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THE REPUBLIC OF SLOVENIA

€1,500,000,000 1.00 per cent. Notes due 2028

The issue price of the €1,500,000,000 1.00 per cent. Notes due 2028 (the "**Notes**") of the Republic of Slovenia (the "**Republic**", "**Slovenia**" or the "**Issuer**") is 99.654 per cent. of their principal amount.

The Notes will bear interest from and including 11 January 2018 at the rate of 1.00 per cent. per annum payable annually in arrear on 6 March in each year, commencing on 6 March 2019, save that the first payment of interest, to be made on 6 March 2019, will be made in respect of the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date (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 6 March 2028. 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 2014/65/EU of the European Parliament and of the Council on markets in financial instruments.

Joint Lead Managers

CITIGROUP

COMMERZBANK AKTIENGESELLSCHAFT

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JEFFERIES INTERNATIONAL LIMITED

NOVA LJUBLJANSKA BANKA D.D., LJUBLJANA

The date of this Offering Circular is 9 January 2018.

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.

Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Goldman Sachs International Bank, HSBC France, Jefferies International Limited, and Nova Ljubljanska banka d.d., Ljubljana as joint lead managers (the "**Joint Lead 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 Joint Lead 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 Joint Lead 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 Joint Lead 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 Joint Lead 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.

MiFID II product governance / Retail investors, professional investors and ECPs target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties, professional clients and retail clients each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

STABILISATION

In connection with the issue of the Notes, Goldman Sachs International Bank (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily 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 Closing 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 persons 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" section of this Offering Circular 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 forthcoming exit of the United Kingdom from the EU pursuant to the triggering of Article 50 and the effect of any future significant economic difficulties of its major trading partners. The Slovenian economy is small, highly export-oriented and deeply integrated into the European supply chain. 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 in 2008. 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, a 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 Republic 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, some doubts remain over the successful implementation of these measures and the continued stability of the European monetary system and economy. As at 31 December 2016, the Republic's exposure to financial assistance programmes supporting financial stability in the Eurozone was €1,497.4 million, of which €263.7 million related to the Loan Facility Agreement for Greece on a bilateral level.

Following the triggering of Article 50 by the United Kingdom on 29 March 2017, the eventual terms of the United Kingdom's forthcoming 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 United Kingdom was also one of the biggest net contributors to the EU budget, and its departure could adversely impact the Republic's allocation for the next EU Multiannual Financial Framework (2021-2027).

The forthcoming 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.

The privately-owned Slovenian retail company Mercator (which generates approximately 40 per cent. of the value added of the Republic's retail sector and more than 1 per cent. of value added in the business sector; employs around 10,500 employees; and represents approximately 2 per cent. of the total business sector in the Republic) is owned by the Agrokor group in Croatia, which is currently undergoing a restructuring. A significant downsizing or restructuring of Mercator could have a material impact on the retail sector of the Republic of Slovenia. In order to address this potential risk, the Republic has passed the Act Setting Conditions for the Appointment of Associate Members of Management Boards in Systemically Important Companies in the Republic of Slovenia (*Zakon o pogojih imenovanja izrednega člana uprave v družbah sistemskega pomena za Republiko Slovenijo* (*ZIČUDSP*), the "**ZIČUDSP**") on 6 May 2017 (for further information see "*The Republic of Slovenia – The ZIČUDSP (Economically, Socially and Financially Systemic Companies)*").

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 0.8 per cent. and 0.4 per cent. for 2017 and 2018, 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 the past 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 by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), Moody's Investors Service, Inc. ("**Moody's Inc.**") and Fitch Ratings Limited ("**Fitch**"), however in 2014 and 2015 Fitch, S&P and Moody's Investors Services Ltd. ("**Moody's Ltd.**") began to upgrade the Republic's credit rating. Most recently, Fitch upgraded the Republic's rating on 23 September 2016 to A- with a stable outlook; S&P upgraded the Republic's rating on 16 June 2017 to A+ with a stable outlook; and Moody's Ltd. upgraded the Republic's rating on 8 September 2017 to Baa1 with a stable outlook. See "*Public Debt – Credit Ratings*" for more detail on the Republic's credit rating.

Although Fitch, S&P and Moody's Ltd. have a stable 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 Baa1 by Moody's Ltd.

Parts of the Slovenian banking system could require further recapitalisation

In 2013 and 2014, due to the deterioration of the asset quality of its major banks, the Slovenian banking system needed support, which included the transfer of bad assets and recapitalisation.

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- and medium-sized enterprises. 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. as at 31 December 2014. Since the end of 2014, the share of non-performing loans has 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. The share of non-performing loans further decreased to 9.9 per cent. as at 31 December 2015, 5.5 per cent. as at 31 December 2016 and 4.7 per cent. as at 30 September 2017. For more information on non-performing loans, see "*Monetary and Financial System — Credit and Income Risk*".

To further support the banking system, the Republic has also engaged in recapitalisation. 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 Budgets*".

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 general government debt to GDP more than tripled since 2008, according to the European Commission reports. This development decreased the Republic's shock absorption capacity, weakening fiscal leeway should similar pressures re-emerge. The ratio peaked at 82.6 per cent. in 2015 and started to decline in 2016, reaching 78.5 per cent. of GDP, as at 31 December 2016.

Given the Republic's sizable reliance on non-resident market demand for government debt, the banking system also remains subject to international liquidity risks and market conditions. 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, though further reforms may be required in the future. Moreover, the laws 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. 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 under way, it may still be subject to delays, including, for example, the decision to postpone the partial privatisation of NLB in June 2017. See "*Public Finance – Central Government Budget – Ongoing Privatisations*".

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 Eurozone and, therefore, has limited ability to set monetary policy. The 19 members of the Eurozone 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 Eurozone 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. Given the Republics relatively high indebtedness, a tightening of ECB's monetary policy may also have adverse repercussions for the country's debt sustainability.

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 New 2024 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 governed by Slovenian law. No assurance can be given as to the impact of any 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 Joint Lead Managers have informed the Republic that they currently intend to make a market in the Notes offered hereby, the Joint 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 the Notes 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 €1,500,000,000 1.00 per cent. notes due 2028 (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(iii)) 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 11 January 2018 (the "**Issue Date**") at the rate of 1.00 per cent. per annum, payable in arrear on 6 March in each year commencing on 6 March 2019 (each, an "**Interest Payment Date**"), subject as provided in Condition 5. The payment of interest payable on the first Interest Payment Date will be made in respect of the period of 419 days from (and including) the Issue Date to (but excluding) the first Interest Payment Date and payment of interest payable on each subsequent Interest Payment Date will be made in respect of the one year period ending on (but excluding) that Interest Payment Date.

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) in the circumstances referred to in Condition 5.2, 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 of the relevant Beneficiary specifying the details required for payment 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 6 March 2028, 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 in accordance with the applicable law and rules of KDD. Each payment so made will discharge the Republic's obligation in respect thereof.

Pursuant to ZNVP-1 in force at the Issue Date, the Republic shall make all payments in respect of the Notes via KDD and its members which operate the holders' accounts. Any amount of principal and interest on the Notes received by KDD shall be considered received on behalf of the Beneficiaries and by making such payment, the obligation of the Republic to pay such amount shall be discharged. The Republic accepts no liability in respect of the obligations of KDD and its members towards the Beneficiaries.

