Factor banka and Probanka with the BAMC after both banks settled all of their existing liabilities, with the exception of the obligations owed to the Government, which were transferred to the BAMC.

On 26 October 2014, the ECB and European Banking Authority published their 2014 EU-wide stress test results. The comprehensive assessment included three main elements: a supervisory risk assessment, stress tests, and a combination of an asset quality review and stress tests. The assessment focused on the three largest banks per EU Member State as measured by total assets as at 30 September 2013, covering 130 systemically important European banks, including three Slovenian banks, NLB, NKBM and SID banka. According to the results, none of the Slovenian banks was expected to show a capital shortfall at the end of 2016 under the baseline scenario of the stress test. The total capital surplus of the three banks under the baseline scenario amounted to €755 million. While NLB and NKBM would have a minor, combined capital shortfall of €65 million under an adverse scenario, SID banka would have a capital surplus under the same scenario. The restructuring of the banks with capital shortfalls improved their profitability in 2014 to the extent that such shortfalls were covered by retained profits.

The act on the macro-prudential supervision of financial system came into force in December 2013. The act was established on the basis of a recommendation given by the European Systemic Risk Board on 22 December 2011 pertaining to the macro-prudential mandate of national authorities. The act established the financial stability board (the "**Financial Stability Board**"), which aims to strengthen the resilience of the financial system and reduce the accumulation of systemic risks in order to ensure that the financial sector makes a sustainable contribution to economic growth. The members of the Financial Stability Board include the Governor of the Bank of Slovenia, the Vice-Governor responsible for banking supervision, the Director and deputy of the Securities Market Agency, the Director and deputy of the Insurance Supervisory Agency and two representatives of the Ministry of Finance.

On 18 December 2015, the National Assembly amended the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability. The amendments extended the BAMC's mandate from 2017 to 2022 and changed its operational objectives to focus on the restructuring of companies, with the aim of maximising returns on public funds.

As of 30 June 2016, Slovenia fully implemented all of the EU directives related to the establishment of the Banking Union, including the Directive on Deposit Guarantee Schemes and the Bank Recovery and Resolution Directive.

Bank Deposit Guarantee Scheme

The requirements of Directive 2014/49/EU on deposit guarantee schemes came into force in April 2016, with the introduction of the deposit guarantee scheme act (*Zakon o sistemu jamstva za vloge (ZSJV)*, the "**Deposit Guarantee Act**"). All banks and savings banks registered in the Republic of Slovenia contribute to the deposit guarantee scheme.

Since the end of 2010, deposits placed in credit institutions are protected to the maximum limit of €100,000. The guarantee covers the sum or total balance of all the deposits of individual depositors that are eligible for the guarantee based on the law. Guaranteed deposits in foreign currencies are to be paid out in euros after conversion at the exchange rate published by the Bank of Slovenia for the day that bankruptcy proceedings are initiated. Payouts under the deposit insurance scheme are triggered when an institution is placed into bankruptcy.

In the event of bankruptcy proceedings being initiated against a bank or savings institution, the guaranteed deposits are to be paid out to depositors within 20 working days at another bank, the so called repayment bank, designated by the Bank of Slovenia. The Bank of Slovenia cannot place an insolvent institution into bankruptcy. The competent court is mandated to do so solely at the proposal of the Bank of Slovenia.

The deposit protection scheme is funded with "ex ante" financing. The target size of the deposit guarantee fund is a minimum 0.8 per cent. of covered deposits to be reached by 2024, with the possibility to collect extraordinary contributions of up to 1.0 per cent. of total covered deposits. Moreover, the Deposit Guarantee Act provides for an explicit Government funding backstop for financing the part of the payout which would not be paid in by the banks, members of the deposit guarantee scheme, temporarily and under additional conditions to be agreed in a specific case. The Bank of Slovenia, with the co-operation of the Deposit Guarantee Scheme members, has defined the operational aspects of the deposit guarantee scheme. The deposit guarantee scheme makes payments of coverage for guaranteed deposits through designated repayment banks to be continuously prepared in advance for cases of a payout.

The Bank of Slovenia is a member of the International Association of Deposit Insurers and the European Forum of Deposit Insurers, sharing and introducing best practice solutions.

Prudential Standards

The Slovenian prudential standards for banking supervision are comprised principally of the 2015 Banking Act and attendant defining regulations as well as directly applicable European legislation. Other legislation of importance includes the Companies Act (*Zakon o gospodarskih družbah (ZGD-1)*), the Conglomerates Act (*Zakon o finančnih konglomeratih (ZFK)*) and the Audit Act (*Zakon o revidiranju (ZRev-2)*), each of which contains provisions that round out and provide a comprehensive regulatory and supervisory structure.

All prudential standards for banking regulation and supervision are based on international standards in accordance with EU Directives (i.e. CRD) from 2007. In this manner, the entire Basel II regimen has been introduced into the Slovenian legal framework. Thus, the Bank of Slovenia has established minimum capital requirements and has the capacity to require additional capital as warranted. Regulations transposing Basel III into EU legislation, the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms CRR entered into force on 1 January 2014. This regulation is directly applicable to EU Member States and represents a prudential regulatory framework including all prudential rules for credit institutions and investment firms. The CRR is being supplemented with regulatory and implementing technical standards developed by the EBA as well as EBA guidelines and recommendations. Directive 2013/36/EU relating to the supervision of credit institutions and investment firms (the "**Capital Requirements Directive**" or "**CRD IV**") has been implemented by the 2015 Banking Act.

To implement prudential requirements, the Bank of Slovenia employs defining regulations on specific areas, ranging from risk management practices to governance issues. By implementing EBA guidelines and recommendations as well as ECB guidance on different policy issues, it ensures it is adapting Slovenian regulatory rules to the highest European standards. The Bank of Slovenia has implemented a risk based approach to supervision. This includes a robust supervisory approach featuring a strong International Capital Adequacy Assessment Process and the Supervisory Review and Evaluation Process programme and Risk Assessment System methodology. There is an extensive set of reporting requirements for banks (EU Common Reporting Framework) that provides a wide range of data and risk management information, both on a consolidated and unconsolidated basis. The information is used in the supervision process to evaluate risk and for other objectives.

Large Exposures

Banks are required to identify, quantify, control and monitor their exposure towards their single borrowers and groups of connected borrowers (borrowers linked so closely that it is prudent to treat them as a single risk and respectively as a single counterparty).

Rules regarding limits on exposures derive from the CRR. A bank's exposure towards one borrower or a group of connected borrowers is considered large if it is equal to or exceeds 10 per cent. of the bank's eligible capital. As a general rule, exposure to a borrower or a group of connected borrowers shall not exceed 25 per cent. of the bank's eligible capital. An exception to this limit applies to exposures to institutions (as required by the CRR). According to it, the bank's exposure to an institution or group of connected borrowers which includes one or more institutions shall not exceed the higher of 25 per cent. of the bank's eligible capital or €100 million, under the condition that the sum of exposures to all connected borrowers in the group which are not institutions does not exceed 25 per cent. of the bank's eligible capital. Where the amount of €100 million is higher than 25 per cent. of the bank's eligible capital, exposure exceeding 25 per cent. of the bank's eligible capital may not exceed 100 per cent. of the bank's eligible capital.