In this Condition 5:

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

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

(iii) "**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 Details required for payments

If, for any reason, in order to make the payment of any amount of principal or interest in respect of the Notes the Republic must obtain any details which may be provided by the Beneficiary, such Beneficiary can make available to the Republic the details required for payments in the manner from time to time 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 notify the details required for payments 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 the details required for payments have been properly notified 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).

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 by the Republic 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 Beneficiary 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) in the circumstances referred to in Condition 5.2, 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 any details required for payments 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 *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 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 €1,492,185,000 (after deduction of applicable fees and commissions payable by the Republic) will be used by the Republic for its 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 approximately 2.1 million as at 1 April 2017. 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 comprises 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 re-elected in November 2017 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 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 sodišče*) 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 31 August 2017, 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.

2014 Election

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)[(3)]	4.4	4
Minorities[(4)]	—	2
Total		**90**

Notes:
(1) Indicates the relevant party is a member of the current governing coalition.
(2) Currently known as the Modern Centre Party.
(3) Currently known as the Alliance of Social Liberal Democrats (ZSD).
(4) Representatives of Slovenia's Hungarian and Italian minorities have one reserved seat each.
Source: Electoral Commission of the Republic.

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 current government consists of 14 ministers and two ministers without portfolios. In November 2017, Mr Borut Pahor was re-elected as Slovenia's President.

The next National Assembly elections are expected to be held in the second or third quarter of 2018. The Local elections are expected to be held in the third quarter of 2018.

Recent Political Developments

On 6 July 2016, police searched the premises of the Bank of Slovenia and seized documents and computer data. The police investigation 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 authorising 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 2006 Banking Act (*Zakon o bančništvu (ZBan-1)*, the "**2006 Banking Act**") in the course of drafting of and voting for a decision on extraordinary measures in relation to one bank in 2013.

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 Vranicar Erman was confirmed as the new finance minister.

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.

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 Organisation 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 Eurozone 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 2016 and for the nine months ended 30 September 2017:

	Year ended 31 December					Nine months ended 30 September
	2012	2013	2014	2015	2016	2017
	(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
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%	3.96%	4.13%	3.86%	3.70%	3.50%

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.

The ZIČUDSP (Economically, Socially and Financially Systemic Companies)

On 6 May 2017, the ZICUDSP came into force. The ZICUDSP provides certain protections to companies identified as having systemic importance to the Republic. The legislation is particularly important in the ongoing restructuring of Agrokor, a Croatian company which holds a majority interest in Mercator, one of Slovenia's largest food retailers and a company of systemic economic, social and financial importance to the Republic. The ZICUDSP authorises the Republic to appoint a member to the management board of Mercator to participate in all decision-making relating to Agrokor. In addition, the ZICUDSP prohibits Agrokor from directing that Mercator take any action that would be harmful to Mercator's business.

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 18 December 2017, the State Attorney's Office was representing the Republic in 1,730 open civil proceedings. The Republic was a defendant in 980 of these proceedings, and the compensation sought in respect of these proceedings amounted to approximately €784 million. The Government believes that the Republic will ultimately only be liable for a relatively small proportion of this amount.

As at 18 December 2017, 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 by the Supreme Court, 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 "junction" 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 scheduled further proceedings. Another oral hearing was held on 17 March 2016. On 30 June 2016, the tribunal issued a partial award in which it determined that Slovenia's violations were not of such nature as to entitle Croatia to terminate the Arbitration Agreement and decided to continue the arbitration proceedings. On 29 June 2017, the Arbitral Tribunal rendered its award regarding the land and maritime boundary between Slovenia and Croatia. The award is final and binding.

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 from 2016 to 2018, of which €140 million was required for 2017. 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 at 31 July 2017, the Republic had paid €195.1 million to more than 19,400 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 was 18 June 2017. The Republic initially estimated that the liability would amount to approximately €65 million. This estimate was based on the assumption that half of the eligible beneficiaries opt to participate in the scheme and was prepared before the above-mentioned law entered into force (*i.e.*, before 18 June 2014). As at 30 November 2017, approximately 8,007 out of 8,160 applications or 98.1 per cent., reached a final decision, amounting to €26,323,400, which represented 40.6 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. Furthermore, on 25 May 2016 the Committee of Ministers of the Council of Europe adopted a final Resolution in the case of *Kurić and Others v. Slovenia*, concluding that the Republic had conformed to the requirements stemming from the judgements of the ECHR and terminating the proceedings.

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 2013 GDP per capita was at 81.0 per cent. of the average of the EU Member States' and increased to 83.0 per cent. in 2016. The Republic's gross foreign debt-to-GDP ratio reached 109.0 per cent. in 2016, below the Eurozone average of 126.0 per cent. According to the IMF, in 2015, the Republic's gross national savings stood at 25.2 per cent. of GDP, which was higher than the 23.6 per cent. average of the Eurozone 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 77.7 per cent. of GDP in 2016, the Republic was strongly affected by the economic and financial crisis which led to a decrease in exports. Export growth (0.6 per cent.) slowed in 2012 as the Eurozone debt crisis 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 (8.9 per cent. in 2012). In addition, Government austerity measures enacted in 2011 and 2012 led to a decline in government consumption, while private consumption decreased due to the deterioration in the labour market and the fiscal consolidation process. This 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 3.0 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 in 2015 grew at a similar rate as 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 fell in 2015 after recording strong growth in 2014.

Positive trends continued in 2016 with GDP being 3.1 per cent. higher than in 2015. Although exports (6.4 per cent. growth in 2016) remained the key driver of economic growth, as exports have become more broad-based, other segments of the economy have also been improving. The continuation of favourable export trends in 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 (4.2 per cent. in 2016). However, investment activity in 2016 was lower than the same period in the prior year, primarily due to a significant contraction in government investment, caused by delays in drawing funds earmarked for Slovenia by the EU within the 2014–2020 Multiannual Financial Framework of the EU. Good business performance and the prospects for stable economic growth in the future have led to increased growth in private investment in machinery and equipment. In the first nine months of 2017, investment activity was 9.1 per cent higher than in the same period in the prior year, primarily due to growth in investment in machinery and equipment, housing investment and investment in civil engineering works.

Economic growth accelerated further in the first nine months of 2017 with GDP being 4.7 per cent. higher than in the same period in 2016. High export growth continued (10.2 per cent. in the first nine months of 2017), while at the same time domestic consumption continued to grow. In particular, there was a pick-up in investment activity with both construction and equipment investment recording high growth rates.

Recent 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 "*2013 Stress Tests and Restructuring of Slovenian Banking Sector*").

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 2012 to 2016 and the nine months ended 30 September 2016 and 2017:

	Year ended 31 December					**Nine months ended 30 September**	
	2012	**2013**	**2014**	**2015**	**2016**	**2016**	**2017**
	(€ millions, current prices, except where indicated)						
Nominal GDP (€ billions)	36,076	36,239	37,615	38,837	40,418	30,022	32,035
Real GDP growth (in %)	(2.7)	(1.1)	3.0	2.3	3.1	3.0	4.7
GDP per capita in U.S.$ (current prices)	22,536	23,369	24,237	20,884	21,669	16,106	17,502
Current account balance (% of GDP)(1)	2.1	4.4	5.8	4.4	5.2	5.9	7.2
Unemployment rate (in %)	8.9	10.1	9.7	9.0	8.0	8.0	6.8
Consumer price growth – year end (in %)	2.7	0.7	0.2	(0.5)	0.5	0.2	1.4
General government balance (% of GDP)	(4.0)	(14.7)	(5.3)	(2.9)	(1.9)	NA	NA

Note:
(1) Data from balance of payments statistics.
Source: Statistical Office, Institute for Macroeconomic Analysis and Development, Bank of Slovenia.

Gross Domestic Product and Gross Value Added

The following table sets out the nominal values of GDP components for the years ended 31 December 2012 to 2016 and the first nine months ended 30 September 2016 and 2017:

	Year ended 31 December					Nine months ended 30 September	
	2012	2013	2014	2015	2016	2016	2017
	(€ millions, current prices)						
GDP	36,076	36,239	37,615	38,837	40,418	30,022	32,035
Exports of goods and services	26,381	27,004	28.517	29,901	31,386	23,284	26,352
Imports of goods and services	24,859	24,990	25,734	26,566	27,686	20,335	23,025
Private consumption	20,510	20,090	20,466	20,772	21,581	15,737	16,612
Government consumption......	7,296	7,073	6,999	7,207	7,578	5,610	5,819
Gross fixed capital formation.	6,934	7,175	7,292	7,322	7,105	5,251	5,843
Changes in inventories and valuables............................	(185)	(114)	75	201	453	477	434

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 2012 to 2016 and the nine months ended 30 September 2016 and 2017:

	Year ended 31 December										Nine months ended 30 September			
	2012		2013		2014		2015		2016		2016		2017	
	(€bn)	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*	*(€bn)*	*(%)*
Services	20.74	66.3	20.64	66.0	21.08	64.8	21.86	65.1	22.94	65.5	16.89	65.2	18.02	64.6
of which:														
Wholesale and retail trade, transportation and storage, accommodation and food service..................	6.23	19.9	6.27	20.0	6.48	19.9	6.76	20.1	7.12	20.3	5.34	20.5	5.79	20.8
Public administration [(1)]	5.60	17.9	5.42	17.3	5.36	16.5	5.48	16.3	5.85	16.7	4.33	16.6	4.50	16.1
Professional, scientific and technical, administrative and support service activities [(2)]..................	2.96	9.5	2.98	9.5	3.19	9.8	3.31	9.9	3.48	9.9	2.50	9.6	2.71	9.7
Real estate activities	2.40	7.7	2.57	8.2	2.53	7.8	2.64	7.9	2.74	7.8	2.04	7.8	2.14	7.7
Financial and insurance activities.......................	1.35	4.3	1.25	4.0	1.30	4.0	1.37	4.1	1.36	3.9	1.01	3.9	1.04	3.7
Information and communication.............	1.34	4.3	1.30	4.2	1.37	4.2	1.40	4.2	1.44	4.1	1.08	4.1	1.14	4.1
Other services [(3)]	0.86	2.8	0.85	2.7	0.85	2.6	0.89	2.6	0.94	2.7	0.68	2.6	0.70	2.5
Industry [(4)]	8.10	25.9	8.35	26.7	8.81	27.1	9.09	27.1	9.48	27.1	7.13	27.4	7.75	27.8
of which:														
Manufacturing	6.76	21.6	6.95	22.2	7.44	22.9	7.75	23.1	8.14	23.2	6.14	23.6	6.72	24.1
Construction	1.82	5.8	1.65	5.3	1.86	5.7	1.84	5.5	1.83	5.2	1.35	5.2	1.52	5.5
Agriculture, forestry and fishing..........................	0.65	2.1	0.65	2.1	0.76	2.3	0.79	2.3	0.76	2.2	0.56	2.2	0.59	2.1
Gross value added.............	31.30	100.0	31.29	100.0	32.51	100.0	33.58	100.0	35.01	100.0	26.03	100.0	27.89	100.0

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.

Source: SORS, Institute for Macroeconomic Analysis and Development.

In 2013, GVA declined to €31.29 billion as compared with the €31.30 billion recorded in 2012, mainly due to (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. GVA increased to €32.51 billion in 2014 and to €33.58 billion in 2015, mainly due to increases in manufacturing and also in wholesale and retail trade, transportation and storage, accommodation and food service. In 2016, GVA increased to €35.01 billion, mainly due to further increases in demand for manufacturing and services in general. Recent trends and yearly comparisons in the main sectors of Slovenia's economy are discussed below.

Services

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, transportation and storage, accommodation and food services, financial and insurance activities, arts, entertainment and recreation and other personal service activities as well as professional, scientific and technical, administrative and support service activities. The GVA of services declined further in 2013 (to €20.64 billion) principally in private sector services (all except public administration), 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, 2015 and 2016. In 2014 and 2015, the annual growth improved in most private sector services, especially in wholesale and retail trade, transportation and storage, accommodation and food service and in administrative and support service activities (due to a significant increase in the employment activities). In 2016, the growth was strongest in wholesale and retail trade, transportation and storage, accommodation and food services. The services sector accounted for 65.5 per cent. of the Republic's total GVA in 2016. The largest segment of the services sector in 2016 represented wholesale and retail trade, transportation and storage, and accommodation and food services (20.3 per cent. of GVA), of which wholesale and retail trade was the largest. Public administration services represented 16.7 per cent. of GVA for the year. The service sector experienced continued growth in the first nine months of 2017. Growth was strongest in wholesale and retail trade, transportation and storage, accommodation and food services and in professional, scientific and technical, administrative and support service activities.

Industry

The industry sector has experienced growth of GVA since 2012. In 2016, the industry sector's GVA was 27.1 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 growth accelerated from 4.4 per cent. in 2016 to 7.2 per cent. in the first nine months of 2017. This consistent growth was largely due to strong growth in manufacturing.

Manufacturing

The GVA of the manufacturing sector increased from 21.6 per cent. of the Republic's total GVA in 2012 to 23.2 per cent. in 2016. The increase throughout the period was led by high, medium-high and medium-low-tech industries, whereas low-tech industries decreased in 2012 and 2013.In 2014, manufacturing GVA grew by 5.4 per cent. year-on-year, increasing in almost all industries, except the textiles industry. Growth was highest in medium-low-tech intensive industries and, in the second half of 2014, in the production of motor vehicles (over 25 per cent.), due to the beginning of production of new passenger cars.

In 2015, manufacturing GVA grew by 1.9 per cent. year-on-year, increasing in most medium-low and medium-high-tech intensive industries, particularly in the production of motor vehicles.

In 2016, manufacturing GVA grew by 4.9 per cent. year-on-year, increasing in most industries. On average, growth was highest in most medium-low and medium-high-tech intensive industries, with the exception of the chemical industry and production of motor vehicles. Production in some low-tech intensive industries, including textiles and leather industries, continued to decrease.

In the first nine months of 2017, manufacturing GVA grew by 7.3 per cent. as compared to the first nine months of 2016, increasing in most industries covering this sector. Growth was highest in medium-high-tech intensive industries, particularly in the production of motor vehicles due to the commencement of production of new passenger vehicles.

Manufacturing, which represents over 90 per cent. of the Republic's export of goods, comprised 23.2 per cent. of GVA in 2016, of which chemicals and pharmaceuticals comprised 15.5 per cent., metal production 19.8 per cent., electrical and optical equipment 13.7 per cent., motor vehicles and other transport equipment 8.1 per cent., and machinery and equipment 6.8 per cent.