Banks are also required to comply with the limits regarding large exposures at the individual and consolidated levels. As part of the monitoring process of large exposures, banks are obliged to prepare reports on large exposures on a quarterly basis and submit them to the Bank of Slovenia.

Liquidity

The Bank of Slovenia's liquidity regulation has been amended several times in recent years to reflect upcoming changes to the liquidity requirements required under Basel III and CRD IV and to adequately consider lessons learned from the effect of the last financial crisis on liquidity.

The liquidity risk framework comprises qualitative as well as quantitative requirements. The quantitative requirements include daily bank reporting of liquidity ratios, including both the first-bucket and second-bucket liquidity ratios. The requirement of prescribed first-bucket liquidity ratio is similar to the liquidity coverage requirement ("**LCR**"). It is calculated by comparing financial assets to liabilities over a 30-day period and the required ratio is at least one-to-one. The second-bucket liquidity ratio is for informational purposes only and has no specifically required value. Banks are also required to report on a daily basis their liquidity flows in local and foreign currencies for the current and following working day as well as for the next 15 working days, in addition to a plan of liquidity flows for the period from the current day until the end of the current month as well as for the following month.

As of 1 October 2015, when the Commission Delegated Regulation (EU) 2015/61 which supplements the CRR entered into force, banks have been required to meet the LCR requirement pursuant to a gradual phase-in schedule (60 per cent. in 2015, 70 per cent. in 2016, 80 per cent. in 2017 and 100 per cent. from 1 January 2018 onwards). Additionally, banks are required to regularly submit to the Bank of Slovenia reports on the stability of their funding, additional liquidity metrics and funding plans as set out in relevant EU legislation (CRR, Commission Implementing Regulation (EU) 2016/313 with regard to additional liquidity monitoring metrics for liquidity reporting, EBA Guidelines on harmonised definitions and templates for funding plans of credit institutions under recommendation A4 of ESRB/2012/2).

Payment and Settlement Systems

The Republic has transposed the provisions of the Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market into Slovenian legislation by adopting the Payment Services and Systems Act (*Zakon o plačilnih storitvah in sistemih (ZPlaSS)*, the "**PSS Act**"), which entered into force on 1 November 2009. The PSS Act was first amended on 20 April 2010 in order to partially adopt Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims and to partially adopt Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management. The PSS Act was next amended on 2 February 2011, in order to adopt Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of electronic money institutions. The PSS Act was later amended on 4 May 2012 in order to implement Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 in part relating to the amendments to Directive 98/26/EC on settlement finality in payment and securities settlement systems. The PSS Act was amended once again on 30 October 2015 in order to comply with the new Law on Out-of-Court Consumer Dispute Resolution (*Zakon o izvensodnem* *reševanju potrošniških sporov (ZIsRPS)*), which implements the Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC. The PSS Act was most recently amended on 1 July 2016 in order to adopt Directive 2014/92/EU, which set out various regulations governing payment accounts.

The PSS Act provides a comprehensive legal framework governing the provision of payment services, prudential requirements for payment institutions and electronic money institutions, resolution of disputes relating to provision of payment services or issuance and use of electronic money, as well as the terms and conditions for the operation of payment systems and supervision of the payment system operators. In addition, the PSS Act regulates those fields more comprehensively than previous legislation, and is fully harmonised with EU law.

The Insurance Supervisory Agency

The ISA became operational in June 2000 when the Republic appointed the Council of Experts (*strokovni svet*) and the director of the ISA. The objectives of the central supervisory institution in the insurance area are mitigating and eliminating irregularities in insurance; protecting policyholders' interests; and facilitating the functioning of the insurance industry, which in turn has a positive impact on the entire economy. The ISA is a legal entity and is independent in implementing its tasks and responsibilities. It is accountable to the National Assembly; however, it has its own rules of procedure stipulating in detail its internal organisation and operation. The annual accounts and the financial plan of the ISA are approved by the Minister of Finance, while the control of regularity, effectiveness, economy and efficiency of use of the ISA's funds is performed by the Court of Auditors. In June 2000, the Council of Experts adopted the Rules on Internal Organisation and Job Description, which established internal organisational units in the ISA and their respective responsibilities. The bodies of the ISA are the Council of Experts and the Director of the ISA. The members of the Council of Experts and the Director of the ISA are appointed and dismissed by the National Assembly of the Republic from individuals proposed by the Government. The members of the Council of Experts and the Director of the ISA are appointed for a period of six years and may be reappointed.

The ISA's responsibility for supervising the insurance market is currently based on the provisions of the Insurance Act (*Zakon o zavarovalništvu (ZZavar-1)*, the "**Insurance Act**"), which came into force on 1 January 2016. The ISA's main responsibilities include supervising insurance undertakings, pension companies, insurance agencies, insurance brokerage companies, and insurance agents and brokers. In addition, the agency is responsible for preparing and implementing regulations that align with the Insurance Act.

The ISA co-operates with international insurance and pension authorities, such as the European Insurance and Occupational Pensions Authority and the International Association of Insurance Supervisors, as well as with other supervisory authorities that deal with Slovenian entities which fall under the purview of the ISA.

The Securities Market Agency

The Securities Market Agency is a legal entity in charge of supervising the market in financial instruments. It was founded in 1994. Its tasks and competencies are defined by the Market in Financial Instruments Act (*Zakon o trgu finančnih instrumentov (ZTFI)*). The Securities Market Agency is independent in implementing its tasks and responsibilities. It is financed from levies and fees paid by the participants in the financial instruments market.

The Securities Market Agency's international co-operation includes activities within associations of securities market regulators, such as the International Organisation of Securities Commissions and the

European Securities and Markets Authority ("**ESMA**"), as well as co-operation with other organisations and competent authorities.

Since 2009, the role and the performance of the Securities Market Agency has been strengthened due to the strengthened role of the ESMA. The Securities Market Agency issues authorisations and approvals, conducts supervision and exercises its other powers and responsibilities set out by the Market in Financial Instruments Act, the Investment Funds and Management Companies Act, the Act on Alternative Investment Fund Managers, the Takeovers Act (*Zakon o prevzemih (ZPre-1)*) and the 2015 Book Entry Securities Act.

Relevant Securities Acts

The Market in Financial Instruments Act

The Market in Financial Instruments Act came into effect on 11 August 2007. With it, all four major EU securities market Directives were transposed into the Slovenian legislation. The Securities Market Agency issued a package of secondary legislation on the basis of the new act in November 2007 (amended in 2008, 2009, 2010, 2011, 2012, 2013 and 2016).

The Market in Financial Instruments Act establishes regulations for the offering of securities to the public and the admission of securities to trade in a regulated market. It also establishes regulations concerning disclosure of information related to the securities admitted to trade on a regulated market as well as the terms and conditions for founding, operating, supervising and winding up investment firms, market operators and settlement systems with a registered office in the Republic. The Market in Financial Instruments Act also provides the terms and conditions under which persons with a registered office outside the Republic may provide investment services in Slovenia and the rules of trading on regulated markets. It also outlines prohibited acts of market abuse and the rules for settling transactions. Furthermore, it introduces obligatory pre and post trade transparency requirements for trades in listed shares.