Construction

While the construction sector experienced a contraction in GVA during 2012, construction activity began to stabilise in the middle of 2013 and recorded significant growth in 2014. However, construction activity contracted again during 2015 and 2016. The substantial increase in activity in 2014 was mainly due to public investment in infrastructure related to the absorption of EU funds. In 2015, the construction activity contracted 1.6 per cent., largely due to a decrease in government investment. The more substantial decline of GVA in construction by 4.4 per cent. in 2016 was due to reduced government investment resulting from the delays in receiving funds earmarked for Slovenia by the EU within the 2014–2020 Multiannual Financial Framework of the EU. The construction sector began to show signs of recovery in the second half of 2016. In the first nine months of 2017, GVA in the construction sector increased by 9.7 per cent. as compared to the first nine months of 2016. After several years of contracting, housing construction started to grow in 2015, a trend which continued in 2016 and also in the first nine months of 2017. Housing prices bottomed out in 2015 and increased by 3.3 per cent. in 2016 year-on-year and by 7.1 per cent. in the first half of 2017 as compared to the first half of 2016.

Inflation

In 2012, the inflation rate was 3.1 per cent., which was 0.9 percentage points higher than the Eurozone average, this being mainly due to a rise in energy prices during the year (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 in the rate 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 by a positive contribution of services, largely due to higher prices of supplementary health insurance and packaged holidays. In 2015, Slovenia had a deflation rate of 0.6 per cent. Consumer prices fell in 2015, mainly due to the lower prices of energy and durable goods, although prices of food, particularly unprocessed food, increased year-on-year. Prices of services recorded lower growth than in the previous year, largely due to the base effect, which faded out in 2015. In 2016, Slovenia had an inflation rate of 0.6 per cent., which was largely the result of higher energy prices. After a prolonged period of year-on-year declines at the end of 2016, energy prices reached the levels recorded at the end of 2015. The prices of services increased in 2016, which was primarily attributable to growth in household consumption. The prices of food also increased in 2016, while prices of durable and semi-durable goods were lower in the same period. In the first nine months of 2017, inflation increased mainly due to strong growth in energy prices, though this growth in energy prices slowed in the second and third quarters of 2017. Inflation was also driven by higher food (particularly unprocessed food) and services prices and semi-durable goods.

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 2012 to 2016 and the nine months ended 30 September 2016 and 2017:

	Year ended 31 December					Nine months ended 30 September	
	2012	2013	2014	2015	2016	2016	2017
				(%)			
Eurozone	2.2	0.8	(0.2)	0.2	1.1	0.4	1.5
Slovenia	3.1	0.9	(0.1)	(0.6)	0.6	0.2	1.4

Source: Eurostat.

Labour Market

Unemployment

Due to increased economic activity, the International Labour Organisation's ("**ILO**") unemployment rate started decreasing in the beginning of 2014 and stood at 8.0 per cent. as at 31 December 2016. According to Eurostat data, as at 31 October 2017, the average harmonised unemployment rate (seasonally adjusted) in Slovenia stood at 6.2 per cent. and was lower than the EU average of 7.4 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 4.5 percentage points from 2011 to 2014 reaching 20.2 per cent. in 2014 (which was lower than the 21.6 per cent. rate in 2013). In 2015, the youth unemployment rate decreased to 16.3 per cent. The youth unemployment rate decreased further to 10.7 per cent. in the first six months of 2017.

The Government responded to the deteriorating situation in the labour market in the years prior to 2014 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 September 2017 was 3.2 per cent. higher than in September 2016. Registered unemployment was recorded at 82,400 at the end of November 2017, which is a 14.9 per cent. decrease year-on-year. In addition, the labour participation rate among individuals between the ages of 15 to 64 has increased over the last two years, from 70.9 per cent. in 2014 to 71.6 per cent. in 2016.

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. The average labour productivity growth, measured as GDP per employee, was 1.5 per cent. in the period 2014-2016. The share of the population aged 25-64 years with tertiary education has grown steadily, reaching 32.1 per cent. in the first six months of 2017, which was the fifth highest among the new EU Member States. Among the adult population, it was recorded in the same period that 87 per cent. had 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 2012 to 2016 and the nine months ended 30 September 2016 and 2017:

	Year ended 31 December					Nine months ended 30 September	
	2012	**2013**	**2014**	**2015**	**2016**	**2016**	**2017**
Statistical survey of unemployed persons (ILO methodology) data[(1)]							
Total labour force (thousands)	1,013.4	1,007.7	1,014.9	1,007.8	994.6	991.3	1,024.7
Employed (thousands)	923.8	905.9	916.8	917.4	915.0	916.0	954.5
Unemployed (thousands)	89.6	101.8	98.1	90.3	79.6	79.3	70.2
Change in the total number of	6.4	12.2	(3.7)	(7.8)	(10.7)	(13.7)	(9.2)

	Year ended 31 December					Nine months ended 30 September	
	2012	2013	2014	2015	2016	2016	2017
unemployed (in %)							
Unemployment rate (in %)	8.9	10.1	9.7	9.0	8.0	8.0	6.8
Share of adult population with at least upper secondary school education (in %)	85.0	85.5	85.7	86.8	87.3	87.4[(2)]	87.9[(2)]
Share of adult population, aged 25-64 years, with tertiary education (in %)	26.4	27.9	28.6	30.2	30.7	30.8[(2)]	32.3[(2)]
Labour Office register [(1)]							
Unemployed (thousands)	110.2	119.8	120.1	112.7	103.2	104.9	90.4
Change in the total number of unemployed (in %)	(0.5)	9.6	0.3	(7.4)	(9.6)	(9.0)	(14.5)
Unemployment rate (in %)	12.0	13.1	13.1	12.3	11.2	11.4	9.7

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).

(2) Data for the first six months ended 30 June.

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

Wages

The following table sets out average monthly wages and their real growth rate for the years ended 31 December 2012 to 2016 and the nine months ended 30 September 2016 and 2017:

	Year ended 31 December					Nine months ended 30 September	
	2012	2013	2014	2015	2016	2016	2017
	(€, current prices, except percentages)						
Average gross monthly wages	1,525.47	1,523.18	1,540.25	1,555.89	1,584.66	1,567.00	1,601.74
Real growth rate (in %)	(2.4)	(2.0)	0.9	1.2	1.9	2.1	0.7
Private sector	1,395.84	1,404.40	1,424.32	1,431.84	1,456.10	1,435.49	1,469.35
Real growth rate (in %)	(2.0)	(1.2)	1.2	1.0	1.8	2.0	0.9
Public sector	1,762.88	1,740.78	1,757.29	1,793.96	1,835.98	1,822.33	1,869.27
Real growth rate (in %)	(3.4)	(3.0)	0.7	1.7	2.4	2.7	1.1

Source: SORS.

In 2012 and 2013, growth in average gross wages was strongly affected by the global economic crisis, a rise in the minimum wage and government austerity measures. In both years, 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 from 2014 to 2016 by 0.9, 1.2 and 1.9 per cent., respectively, in real terms. In 2014, the increase was primarily due to growth in private sector wages (by 1.2 per cent.), which was largely attributable to economic recovery and increased productivity, while gross earnings in the public sector also increased (by 0.7 per cent.) as a result of public corporations' wage growth and the granting of suspended promotions to public servants in April 2014. In 2015, the growth in 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 in 2015, 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 2016, the growth in average gross wage per employee strengthened compared to 2015 in both the private (1.8 per cent.) and public sector (2.4 per cent.). In the private sector, the increase was mainly due to the impact of good business performance, while in the public sector the increase was attributable to the partial relaxation of fiscal austerity measures, including the return to a pay scale and promotions, for public servants. In the first nine months of 2017, the nominal growth of average gross wage per employee in the public sector was in line with the rate of growth in the same period in 2016, while growth in the private sector has also increased during this period. However, after taking inflation into account, the growth in real terms slowed significantly in both sectors.

Wage moderation in the public sector has been an important part of fiscal austerity measures in recent years. An amendment to the Act for Additional Intervention Measures for 2012 (*Zakon o dodatnih interventnih ukrepih za leto 2012 (ZDIU12),*" 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 workload-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, workload-related bonuses and premiums of collective supplementary pension insurance were lowered under the new agreement.

As a result of the above measures, the total wage bill, which are wages and other personnel expenditures excluding an employer´s social contributions, decreased by 6.3 per cent. in nominal terms from 2011 to 2014.

The government entered into two new agreements with the public-sector trade unions in 2015 and 2016. Under the latest agreement, certain fiscal austerity measures will be reduced in 2017. In particular, the agreement provides for the selective disbursement of both the annual leave bonus and the collective supplementary pension insurance premiums for public servants in 2017. Some austerity measures, such as performance-related bonuses and a delay in payments for regular promotions (from April to December), were extended under the agreement for 2018. The total wage bill has increased by 3.9 per cent in the first nine months of 2017 as compared with the same period 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 2,729 institutional units in the general government sector as at 31 December 2016. The central government, a sub-sector of the general government, comprised 555 institutional units. The local government, another sub-sector of the general government, comprised 2,171 institutional units.

There are also specially allocated Social Security Funds which comprise 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 the budgets of 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 the applicable timetable for the budgetary process. The Republic adopted budgets for 2018 and 2019 in November 2017.

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 "**SGP**"), an agreement between the members of the EU that was created to establish rules to ensure that all countries involved help to maintain the value of the euro by enforcing fiscal responsibility. The treaty required, among other things, for the signatories to 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. The fiscal rule is a budgetary rule, which ensures medium-term balance of income and expenditure of state budgets without (long-term) borrowing, in order to achieve sustainability of public finances.

On 10 July 2015, the National Assembly passed a law on Fiscal Rule, which defined the method and timing of the implementation of medium-term balance of revenue and expenditure of budgets without borrowing, as well as the criteria for determining the exceptional circumstances and the manner upon their occurrence. The Fiscal Rule Act calls for the gradual reduction of the structural government deficit.

In order to strengthen its fiscal framework, the Republic has introduced 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 timeframe for the implementation of the medium-term balance between the revenues and expenditures of general government budgets and defines the medium term fiscal target, the balanced budget rule itself and the competences of the fiscal council.

- A new Public Finance Act, which is expected to 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. The new Public Finance Act has been prepared in order to continue the progress of the public finance management system, but it is still subject to public debate.

- 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 and a number of municipalities. Beside the TSA system of the state, there are separate TSA systems of municipalities, which include the funds management at the local level. The Republic expects that additional consolidation of government and local funds through the TSA system will result in the further inclusion of: (1) indirect budgetary users in the TSA unified funds management system; and (2) the further inclusion of the TSAs of municipalities into the TSA system of the State. The indicated consolidation may take several years to be finalised and is expected to lead to the centralisation of the funds of all budgetary users and of majority municipalities in a single account. This will provide the Government with an integrated overview of the condition and management of budgetary users' and municipalities' funds. The process is expected to help lower liquidity borrowing costs, improve the quality of fiscal information and optimise revenues from surplus of 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 Budgets

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 SGP by the EU.

In 2016, the total expenditure amounted to 44.9 per cent. of GDP. The following table sets out the consolidated general government revenues and expenditures for the years ended 31 December 2012 to 2016 (according to ESA2010 methodology):

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
	(€ millions, except for percentages)				
Total revenues	**16,044**	**16,249**	**16,664**	**17,419**	**17,410**
as a % of GDP	44.5%	44.8%	44.3%	44.9%	43.1%
Total expenditures	**17,503**	**21,568**	**18,656**	**18,541**	**18,165**
as a % of GDP	48.5%	59.5%	49.6%	47.7%	44.9%
General government balance	**(1,459)**	**(5,319)**	**(1,992)**	**(1,122)**	**(754)**
as a % of GDP	(4.0)%	(14.7)%	(5.3)%	(2.9)%	(1.9)%
as a % of GDP excluding bank recapitalisations	(3.9)%	(4.7)%	(4.4)%	(2.9)%	(4.7)%

Source: SORS, (SI-STAT database), October 2017.

The following table sets out the sub-sector balances of the general government budget for the years ended 31 December 2012 to 2016 (according to ESA2010 methodology):

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
	(€ millions, except for percentages)				
Central government balance	(1,374)	(5,333)	(2,021)	(1,282)	(760)
Local government balance	19	(51)	(44)	116	73
Social security funds balance	(104)	65	73	44	(67)
General government balance	(1,459)	(5,319)	(1,992)	(1,122)	(754)
as a % of GDP	(4.0)%	(14.7)%	(5.3)%	(2.9)%	(1.9)%
as a % of GDP excluding bank recapitalisations	(3.9)%	(4.7)%	(4.4)%	(2.9)%	(1.9)%

Source: SORS, (SI-STAT database), October 2017.

General government expenditures as a percentage of total GDP fluctuated from 2012 to 2016. 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 10.0 per cent of GDP increased the share of total general government expenditures to 59.5 per cent. of GDP. In 2014, the share decreased to 49.6 per cent. of GDP, a trend which continued in both 2015 and 2016.

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 2012 and 2016, €4.23 billion was allocated to the Republic by various EU programmes. In the period 2012-2016, 99 per cent. of allocated funds in the state budget were utilised. The majority of funds provided by the EU were received through the operational programmes of the cohesion policy (European Structural Funds and Cohesion Fund) and the agricultural and fisheries policy.

In 2015, a supplementary budget put the general government deficit in ESA2010 terms at 2.9 per cent. of GDP. 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.

No recapitalisations from state budget funds were executed in 2015, and any future recapitalisation needs are 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 Bank of Slovenia.

The 2016 budget extended 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. Slovenia recorded a general government deficit of 1.9 per cent. of GDP in 2016, as reported in the October 2017 Excessive Deficit Procedure notification published by SORS. Based on the Draft Budgetary Plan 2018, which was submitted to the European Commission in October 2017, the general government deficit is expected to decline to 0.8 per cent. of GDP in 2017 and a surplus of 0.4 per cent. of GDP in 2018.

Pension, Health 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 age pensioners.

In July 2017, the Economic and Social Council adopted a document which includes a number of measures, agreed among the Government and representatives of trade unions and employers, for further development of the pension system in Slovenia. On the basis of the document, statutory amendments related to pension and disability insurance in Slovenia, effective after 2020, will be prepared. The agreed measures aim to ensure the fiscal sustainability of the pension system and provide adequate and viable pensions.

The following table sets out revenues, transfers and expenditures of the Pension Institute for the years ended 31 December 2012 to 2016:

	Year ended 31 December				
	2012	2013	2014	2015	2016
	(€ millions, except for percentages)				
Revenues	4,851.0	4,949.0	4,977.7	4,984.1	5,035.2
as a % of GDP	13.4%	13.7%	13.2%	12.8%	12.5%
Revenues from contributions, capital income and sundry	3,434.8	3,364.2	3,371.7	3,523.0	3,716.9
as a % of GDP	9.5%	9.3%	9.0%	9.1%	9.2%
Transfers from central budget	1,416.2	1,584.8	1,606.1	1,461.1	1,311.2
as a % of GDP	3.9%	4.4%	4.3%	3.8%	3.2%
Expenditures	4,851.0	4,949.0	4,977.7	4,984.1	5,035.2
as a % of GDP	13.4%	13.7%	13.2%	12.8%	12.5%

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.
Source: Ministry of Finance, Bulletin of Government Finance.