The Market in Financial Instruments Act also requires the Securities Market Agency to co-operate and share relevant information with the ESMA and competent authorities from other EU Member States. Other changes to the legislation were adopted in order to transpose amendments of respective EU Directives and Regulations and to accommodate the introduction of T2S, the planned centralised European settlement system, in Slovenia.

2015 Book Entry Securities Act

The first Book Entry Securities Act (*Zakon o nematerializiranih vrednostnih papirjih (ZNVP)*, the "**1999 Book Entry Securities Act**") was adopted in 1999. It established regulations on the method of issuing and transferring book entry securities, the method of exchanging already issued securities for securities issued in book entry form, conditions and restrictions of access to information on holders of book entry securities, as well as the rules for keeping a central register of book entry securities.

The Book Entry Securities Act was replaced with a new Book Entry Securities Act (*Zakon o nematerializiranih vrednostnih papirjih (ZNVP-1)*, the "**2015 Book Entry Securities Act**"), which came into force on 23 October 2015. The 2015 Book Entries Securities Act aims to harmonise Slovenian legislation with the requirements of T2S and Regulation 909/2014/EU on improving securities settlement in the European Union and on central securities depositories.

Investment Funds and Management Companies Act

The current Investment Funds and Management Companies Act (*Zakon o investicijskih skladih in družbah za upravljanje (ZISDU-3)*, the "**Investment Funds and Management Companies Act**") implemented provisions of Directive 2009/65/EC on the coordination of laws, regulations as well as administrative provisions relating to undertakings for collective investment in transferable securities ("**UCITS**") and Directive 2013/14/EU regarding amendments of Directive 2009/65/EC in respect of over-reliance on credit ratings issued by credit rating agencies. The Investment Funds and Management Companies Act also implements Article 43 of the Directive 2011/61/EU relating to the marketing of alternative investment funds ("**AIFMs**") to retail investors.

The Act on Alternative Investment Fund Managers

The Act on Alternative Investment Fund Managers (*Zakon o upravljavcih alternativnih investicijskih skladov (ZUAIS),* the "**Act on Alternative Investment Fund Managers**") implemented the Directive 2011/61/EU on alternative Investment Fund Managers, which aims at establishing common requirements governing the authorisation and supervision of alternative investment fund managers in order to provide a coherent approach to the related risks and their impact on investors and markets in the Union. The Act on Alternative Investment Fund Managers also implemented provisions of Directive 2013/14/EU regarding amendments of Directive 2011/61/EU in respect of overreliance on credit ratings issued by credit rating agencies.

***Clearing and Settlement* – KDD**

In the Republic, the Centralna klirinško depotna družba, d.d. (the "**KDD**") is the only available local clearing and settlement service. However, KDD has established links with Clearstream, Luxembourg and Euroclear which allow interests in securities to be held through accounts with Euroclear and Clearstream, Luxembourg. The Market in Financial Instruments Act provides that a clearing and settlement company should adopt its own rules of operation in which it defines in detail its operation including the process of admitting securities into the system, the rules relating to settlement of stock exchange transactions and takeover bids, including types of transfers between securities accounts. The rules become effective as soon as they have received approval from the Securities Market Agency.

The Ljubljana Stock Exchange

Ljubljanska borza, d.d., Ljubljana (the "**Ljubljana Stock Exchange**") is the sole securities exchange in the Republic. Trading is conducted in compliance with the Ljubljana Stock Exchange's articles of association, rules and instructions as well as other applicable laws.

The following table sets out data regarding the Slovenian stock market for the years ended 31 December 2013 to 2015:

	Year ended 31 December		
	2013	**2014**	**2015**
	(€ billions, except for percentages)		
Market capitalisation (€ billions)	19.07	23.73	24.17
Share of market capitalisation in GDP (%)	53.1%	63.6%	62.7%
SBI TOP (the Slovenian blue-chip index)	655.66	784.12	696.15
Number of financial instruments	106	113	107
Shares	56	56	56
Bonds	49	57	55
Turnover (€ billions)	0.39	0.69	0.39
Share of turnover in GDP (%)	1.1%	1.8%	1.0%
Share turnover ratio	0.058	0.098	0.060

	Year ended 31 December		
	2013	2014	2015
	(€ billions, except for percentages)		
Bond turnover ratio	0.006	0.004	0.003

Source: Ljubljana Stock Exchange.

The number of long term financial instruments traded on the Ljubljana Stock Exchange slightly increased from 106 in 2013 to 107 in 2015.

Trading in financial instruments on the Ljubljana Stock Exchange increased to €393 million in 2015, approximately 19 per cent. more than in 2013. In 2015, the Slovenian blue chip stock index SBI TOP gained 6.24 per cent. in nominal terms compared to 2013, equalling 696.15 points.

The share turnover ratio, calculated as the ratio of annual volume to market capitalisation at the end of the respective period, was 0.058 in 2013 and increased 4.4 per cent. to 0.060 in 2015. The bond turnover ratio decreased to 0.003 in 2015 from 0.006 in 2013.

Market capitalisation of financial instruments on the Ljubljana Stock Exchange amounted to €24.17 billion at the end of 2015 (Investment Funds excluded), which is an increase of 26.74 per cent. from December 2013.

In December 2010, the Ljubljana Stock Exchange started trading on the international trade system Xetra and has become a part of the international capital markets. Xetra is the leading international trading platform used by more than 250 financial companies with more than 4,800 brokers. Investors can access Xetra directly from 18 countries in Europe and the Middle East.

The following table sets out the volume of trading in financial instruments on the regulated market:

	Year ended 31 December		
	2013	2014	2015
	(€ billions)		
Shares	0.30	0.61	0.33
Bonds	0.09	0.07	0.06
Investment Funds	0.00	0.00	0.00
Pension coupons	—	—	—
Long term financial instruments	0.39	0.68	0.39
Short-term financial instruments	—	0.01	0.00
Total	0.39	0.69	0.39

Source: Ljubljana Stock Exchange.

The volume of trading in financial instruments on the regulated market has slightly increased by 0.8 per cent. in the last three years. The volume of trading in shares of companies was up by 11.4 per cent. in 2015 compared to 2013, while the volume of trading in bonds decreased by 35.1 per cent.

The following table sets out the market capitalisation of financial instruments on the Ljubljana Stock Exchange for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	(€ millions)	*(Share (%))*	*(€ millions)*	*(Share (%))*	*(€ millions)*	*(Share (%))*
Share market	5,173.11	27.12	6,214.04	26.18	5,523.22	22.85
First listing	4,487.49	23.53	5,217.09	21.98	4,848.97	20.06
Standard listing	234.91	1.23	580.92	2.45	413.94	1.71
Entry market	450.71	2.36	416.03	1.75	260.32	1.08
Bond market	13,901.49	72.88	17,520.16	73.82	18,645.35	77.15
IC share market	—	—	—	—	—	—
Total	19,074.60	100.00	23,734.20	100.0	24,168.58	100.00

Source: Ljubljana Stock Exchange.

Market capitalisation of financial instruments on the Ljubljana Stock Exchange (including Investment Funds), calculated as the price of a financial instrument multiplied by the number of listed financial instruments, amounted to €24.17 billion at the end of 2015, which is 26.71 per cent. more than in December 2013, when the figure was approximately €19.07 billion. Total market capitalisation of all shares on the stock exchange stood at €5.5 billion at the end of December 2015, which was 6.8 per cent. more than at the end of December 2013. Total market capitalisation of bonds stood at €18.6 billion at the end of December 2015, up 34.1 per cent. from 2013, when it amounted to €13.9 billion.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The following table sets out the Republic's balance of payments for the years ended 31 December 2010 to 2015 and the seven months ended 31 July 2015 and 31 July 2016:

BALANCE OF PAYMENTS

	Year ended 31 December						Seven months ended 31 July	
	2010	2011	2012	2013	2014	2015	2015	2016
Current account	**(43.2)**	**68.0**	**930.0**	**1,731.7**	**2,324.9**	**1,997.8**	**1,133.2**	**1,777.2**
Goods	**(748.0)**	**(974.2)**	**(81.3)**	**708.3**	**1,181.3**	**1,497.7**	**928.3**	**1,162.6**
Export of goods	18,630.7	21,042.2	21,256.1	21,692.1	22,961.1	24,039.0	14,090.0	14,551.7
Import of goods	19,378.7	22,016.4	21,337.3	20,983.8	21,779.7	22,541.3	13,161.7	13,389.1
Services	**1,210.2**	**1,406.0**	**1,509.4**	**1,731.9**	**1,696.7**	**2,019.0**	**1,104.1**	**1,242.2**
Export of services	4,654.6	4,905.8	5,106.4	5,317.5	5,558.4	6,024.7	3,357.2	3,522.3
Import of services	3,444.4	3,499.8	3,596.9	3,585.6	3,861.7	4,005.7	2,253.1	2,280.1
Primary Income	(373.2)	(279.4)	(271.5)	(192.2)	(125.4)	(981.9)	(548.4)	(308.4)
Receipts	894.7	1,318.2	1,158.7	1,116.6	1,395.7	1,631.9	981.8	1,000.3
Expenditure	1,267.9	1,597.6	1,430.2	1,308.8	1,521.1	2,613.9	1,530.3	1,308.7
Secondary income	**(132.2)**	**(84.3)**	**(226.7)**	**(516.2)**	**(427.8)**	**(536.8)**	**(350.8)**	**(319.2)**
Receipts	863.8	992.9	930.6	631.5	709.0	724.7	398.0	384.8
Expenditure	996.0	1,077.2	1,157.3	1,147.8	1,136.7	1,261.6	748.8	704.0
Capital account	**53.7**	**(85.0)**	**40.7**	**187.1**	**156.7**	**370.6**	**163.1**	**(146.3)**
Financial account	**(1,459.6)**	**(754.0)**	**(142.1)**	**1,041.8**	**2,376.7**	**1,772.1**	**1,266.7**	**843.4**
Direct investment	**(93.2)**	**(639.6)**	**(465.6)**	**(47.1)**	**(583.9)**	**(1,238.0)**	**(442.5)**	**(633.1)**
Assets	138.0	(3.5)	(438.9)	23.6	155.1	277.8	467.0	282.8
Liabilities	231.2	636.1	26.7	70.7	739.0	1,515.7	909.5	915.9
Portfolio investment	**(1,961.1)**	**(1,844.1)**	**219.6**	**(4,175.6)**	**(3,968.1)**	**2,929.2**	**1,328.7**	**1,706.5**
Assets	370.4	(16.6)	(142.8)	(466.8)	426.4	2,015.4	609.0	866.2
Liabilities	2,331.5	1,827.5	(362.4)	3,708.8	4,394.4	(913.8)	(719.7)	(840.3)
Financial derivatives	**116.8**	**155.4**	**89.5**	**32.3**	**(3.0)**	**28.1**	**23.2**	**13.6**
Other investment	**496.6**	**1,646.3**	**45.5**	**5,226.9**	**6,843.0**	**165.6**	**345.6**	**(196.3)**
Assets	**(1,806.6)**	**425.5**	**456.3**	**632.1**	**4,814.8**	**(671.5)**	**47.4**	**(540.1)**
Other equity	10.4	10.2	154.6	151.8	84.0	10.3	11.8	0.1
Currency and deposits	(1,592.8)	323.4	38.5	563.8	5,037.0	(544.6)	(88.6)	(796.8)
Loans	(323.7)	3.1	371.5	0.8	(299.4)	(407.9)	(307.0)	(79.1)
Insurance. pension and stand, guarantee schemes	(11.2)	(1.8)	28.3	(9.6)	7.7	(8.2)	4.2	7.5
Commercial credits	198.5	61.0	(48.8)	19.3	(15.9)	(3.8)	382.1	387.2
Other assets	(87.7)	29.6	(87.7)	(94.1)	1.3	282.7	44.9	(59.0)
Liabilities	**(2,303.2)**	**(1,220.8)**	**410.9**	**(4,594.8)**	**(2,028.2)**	**(837.2)**	**(298.2)**	**(343.8)**

BALANCE OF PAYMENTS

	Year ended 31 December						Seven months ended 31 July	
	2010	2011	2012	2013	2014	2015	2015	2016
Other equity	(0.6)	(1.8)	0.2	(29.2)	6.5	0.9	0.8	(0.4)
Currency and deposits..	(1,920.6)	(77.1)	1,018.7	(4,168.9)	(830.8)	(399.6)	(415.2)	370.7
Loans............................	(697.0)	(1,320.1)	(938.3)	(269.4)	(1,246.5)	(314.7)	238.2	(709.8)
Insurance. pension and stand, guarantee schemes........................	17.4	26.6	40.6	39.5	(53.7)	2.9	(2.1)	10.5
Commercial credits	309.7	133.0	284.7	(182.3)	(143.5)	(101.4)	(160.6)	(10.5)
Other liabilities.............	(12.2)	18.5	5.0	15.5	239.7	(25.3)	40.7	(4.3)
Special drawing rights (SDR)...........................	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve assets	**(18.8)**	**(72.0)**	**(31.2)**	**5.3**	**88.7**	**(112.9)**	**11.7**	**(47.4)**
Net errors and omissions	(1,470.2)	(737.0)	(1,112.8)	(877.0)	(104.9)	(596.4)	(29.5)	(787.6)

Source: Bank of Slovenia.

Current Account

In the period from 2010 to 2015, the current account balance moved from a deficit of €43.2 million in 2010 to a surplus of €1,997.8 million in 2015 (which represents 5.2 per cent. of GDP). This change from deficit to surplus was the result of an increase in the positive balance of goods and services and also a decrease in the deficit in the primary income account. Historically, the services account has positively contributed to the overall current account balance, mainly due to a surplus in tourism activity. From 2011 to 2014, the account had a surplus which reached €2,324.9 million in 2014 (which represents 6.2 per cent. of GDP). The total services surplus continued to grow in the entire observed period (2010-2015). The current account surplus reached €1,731.7 million (4.8 per cent. of GDP) in 2013, compared to €930.0 million (2.6 per cent. of GDP) in 2012. The main reason for the increase was the change from deficit to surplus in the goods account.

In the first seven months of 2016, the current account surplus reached €1,777.2 million, compared to €1,133.2 million in the first seven months of 2015.