There currently exists a shortfall in hospital budgets resulting from insufficient reimbursements for hospital expenditures from previous years. Failing to address this deficit could result in difficulties in financing medical services and supplies. Addressing this shortfall may require a supplementary budget, which would still be compliant with set fiscal targets.

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 "*Consolidated General Government Budgets*".

The following table sets out the balances of the central government budget for the years ended 31 December 2013 to 2016 and under the adopted budget for the years ending 31 December 2017 and 2018:

	Year ended 31 December				Adopted Budget	
	2013	2014	2015	2016	2017(1)	2018(1)
	(€ millions, except for percentages)					
Central government budget, cash flow:						
Revenues	7,779.4	8,459.5	8,520.9	8,315.5	8,846.0	9,676.2
Expenditure	9,314.5	9,654.9	9,797.7	9,000.3	9,527.4	9,625.3
Deficit	(1,535.1)	(1,195.5)	(1,276.7)	(684.8)	(681.4)	50.9
Deficit in % of GDP	(4.2)%	(3.2)%	(3.3)%	(1.7)%	(1.6)%	0.1%
General government sector, ESA2010 (estimates)						
Deficit in % of GDP(2)	(4.7)%	(4.4)%	(2.9)%	(1.9)%	(0.8)%	0.4%
Deficit in % of GDP(3)	(14.7)%	(5.3)%	(2.9)%	(1.9)%	–	–

Notes:
(1) Adopted budget.
(2) Excluding bank recapitalisations.
(3) Including bank recapitalisations.
Source: Ministry of Finance, Bulletin of Government Finance.

The following table sets out the actual revenues and expenditures of the central government budget for the years ended 31 December 2013 to 2016 and under the adopted budget for the years ending 31 December 2017 and 2018 (on a cash basis):

	Year ended 31 December(1)				Adopted Budget	
	2013	2014	2015	2016	2017	2018(2)
	(€ millions)					
Individual income taxes	740.5	789.6	961.3	1,029.3	948.6	1,149
Corporate income tax	265.2	468.4	594.8	599.5	685.9	811.6
Other taxes on income and profit	4.2	2.0	3.6	2.6	3.9	5.9

	Year ended 31 December[1]				Adopted Budget	
	2013	2014	2015	2016	2017	2018[2]
	(€ millions)					
Social security contributions	51.8	56.6	58.5	61.5	63.7	69.3
Taxes on payroll and workforce	23.4	20.2	19.7	19.8	20.3	22.0
Domestic taxes on goods and services	4,978.6	5,135.6	5,299.5	5,383.8	5,562.1	5,788.7
Taxes on international trade and transactions	77.5	77.7	82.5	81.9	89.6	86.0
Other taxes	31.5	28.4	2.8	33.0	0.3	3.6
Non-tax revenues	612.1	805.4	560.9	571.2	507.5	583.7
Capital revenues, grants and transfer revenues	60.8	39.3	58.7	55.4	35.0	45.8
Receipts from EU	933.8	1.036.2	878.7	477.6	929.1	1,110.7
Total revenues	**7,779.4**	**8,459.5**	**8,520.9**	**8,315.5**	**8,846.0**	**9,676.2**
Current expenditures	2,665.4	2,873.0	2,965.2	3,052.9	3,084.1	2,997.8
Wages and contributions	1,082.8	1,070.4	1,068.6	1,126.7	1,177.7	1,227.1
Goods and services	646.2	651.5	688.7	711.0	774.4	774.6
Interest payments	827.0	1.082.6	1,028.8	1,064.1	973.0	855.6
Reserves	109.5	68.4	179.0	151.2	159.0	140.6
Current transfers	**5,346.9**	**5,214.7**	**5,034.4**	**4,992.3**	**5,183.6**	**5,254.3**
Subsidies	472.2	423.1	356.5	352.2	460.4	467.8
Transfers to individuals and households	1,241.9	1,197.8	1,184.0	1,212.5	1,174.9	1,181.8
Unemployed allowances	260.2	209.2	184.1	176.9	154.8	150.6
Child allowances	521.2	499.6	494.1	498.8	493.8	501.7
Social assistance allowances	200.3	221.6	242.4	252.7	224.9	223.1
Other transfers to individuals and households	260.1	267.4	263.4	284.1	301.4	306.5
Transfers to organisations and institutions	3,632.8	3,593.9	3,493.9	3,427.5	3,548.4	3,604.7
Current transfers to pension fund	330.0	177.7	298.6	283.9	274.0	223.0
Supplementary transfers to pension fund	1,202.0	1,381.5	1,118.2	989.4	1,081.1	960.6
Current transfers to public institutions	1,850.1	1,796.9	1,867.4	1,917.2	1,925.7	2,251.1
Other transfers to organisations and institutions	250.7	237.8	209.7	237.0	267.6	272.3
Capital expenditure	**386.2**	**531.1**	**685.5**	**309.7**	**497.4**	**559.3**
Capital transfers	**490.5**	**633.2**	**679.7**	**218.0**	**345.6**	**385.5**
Payments to EU budget	**425.5**	**402.9**	**432.9**	**427.4**	**416.7**	**428.5**
Total expenditure	**9,314.5**	**9,654.9**	**9,797.7**	**9,000.3**	**9,527.4**	**9,625.3**
Budget surplus/deficit	(1,535.1)	(1,195.5)	(1,276.7)	(684.8)	(681.4)	50.9
Primary surplus/deficit	(738.2)	(153.7)	(264.5)	348.2	280.1	895.1
Lending minus repayments	(3,738.4)	(851.7)	(191.0)	131.3	(707.7)	(567.9)
Borrowing	7.008.0	7,495.2	3,575.6	2,932.4	3,557.6	2,298.0
Amortisation of debt	1,870.8	3,489.9	2,317.4	3,583.8	2,868.5	2,580.9
Changes in cash and deposits	(136.2)	1,958.1	(209.5)	(1,204.8)	(700.0)	(800.0)
Net financing	1,535.1	1,195.5	1,276.7	684.8	681.4	(50.9)

Notes:

(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.

(2) On as cash basis.

Source: Ministry of Finance, Bulletin of Government Finance.

Fiscal Policy and Reform

The 2017 Stability Programme

Since 2006, the Republic has had a stability programme in place in accordance with relevant EU Council regulations. The latest amendments to the Stability Programme were made in April 2017, which aligned with the SGP "six-pack" and "two-pack" regulations, under which Slovenia is required to comply with certain debt criteria and to progress towards its medium-term budgetary objectives.

From 2 December 2009 until 17 June 2016, Slovenia was under a formal excessive deficit procedure requiring monitoring from the European Commission and the European Council. On 17 June 2016, the European Council abrogated the deficit procedure as Slovenia's general government deficit was below 3 per cent. of GDP in 2015. Following the abrogation, the Republic became subject to the preventive arm of the SGP, which requires Slovenia to follow a "normal times" (with regard to economic development) decrease in structural balance and expenditure benchmarks, as well as debt rule (in transitional period).

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, and subsequently in the 2017 Country report, 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 of: (1) the 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.