Foreign Trade

Foreign trade is the most important item in the Slovenian current account. Its share in all current account credits was 74.7 per cent. in 2012, 75.4 per cent. in 2013, 75.0 per cent. in 2014, 74.1 per cent. in 2015 and 74.8 per cent. in the first seven months of 2016. On the debit side, its share was 77.5 per cent. in 2012, 77.6 per cent. in 2013, 77.0 per cent. in 2014, 74.1 per cent. in 2015 and 75.7 per cent. in the first seven months of 2016. The Republic's foreign trade is predominantly linked to EU countries, including Croatia, followed by the other countries of the former SFRY. From 2008 to 2015, the Republic steadily increased its market share of exports into EU countries.

Exports of goods increased in 2015 by 4.7 per cent. compared to 2014 and imports increased by 3.5 per cent. in 2015 compared to 2014. In total, from 2010 to 2015, exports of goods increased by 29.0 per cent. and imports of goods by 16.3 per cent.

In the first seven months of 2016, exports of goods increased by 3.3 per cent. and imports of goods increased by 1.7 per cent., compared to the first seven months of 2015.

Imports and Exports of Goods by Region

The geographical breakdown of Slovenian foreign trade has been relatively stable over the last six years, including up to the first seven months of 2016. In the first seven months of 2016, EU countries represented 77.3 per cent. of total exports and 81.0 per cent. of total imports, which was largely the same share as in 2015 and 2014. In 2015, EU countries represented 76.9 per cent. of total exports and 80.8 per cent. of total imports and in 2014 76.4 per cent. on the export side and 78.3 per cent. on the import side. Among EU countries, Germany is the Republic's most significant trading partner, followed by Italy, Austria and Croatia. France, Serbia and the Russian Federation are also important partners.

The following tables set out the shares of imports and exports of goods by region for the years ended 31 December 2010 to 2015 and the seven months ended 31 July 2015 and 31 July 2016:

Shares of imports and exports of goods by region

	Year ended 31 December						Seven months ended 31 July	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**
				Share (%)				
Exports of goods (fob)								
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
EU	76.6	76.8	74.9	74.8	76.4	76.9	77.4	77.3
of which:								
Austria	7.8	7.6	8.3	8.7	8.8	8.3	8.1	7.7
Italy	11.9	11.7	11.3	11.5	11.9	11.4	11.7	11.0
Germany	18.9	20.4	20.8	20.1	19.8	20.4	20.6	20.9
France	8.0	6.7	5.5	5.2	5.1	4.9	5.1	4.9
Hungary	3.1	3.1	2.9	3.1	3.2	3.1	3.1	3.0
Netherlands	2.0	2.1	1.9	1.5	1.7	1.8	1.8	1.8
Czech Republic	2.4	2.5	2.8	2.7	2.3	2.4	2.3	2.3
United Kingdom	2.5	2.4	2.2	2.1	2.1	2.3	2.3	2.2
Croatia	6.7	6.7	6.3	6.7	7.8	7.8	7.6	8.2
Serbia	3.2	2.9	3.4	3.4	3.1	3.0	2.9	3.2
Russian Federation	3.4	3.7	4.5	4.7	4.4	3.3	3.3	2.6
China	0.5	0.5	0.6	0.6	0.6	0.6	0.6	1.0
USA	1.6	1.5	1.6	1.6	1.9	2.1	2.0	2.1
Imports of goods (fob)								
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
EU	80.7	80.6	80.6	78.7	78.3	80.8	80.7	81.0
of which:								
Austria	12.0	11.3	11.6	11.6	11.5	11.6	11.5	11.1
Italy	17.6	17.5	18.5	16.2	16.4	15.9	16.4	15.7
Germany	18.4	19.4	18.7	18.6	18.3	18.9	18.7	19.1
France	5.4	4.8	4.7	3.6	3.7	3.6	3.7	3.9

	Year ended 31 December						Seven months ended 31 July	
	2010	2011	2012	2013	2014	2015	2015	2016
				Share (%)				
Hungary	4.1	4.2	4.5	4.8	4.6	4.4	4.5	4.3
Netherlands	3.3	3.2	3.1	3.0	3.5	3.6	3.5	3.6
Czech Republic	2.5	2.6	2.5	2.5	2.4	2.7	2.6	2.7
United Kingdom.......	1.4	1.6	1.5	1.9	1.5	1.6	1.6	1.7
Croatia.....................	3.8	3.9	4.1	4.8	4.8	5.8	5.7	5.9
Serbia	1.6	1.6	1.4	1.7	1.6	1.5	1.5	1.6
Russian Federation.......	1.5	1.8	1.7	2.1	1.8	1.0	1.0	1.1
China...........................	2.6	2.5	2.8	2.5	2.8	3.3	3.4	3.2
USA	1.4	2.2	1.4	1.8	1.2	1.5	1.2	1.4

Source: Bank of Slovenia.

The following tables set out the shares of imports and exports of goods by region for the years ended 31 December 2010 to 2015 and the seven months ended 31 July 2015 and 31 July 2016:

Amounts of imports and exports by region

	Year ended 31 December						Seven months ended 31 July	
	2010	2011	2012	2013	2014	2015	2015	2016
Exports of goods (fob)								
Total	**18,631**	**21,042**	**21,256**	**21,692**	**22,961**	**24,039**	**14,090**	**14,552**
EU 28	14,279	16,164	15,930	16,228	17,533	18,495	10,902	11,253
of which:								
Austria.....................	1,461	1,597	1,757	1,890	2,026	1,986	1,144	1,117
Italy	2,219	2,468	2,408	2,488	2,729	2,737	1,643	1,606
Germany..................	3,514	4,299	4,413	4,352	4,545	4,893	2,898	3,042
France	1,481	1,409	1,160	1,138	1,172	1,184	717	719
Hungary	580	661	606	673	729	734	441	433
Netherlands	366	439	411	336	389	428	258	267
Czech Republic	439	523	597	583	535	568	323	334
United Kingdom.......	463	505	472	464	484	550	321	322
Croatia.....................	1,251	1,415	1,337	1,460	1,780	1,881	1,070	1,200
Serbia	600	605	719	728	718	725	412	460
Russian Federation.......	633	782	951	1,029	1,005	798	467	374
China...........................	102	99	136	128	140	149	86	152
USA	292	326	335	358	426	493	281	303

	Year ended 31 December						Seven months ended 31 July	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**
Imports of goods (fob)								
Total	**19,379**	**22,016**	**21,337**	**20,984**	**21,780**	**22,541**	**13,162**	**13,389**
EU 28	15,630	17,738	17,198	16,518	17,059	18,217	10,618	10,851
of which:								
Austria.....................	2,317	2,487	2,470	2,444	2,496	2,618	1,517	1,487
Italy	3,415	3,844	3,946	3,389	3,568	3,584	2,163	2,107
Germany..................	3,570	4,277	3,981	3,904	3,985	4,270	2,468	2,564
France	1,040	1,056	997	754	814	823	488	525
Hungary	790	919	965	1,001	1,006	1,002	598	569
Netherlands	637	706	653	635	761	801	457	481
Czech Republic	491	566	538	522	526	602	345	363
United Kingdom.......	265	359	310	395	320	368	205	224
Croatia.....................	731	858	874	1,003	1,040	1,318	750	796
Serbia	312	358	303	350	348	341	202	212
Russian Federation.......	298	398	372	443	400	225	130	145
China...........................	496	560	600	523	604	737	447	431
USA	265	479	291	386	265	328	158	184

Source: Bank of Slovenia.

Composition of Trade

The composition of exports and imports of goods by products was relatively stable in the period from 2010 to 31 July 2016. The most significant exports in 2015 and the first seven months of 2016 were high value added goods, such as machinery and transport equipment, followed by other manufactured goods and chemicals and related products. These products were also the most significant imports with the addition of mineral fuels, lubricants and related materials.

The following tables set out the shares of imports and exports of goods by region for the years ended 31 December 2010 to 2015 and the seven months ended 31 July 2015 and 31 July 2016:

Shares of imports and exports of goods by Standard International Trade Classification

	Year ended 31 December						Seven months ended 31 July	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**
	Share (%)							
Exports of goods (fob)								
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Food and live animals ..	3.2	3.2	3.2	3.4	3.5	3.7	3.6	3.7
Beverages and tobacco.	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5

	Year ended 31 December						Seven months ended 31 July	
	2010	2011	2012	2013	2014	2015	2015	2016
	Share (%)							
Crude materials (except fuels)	4.0	3.9	3.8	3.9	3.9	3.7	3.8	3.4
Mineral fuels, lubricants and related materials......................	4.2	5.7	6.5	6.6	6.2	5.3	5.1	4.2
Animal and vegetable oils, fats and waxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Chemicals and related products.......................	16.5	16.6	17.8	18.7	18.2	17.5	17.8	17.3
Manufactured goods.....	22.1	23.0	21.9	21.0	20.9	21.0	21.3	21.0
Machinery and transport equipment......	38.7	36.7	35.9	35.6	36.3	37.4	37.6	38.6
Miscellaneous manufactured articles ...	10.8	10.4	10.2	10.1	10.3	10.6	10.2	11.0
Other commodities and products of trade	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.2
Imports of goods (cif)								
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Food and live animals ..	6.5	6.6	6.8	7.2	7.2	7.4	7.2	7.3
Beverages and tobacco.	0.8	0.8	0.8	0.8	0.8	0.9	0.8	0.9
Crude materials (except fuels)	6.3	6.1	5.9	5.8	5.7	5.5	5.8	5.3
Mineral fuels, lubricants and related materials......................	12.8	15.2	17.1	15.1	12.9	10.6	10.9	8.0
Animal and vegetable oils, fats and waxes	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Chemicals and related products.......................	13.7	13.6	14.4	14.7	15.0	15.2	15.6	15.7
Manufactured goods.....	19.3	19.3	18.4	18.0	18.4	18.8	19.2	19.4
Machinery and transport equipment......	30.1	28.2	27.2	29.1	30.2	31.3	30.7	33.2
Miscellaneous manufactured articles ...	10.0	9.5	8.9	8.8	9.4	9.7	9.4	9.8
Other commodities and products of trade	0.3	0.5	0.3	0.2	0.1	0.2	0.2	0.1

Source: Bank of Slovenia, SORS.

Capital Account

The capital account recorded a surplus of €370.6 million in 2015, compared to a surplus of €156.7 million in 2014 and a surplus of €187.1 million in 2013. In the first seven months of 2016, the capital account recorded a deficit of €146.3 million.

Financial Account

The financial account generated a surplus of €1,772.1 million in 2015, compared to a surplus of €2,376.7 million in 2014. In 2015, there was a net inflow of direct investment of €1,238.0 million and net outflow of portfolio investment of 2,929.2 million. The latter was mostly due to the repayment of long term debt securities liabilities and an increase in investments in long term debt securities assets. Other investment generated net outflow of €165.6 million.

In 2014, the financial account generated a surplus of €2,376.7 million. There was a net inflow of direct investment of €583.9 million and portfolio investment of €3,968.1 million, the latter of which was largely driven by Government debt issuances. Other investment generated net outflows of €6,843.0 million, mainly due to the net outflows of currency and deposits and loans.

In 2013, the financial account generated a net surplus of €1,041.8 million. There was a net inflow of foreign direct investment in the amount €47.1 million and portfolio investment in the amount of €4,175.6 million, while other investment generated a net outflow of €5,226.9 million, primarily due to a decrease of liabilities in currency and deposits.

For 2012, the financial account generated a net deficit of €142.1 million. Direct investment generated net inflows of €465.6 million and portfolio investment generated net outflows of €219.6 million. Other investments generated a €45.5 million outflow.

In the first seven months of 2016, the financial account generated a surplus of €1,266.7 million, compared to a surplus of €843.4 million in the first seven months of 2015.

Amounts and Origins of Foreign Direct Investment

In 2015, inward foreign direct investment increased by €1,465.2 million, compared to an increase of €791.3 million in 2014. This increase was mainly due to larger positive reinvested earnings amounting to €449.2 million, which was the first increase of reinvested earnings since 2008. At the end of 2015 the amount of inward foreign direct investment was €11,564.5 million, compared to the end of 2014, when the amount of inward foreign direct investment was €10,201.6 million. The increase in 2014 was mostly a result of a few large acquisitions and privatisations to foreign buyers (see "*Public Finance – Consolidated Government Holdings*").

In the period from 2010 to 2012, inward foreign direct investment primarily recorded net inflows (2010: €79.6 million; 2011: €782.2 million; 2012: €264.1 million). However, in 2013, foreign direct investment recorded net outflows of €113.9 million, mostly on the account of negative reinvested earnings which were generally due to losses in the financial sector. In 2011, the majority of foreign direct investment was on account of the net increase of liabilities to foreign parent companies, while in 2010 the major part of inflows represented equity capital.

In the first seven months of 2016, the inflow of foreign direct investment amounted to €706.2 million, there has been no significant change from the same period in 2015.

The following table sets out the net inflow of foreign direct investment in the Republic by country of origin for the years ended 31 December 2010 to 2015 and the seven months ended 31 July 2015 and 31 July 2016:

Inflow of Foreign Direct Investment by Top Countries

	Year ended 31 December						Seven months ended 31 July	
	2010	2011	2012	2013	2014	2015	2015	2016
	(€ million)							
Austria..........................	80.4	596.7	(64.3)	(217.5)	(150.8)	264.6	260.4	21.1
Belgium........................	(47.0)	(113.1)	37.4	20.4	0.7	11.5	7.1	16.0
Switzerland	(155.2)	63.8	150.7	12.2	60.9	163.9	80.7	136.9

	Year ended 31 December						Seven months ended 31 July	
	2010	2011	2012	2013	2014	2015	2015	2016
	(€ million)							
Cyprus	(6.8)	(2.4)	(2.3)	(11.7)	(21.1)	32.6	(24.9)	(1.2)
Czech Republic	(28.6)	(4.5)	4.9	24.4	29.5	86.8	78.0	18.2
Germany	(30.7)	29.2	120.9	13.2	378.8	136.6	40.2	12.9
France	(29.8)	27.8	(2.2)	49.4	(33.9)	5.9	66.8	(105.4)
United Kingdom	3.6	69.3	(19.3)	(5.4)	(41.6)	65.0	54.4	30.3
Croatia	192.0	(17.9)	(14.0)	46.1	247.3	119.9	62.4	6.3
Italy	16.6	38.5	7.9	22.8	27.6	49.7	(4.4)	(8.0)
Luxembourg	(101.2)	14.4	(18.7)	42.3	127.7	149.9	77.7	429.8
Netherlands	(6.4)	(45.4)	128.6	(63.9)	181.4	299.8	(5.3)	36.7
Russian Federation	101.9	18.0	(2.2)	21.3	(19.4)	1.6	2.0	(2.9)
Other countries	90.8	107.8	(63.4)	(67.3)	4.3	77.5	11.6	115.4
Total[(1)]	79.6	782.2	264.1	(113.9)	791.3	1,465.2	706.7	706.2

Source: Bank of Slovenia.