The 2017 Stability Programme reflecting the Medium-Term Budgetary Framework was adopted on 26 April 2017. In relation to Slovenia's fiscal policy, the 2017 Stability Programme's main purpose is to aid the achievement of the 2017 Medium-Term Budgetary Objective ("**MTBO**"), in line with the Fiscal Rule Act and EU regulations, by 2020. As Slovenia has not yet achieved its MTBO, the transitional period and the rule of Article 15 of the Fiscal Rule Act applies, and the structural deficit must be gradually reduced towards the MTBO in a manner which is compliant with the SGP. During the convergence period, the Fiscal Rule Act does not provide the period for adjustment nor the formula for the calculation of the upper threshold of expenditure. According to the Government's estimate, the cyclical position of the Slovenian economy is not as favourable as the European Commission's evaluation.

Slovenia plans gradually to reduce the general government balance and the cyclically adjusted balance in the medium term (four years). Therefore, when planning public finance, the Republic focuses on structural measures that will have a permanent impact on the structure and efficiency of public finance (short-, medium- and long-term impact). Future projections predict further declines in the general government deficit, from 1.8 per cent. of GDP in 2016 to 0.8 per cent. GDP in 2017, 0.2 per cent. GDP in 2018 and a surplus in net borrowing/net lending of 0.2 per cent. GDP in 2019 and 0.4 per cent. GDP in 2020.

During the transitional period prior to the achievement of the MTBO, the Republic complies with the requirements prescribed by the SGP and the Fiscal Rule Act. This includes fiscal and expenditure benchmarks (following the European Commission's methodology). The growth of general government expenditure is currently lower than the growth of general government revenue, and the expenditure growth rate is lagging behind the potential GDP growth rate (except if surplus is aligned with discretional revenues). Therefore, the Republic is projected to achieve its target structural balance and MTBO by 2020.

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 2012 to 2016:

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
	(€ millions, except for percentages)				
Personal income tax	2,077.1	1,868.0	1,915.5	1,986.3	2,078.8
as a % of GDP	5.8%	5.2%	5.1%	5.1%	5.1%
Corporate income tax	576.9	265.2	468.4	594.8	599.5
as a % of GDP	1.6%	0.7%	1.2%	1.5%	1.5%
Value Added Tax	2,905.0	3,029.1	3,153.3	3,228.7	3,272.0
as a % of GDP	8.1%	8.4%	8.4%	8.3%	8.1%

	Year ended 31 December				
	2012	2013	2014	2015	2016
	(€ millions, except for percentages)				
Excise duty	1,560.3	1,490.7	1,491.3	1,515.3	1,551.1
as a % of GDP	4.3%	4.1%	4.0%	3.9%	3.8%
EU funds	845.1	938.4	1,040.3	882.4	480.5
as a % of GDP	2.3%	2.6%	2.8%	2.3%	1.2%

Source: Ministry of Finance, Bulletin of Government Finance.

Personal Income Tax

Personal income tax applies to an individual's income. There are six categories of income to which personal income tax is applicable, including income from: (i) employment, (ii) business, (iii) basic agriculture and forestry, (iv) rental royalties, (v) capital (interest, dividends and capital gains) and (vi) other income.

The annual net income is generally taxed according to a progressive tax rate. There are five tax brackets in the annual tax schedule: 16 per cent. (for the tax base of up to €8,021.34), 27 per cent. (between €8,021.34 and €20,400.00), 34 per cent. (between €20,400.00 and €48,000.00), 39 per cent. (between €48,000.00 and €70,907.20) and 50 per cent. (over €70,907.20). The annual taxable base is computed after compulsory social security contributions and certain allowances are deducted.

Dividends, interest, rental income and capital gains are taxed regularly at a flat-rate. For dividends, interest and rental income, the flat-rate tax is 25 per cent. The tax rate for capital gains depends on the holding period: 25 per cent. for a holding period of up to five years, 15 per cent. for a holding period from five to 10 years, 10 per cent for a holding period from 10 to 15 years, five per cent. for a holding period from 15 to 20 years and a tax exemption for a holding period greater than 20 years.

Under certain conditions, personal business income may be taxed on a flat-rate basis using a lump-sum deduction regime (the tax base is determined on the basis of lump-sum costs accounting for 80 per cent. of income). The current tax rate is 20 per cent. for both residents and non-residents.

Corporate Income Tax

Corporate income tax is levied on the taxable profit of legal entities and partnerships which are not subject to personal income tax at a rate of 19 per cent. A special rate of 0 per cent. applies under certain conditions to investment funds, pension funds and insurance undertakings for pension plans. An optional flat-rate tax was introduced in 2013, whereby the tax base is determined on the basis of lump-sum costs.

In terms of allowances, a general research and development ("**R&D**") investment tax allowance is represented as a deduction from the tax base of 100 per cent. of the amount invested in internal R&D activities and purchase of R&D services, but not exceeding the amount of the taxable base. An additional investment tax allowance is also available which is a deduction from the tax base of 40 per cent. of the amount invested in equipment and intangibles, but only up to the amount of the taxable base. Further general tax allowances are available under certain conditions for entities that provide new employment to certain categories of employees (under 26 years or above 55 years old, trainees or disabled persons), and relief for donations and voluntary supplementary pension insurance is also available.

Value Added Tax

Value added tax ("**VAT**") is a general consumption tax on a net basis included in the price consumers pay for goods and services. All companies pay VAT except those carrying out certain defined activities, such as small businesses and farmers with a turnover and income below defined thresholds, and in cases dealing with products intended for export and international transport. There are two VAT rates: a standard rate of 22 per cent. and a reduced rate of 9.5 per cent.

Real Property Taxes

There are two types of taxes on the possession of real property in Slovenia. The first is the so called "charge for the use of building land", and the second is a property tax.

The charge for the use of building land is levied on vacant building land and as well as land with constructed buildings in possession of legal entities and individuals. For vacant building land, the charge is set by local communities based on the area of the building land planned for a particular building, and for constructed building land, the charge is based on the actual area of land occupied by a building.

Property tax is a tax on buildings, including sections of buildings, owned by individuals. The tax is levied at different progressive rates depending on the type and value of premises.

Changes to the tax system in the period 2013-2017

Beginning in 2013, changes to the corporate and personal income taxes were aimed at the simplifying the administrative procedures for the taxation of business income of companies and individuals by introducing the so-called lump sum deduction tax. In 2013, the reduction of the statutory corporate income tax rate ended and instead of being reduced to 16 per cent. for 2014 and 15 per cent. for 2015, it was set at 17 per cent. On 1 January 2013, the income threshold for VAT registration increased. In July 2013, changes to VAT were introduced as part of a policy to ensure the stability of government revenue. The general VAT rate was increased by 2 per cent., from 20 per cent. to 22 per cent., and the reduced VAT rate was increased by 1 per cent., from 8.5 per cent. to 9.5 per cent. Beginning on 1 January 2013, the individual income tax rate for capital gains and gains of derivative financial instruments was increased from 20 per cent. to 25 per cent. In March 2013, a new financial services tax became effective. The financial services tax was set at 6.5 per cent. and the taxable amount is the fee (remuneration) received by the financial institution for the execution of a financial service. Securities trading and management of investment funds are exempt from tax.

On 1 January 2014, 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 in personal income tax for 2013 and 2014 as part of the measures adopted within the Fiscal Balance Act in mid-2012 and was extended through 2017. With effect from 1 January 2014, the automatic adjustment of tax credits and the net annual tax basis in the scale for assessing personal income tax to reflect changes in consumer prices was eliminated. From 2014 some additional measures to abolish certain tax benefits (for daily migrants and residents over 65 years of age) were also introduced. In 2014, some relevant amendments to the legislation that introduced additional measures to improve the taxation of undeclared income of individual taxpayers were adopted. 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.

On 1 January 2015, some additional changes to the corporate and personal income tax came into force to improve the lump-sum deduction regime. In August 2015, the new Act on Fiscal Validation of Receipts (*Zakon o davčnem potrjevanju računov (ZDavPR)*) came into force, which was an important measure designed to reduce the shadow economy. This act provided a procedure for cash registers to transfer data from invoices to the Financial Administration of the Republic (*Finančna uprava Republike Slovenije*) by electronic means beginning on 2 January 2016. Due to the elimination of the bank balance sheet tax in 2015, the tax rates on financial services and on insurance transactions increased from 6.5 per cent. to 8.5 per cent in 2015. In 2015, changes in the Tax Procedure Act (*Zakon o davčnem postopku (ZDavP-2)*, the "**Tax Procedure Act**") 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, 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 has been the basis for enhancing the sharing of information with other countries.

The goals of the adopted measures in 2016 were to eliminate administrative obstacles and non-competitive elements of the tax system, and introduce measures to improve the efficiency of collecting public taxes. As such, the Republic adopted amendments to the VAT Act (*Zakon o davku na dodano vrednost (ZDDV-1))*, the "**Vat Act**"*)* and simplified administrative procedures for importers, which came into force on 1 January 2016 and became applicable in July 2016. In order to simplify tax procedure and provide greater legal certainty to taxpayers while lessening the burden on the economy and contributing to the voluntary payment of taxes, the amendments to the Tax Procedure Act were introduced. The amendments contained advanced pricing arrangements and instituted additional options making it easier for taxpayers to repay tax debt, pre-filled forms for social security contributions 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). In addition, the Excise Duty Act (*Zakon o trošarinah (ZTro-1),* the "**Excise Duty Act**"), which came into force on 1 August 2016, implemented new rules that simplified certain procedures, including registration and deregistration procedures. The Excise Duty Act also introduced a reduced tax rate for small breweries and high quantity electricity consumers.

The amendments to the Personal Income Tax Act (*Zakon o dohodnini (ZDoh-2),* the "**Personal Income Tax Act**"), which came into force on 1 January 2017, reduced the personal income tax payable on proportions of a taxpayer's salary that are paid on the basis of business performance. This provision did not reduce social security contributions. In addition, the amendments changed the tax schedule and rates of personal income tax and income threshold for additional general allowance. To offset the fiscal impact of the reduction of personal income tax, on 1 January 2017, the amendments to the Corporate Income Tax Act (*Zakon o davku od dohodkov pravnih oseb – ZDDPO-2*), the "**Corporate Income Tax Act**") came into force which raised the corporate income tax rate to 19 per cent.

Strengthening the competitiveness of Slovenia's business environment remains the main objective of the Republic's fiscal policy. Accordingly, changes that came into force on 1 January 2018 followed the approach of reducing the administrative burden, restructuring the tax burden and improving the efficiency of tax collection. For example, amendments to the Personal Income Tax Act will, among other things, introduce an additional general allowance for certain incomes between €11,166.37 and €13,316.81. In addition, the Personal Income Tax Act and to the Corporate Income Tax Act, will introduce further anti-avoidance measures regarding the lump-sum deduction for companies and individuals. Beginning in 2018, taxpayers will no longer be charged a commission for the use of a credit or debit cards when making a tax or other public duty payment under the public payments administration system (the "**UJP**").

Consolidated Government Holdings and Privatisation

On 28 December 2012, the "**SSHA**" entered into force. The SSHA 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 following provides an overview of the successful, unsuccessful and ongoing privatisations.

Successful privatisations:

- Helios d.o.o. – The sale of a 73 per cent. majority interest in Helios was completed in April 2014.
- Fotona, d.d. – A sales agreement to sell a 70 per cent. stake in the company was completed in March 2014.
- Aerodrom Ljubljana, d.d. – An agreement to sell 73 per cent. of Aerodrom Ljubljana was signed on 5 September 2014 and completed in October 2014.
- Žito, d.d. – 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, d.d. – 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, d.d. – The sale of 100 per cent. of Adria Airways Tehnika to Linetech Holding was completed in November 2015.

- Adria Airways, d.d. – The sale of 91.58 per cent. to 4K KNDNS GmbH was completed on 15 March 2016.

- Paloma, d.d. – The sale of 70.97 per cent. to Eco-Invest was completed on 24 February 2017.

- Cimos, d.d. – The sale of 92.3 per cent. to TCH (Palladio Holding Group) was completed on 18 May 2017.

Unsuccessful privatisations:

- Telekom Slovenija, d.d. – 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, d.d. – The company has not been sold as a result of certain environmental issues relating to operations.

Ongoing privatisations:

- Mariborska livarna Maribor, d.d. ("**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. However, the sale process was suspended in October 2016. In June 2017, BAMC, as the largest shareholder and creditor, extended a €1.5 million loan to MLM and proposed composition with creditors (*prisilna poravnava*) proceedings, where a debtor and creditors agree that the debtor will, in satisfaction of their claims, pay the creditors less than their full claims, to improve MLM's financial performance and create better conditions for its disposal.

- NLB – The Republic committed to the European Commission to reduce its shareholding in NLB to not more than 25 per cent. plus 1 share by selling at least 50 per cent. of NLB's shares by the end of 2017 and the remainder by the end of 2018. There is a possibility that the sale, which is planned as a public offering, will be delayed and that the European Commission will extend the deadline for selling the Republic's share in NLB, as the risk stemming from the transferred foreign currency deposits of former Ljubljanska banka is currently an obstacle to the successful completion of the transaction. As of the date of this Offering Circular, further discussions with the European Commission for a possible additional amendment to the sales commitment for NLB were ongoing.

- Abanka – The Republic committed to divest its entire shareholding in Abanka through a competitive bidding process. As of the date of this Offering Circular, the Republic was in the preparatory phase of the sales process with the objective of executing a sale and purchase agreement by no later than 30 June 2019. The sale will be carried out by SSH.

- Unior, d.d. – The sale of 55 per cent. of the shares of Unior is in the preparation phase.

The proceeds derived from the privatisation of the Republic's assets are reflected as revenue in the Republic's budget. In accordance with the Public Finance Act, approximately 90 per cent. of the revenue received from privatisation will be used for the repayment of state budget debt. In addition, approximately 10 per cent. of the revenue received will be allocated for the Demographic Reserve Fund *(Demografski rezervni sklad)*, which will supplement the Republic's pension system.

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). The Government has adopted an asset management plan for 2017 along with criteria for measuring the performance of state-owned assets. Under this 2017 asset management plan, the Republic aims to begin the privatisation of 20 state-owned portfolio companies, including NLB and Abanka. Since 2013, the SSH disposed of 19 companies, including in the 15 companies initially authorised for sale on 21 June 2013 by the National Assembly.

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 Mr. 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. In addition, on 12 October 2016 Ms. Anja Strojin Štampar resigned from the management board. Ms. Lidia Glavina, a former member of SSH's supervisory board, was appointed as the president of the management board on 22 February 2017. In January 2017, the Ministry of Finance published an application process open to the public in order to fill a vacancy on the supervisory board due to the death of one of its existing members. On 21 June 2