Note:

(1) Data on Foreign Direct Investment are prepared according to the directional principle, which differs from asset/liability principle taken into account in the balance of payments statistics.

Gross External Debt

As at 31 December 2015, gross external debt, which includes both public and private debt, amounted to €44.95 billion, €1.56 billion less than the level as at 31 December 2014 (€46.51 billion). The gross external debt at the end of 2015 was comprised of general government debt (52 per cent.), which was mostly in the form of long term securities, the debt of other sectors (24 per cent.) and banks (12 per cent.). In the period from 2010 to 2015, the ratio of external debt to GDP fluctuated between 116.2 and 116.6 per cent. of GDP. The share of private non-guaranteed debt within gross external debt fell during this period from 57.5 per cent. of private debt at the end of 2010 to 33.7 per cent. at the end of 2015, which was largely driven by Government debt issuances. However, since the euro is the dominant currency with regard to foreign debt and trade and capital flows, currency fluctuations do not represent a risk that could lead to an increase in the level of gross foreign debt or repayment expenses. Net external debt decreased from €14.75 billion at the end of 2014 to €12.02 billion at the end of 2015. During this period the largest reduction of net external debt was in the general government sector, which reduced by €2.1 billion. Further, the Republic's international net investment position in 2014 reached negative 44.2 per cent. of GDP or €16.50 billion and was reduced to €14.93 billion (38.7 per cent. of GDP) at the end of 2015.

As at 31 July 2016, the gross external debt reached €44.73 billion, which was €1.3 billion less than the gross external debt as at 31 July 2015.

The following table sets out gross external debt by sector as at 31 December 2010 to 2015 and as at 31 July 2015 and 31 July 2016:

	As at 31 December												As at 31July	
	2010		2011		2012		2013		2014		2015		2015	2016
	(€ million)	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*(€ million)*
General Government	*8,190*	22.6	*8,748*	23.7	*11,091*	30.8	*15,668*	43.6	*22,619*	60.6	*23,169*	60.1	*23,250*	*23,092*
Monetary Authority	*3,660*	10.1	*4,387*	11.9	*6,071*	16.9	*2,742*	7.6	*2,083*	5.6	*2,217*	5.8	*2,189*	*2,650*

	As at 31 December												As at 31July	
	2010		**2011**		**2012**		**2013**		**2014**		**2015**		**2015**	**2016**
	(€ million)	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*(€ million)*
Banks	*16,015*	44.2	*13,446*	36.4	*9,892*	27.5	*7,519*	20.9	*6,591*	17.7	*5,195*	13.5	*5,254*	*4,293*
Other Sectors	*12,106*	33.4	*12,133*	32.9	*12,697*	35.3	*12,698*	35.4	*11,570*	31.0	*10,837*	28.1	*11,366*	*10,821*
Direct Investment: Intercompany lending	*2,152*	5.9	*2,955*	8.0	*3,120*	8.7	*3,240*	9.0	*3,651*	9.8	*3,536*	9.2	*3,963*	*3,871*
Total Gross External Debt(1)	*42,123*	116.2	*41,669*	112.9	*42,872*	119.1	*41,866*	116.6	*46,514*	124.7	*44,954*	116.6	*46,023*	*44,727*

Source: Bank of Slovenia.

Note:

(1) The methodology used to compile these figures is based on the External Debt Statistics: Guide for Compilers and Users, IMF, 2013. This guide is available at: http://www.tffs.org/edsguide.htm. In order to maintain consistency, the data sources are the same as those for the International Investment Position. The sources for equities and financial derivatives are not used because these types of instruments are not included in the balance of external debt according to the IMF definition.

CLEARING AND SETTLEMENT

The Notes will be issued in accordance with the provisions of the Dematerialised Securities Act as entries within the central register (the "**Central Register**") maintained by KDD.

KDD was established to provide central securities register services, clearance and settlement of securities transactions and maintenance of the Central Register of dematerialised securities (and their holders) in the Republic of Slovenia. KDD's shareholders are banks, stock brokers, fund management companies, government funds and issuers. Currently KDD's legal status and operation is regulated by the ZTFI.

The Notes will be issued in accordance with an order (the "**Registration Order**") issued by the Republic which requests KDD to enter the Notes into the Central Register and credit them to the accounts of the person(s) specified in the Registration Order. The person to whose account a Note is credited in KDD will be considered as the legal holder of such Note except if such Note has been credited to such person's account without a valid order of the Republic or previous holder of such Note and such person was not acting in good faith.

The Notes will be transferable between accounts held with KDD by registration of such transfers in the Central Register. For the purpose of transfers, a Noteholder shall maintain a trading account operated by a KDD member (a stockbroker or a bank). A list of KDD members is available on the website of KDD at www.kdd.si (the contents of such website do not form part of, nor are they incorporated in, this Offering Circular).

KDD will automatically settle all transactions in the Notes concluded on the Ljubljana Stock Exchange. All other transfers of the Notes between accounts held with KDD will be registered in the Central Register on the basis of an order submitted by the transferor to the KDD member operating the transferor's account and a matching order submitted by the transferee to the KDD member operating the transferee's account.

KDD has established links with Clearstream, Luxembourg and Euroclear which allow interests in the Notes to be held through accounts with Euroclear and Clearstream, Luxembourg.

Accountholders with Euroclear or Clearstream, Luxembourg will not be considered as the legal owners of such Notes under Slovenian law.

Notwithstanding the foregoing, Accountholders are entitled to make a direct claim against the Republic for payments under the Notes subject to the provisions set out within the "*Terms and Conditions of the Notes – Payments*". In order for such persons to enforce any other rights (other than payment) conferred to Noteholders, such persons should look to the standard terms of business of such clearing system with respect to indirect enforcement of their rights.

EUROPEAN CENTRAL BANK ELIGIBILITY

KDD is an approved Central Securities Depositary. The "bridge" between KDD and Clearstream, Luxembourg and the "bridge" between KDD and Euroclear are both eligible direct links for European Central Bank collateral purposes. See the website of the ECB (www.ecb.int) for further information. The contents of such website do not form part of, nor shall they be incorporated in this Offering Circular.

SLOVENIAN TAXATION

The following is a general description of certain Slovenian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes and any other person that may become entitled to receive (directly or indirectly) any payment in respect of the Notes, should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Slovenia of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Corporate Investors

Interest on the Notes received and/or capital gains earned on the sale or disposition of the Notes, in each case by:

(A) a legal person resident for taxation purposes in the Republic of Slovenia; or

(B) a permanent establishment (*poslovna enota*) in the Republic Slovenia of a legal person not resident for taxation purposes in the Republic of Slovenia,

is subject to Slovenian Corporate Income Tax (*davek od dohodkov pravnih oseb*) as a part of the overall income of such legal person resident for taxation purposes in the Republic of Slovenia, or, as the case may be, a permanent establishment in the Republic of Slovenia of a legal person not resident for taxation purposes in the Republic of Slovenia.

Interest on the Notes received by a legal person not resident for taxation purposes in Slovenia and not having a permanent establishment in Slovenia is not subject to Slovenian Corporate Income Tax.

No withholding tax is levied on payments under the Notes to legal persons regardless of their residence for taxation purposes.

Individuals

The amounts of interest on the Notes received by an individual resident for taxation purposes in Slovenia are generally subject to Personal Income Tax (*dohodnina*) at the rate of 25 per cent. There is no withholding tax on such interest; instead, residents are obliged to submit a return declaring such interest by 28 February in each calendar year for interest received in the previous calendar year. Such tax is the final tax imposed by Slovenia on interest derived by residents from the Notes.

An individual who is not resident for taxation purposes in Slovenia is fully exempt from Slovenian tax on interest derived from the Notes.

The paying agent (as defined in the Tax Procedure Act) (*Zakon o davčnem postopku (ZDavP-2)*) is required to report the payment of interest on the Notes to the tax authority in accordance with the provisions implementing the European Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments.

Individuals are not liable to Personal Income Tax on capital gains resulting from disposals of the Notes.

Any persons who are in doubt as to tax applicable to the Notes or any tax or stamp duty which may be applicable to the transfer or disposition of the Notes are advised to consult their professional advisers in connection therewith.

SUBSCRIPTION AND SALE

The Managers have, pursuant to a subscription agreement dated 28 October 2016 (the "**Subscription Agreement**") and entered into between the Republic and the Managers, jointly and severally agreed with the Republic to subscribe and pay or procure the subscription and payment for the Notes pursuant to the Subscription Agreement, all on the terms set forth therein.

The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment of the net subscription monies for the Notes to the Republic.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of the Commonwealth of Australia (the "**Corporations Act**")) in relation to the Notes has been, or will be, lodged with the Australian Securities & Investments Commission ("**ASIC**") or any other regulatory authority in the Commonwealth of Australia.

Each Manager has represented and agreed that it:

(a) has not (directly or indirectly) offered, and will not offer for issue or sale and has not invited, and will not invite, applications for issue, or offers to purchase, the Notes in, to or from Australia (including an offer or invitation which is received by a person in the Commonwealth of Australia); and

(b) has not distributed or published, and will not distribute or publish, any preliminary or definitive offering circular, advertisement or other offering material relating to the Notes or any sale of the Notes in Australia,

unless (1) the aggregate consideration payable by each offeree or invitee is at least AUD500,000 (or equivalent in other currencies, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Corporations Act, (2) such action complies with all applicable laws, regulations and directives, (3) the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Corporations Act, and (4) such action does not require any document to be lodged with ASIC or any other regulatory authority in the Commonwealth of Australia.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Manager represents and agrees that, save as set out below, it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in an offer to the public and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Accordingly, each of the Managers represents and agrees that it will not offer, sell or deliver any Notes or distribute copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy except:

- to "qualified investors", as referred to in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Decree No. 58**") and defined in Article 34-*ter*, paragraph 1, let. b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended ("**Regulation No. 11971**"); or

- that it may offer, sell or deliver Notes or distribute copies of any prospectus relating to such Notes in an offer to the public in the period commencing on the date of publication of such prospectus, **provided that** such prospectus has been approved in another Relevant Member State and notified to CONSOB, all in accordance with the Prospectus Directive, as implemented in Italy under Decree 58 and Regulation No. 11971, and ending on the date which is 12 months after the date of approval of such prospectus; or

- in any other circumstances where an express exemption from compliance with the offer restrictions applies, as provided under Decree No. 58 or Regulation No. 11971.

- Any such offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy must be:
- made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended, Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007, as amended and any other applicable laws and regulations; and
- in compliance with any other applicable notification laws and regulations, including any requirement or limitation which may be imposed by CONSOB, the Bank of Italy or any other competent authority.

Provisions relating to the secondary market in the Republic of Italy

Investors should also note that, in any subsequent distribution of the Notes in the Republic of Italy, Article 100-*bis* of Decree No. 58 may require compliance with the law relating to public offers of securities. Furthermore, where the Notes are placed solely with "qualified investors" and are then systematically resold on the secondary market at any time in the 12 months following such placing, purchasers of Notes who are acting outside of the course of their business or profession may in certain circumstances be entitled to declare such purchase void and, in addition, to claim damages from any authorised person at whose premises the Notes were purchased, unless an exemption provided for under Decree No. 58 applies.

United States

The Notes have not been, and will not be, registered under the Securities Act and may not be offered or sold in the United States except in certain transactions exempt from the registration requirements of the Securities Act. Accordingly, each Manager has agreed that, it will only offer and sell the Notes outside the United States in accordance with Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each Manager has represented, warranted and undertaken that

(a) it has only communicated, or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

General

Neither the Republic nor any Manager has made any representation that any action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular, or any other offering material relating to the Notes or any supplement, in any country or jurisdiction where action for that purpose is required. Further neither the Republic nor the Managers represent that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to any exemption available thereunder or assumes any responsibility for facilitating the same.

Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Offering Circular or any other offering material relating to the Notes including any supplement thereto, in all cases at their own expense. Persons into whose hands this Offering Circular is distributed are required by the Republic and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. The issue of the Notes has been duly authorised pursuant to the first and second paragraphs of Article 84 of the Public Finance Act and the first and fifth paragraphs of Article 48 of the Republic of Slovenia Budgets for 2016 and 2017 Implementation Act (*Zakon o izvrševanju proračunov Republike Slovenije za leti 2016 in 2017 (ZIPRS1617)*).

2. Application has been made for the Notes to be listed on the bond market and traded on the EEA Regulated Market of the Ljubljana Stock Exchange pursuant to the rules and regulations of the Ljubljana Stock Exchange.

3. The Notes will be issued in dematerialised registered form and held with KDD. The Common Code for the Notes is 151308350. The ISIN for the Notes is SI0002103677. Links between KDD and Euroclear and Clearstream, Luxembourg have been established which allow interests in the Notes to be held indirectly through the fiduciary accounts with KDD maintained by Clearstream, Luxembourg and by Citibank N.A. on behalf of Euroclear.

INDEX OF DEFINED TERMS

THE ISSUER

The Republic of Slovenia
(Acting through the Ministry of Finance)
The Ministry of Finance
Župančičeva 3
1502 Ljubljana
Slovenia

JOINT LEAD MANAGERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Deutsche Bank Aktiengesellschaft
Große Gallusstraße 10-14
60311 Frankfurt am Main
Germany

Goldman Sachs International Bank
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

CO-LEAD MANAGERS

Abanka d.d.
Slovenska cesta 58
1000 Ljubljana
Slovenia

Nova Ljubljanska banka d.d., Ljubljana
Trg republike 2
1000 Ljubljana
Slovenia

LEGAL ADVISERS

To the Republic as to Slovenian law

Odvetniki Vidmar Zemljarič
Slovenska cesta 29
1000 Ljubljana
Slovenia

To the Joint Lead Managers as to Slovenian law

Wolf Theiss
Bleiweisova 30
1000 Ljubljana
Slovenia

To the Republic as to English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Joint Lead Managers as to English law

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom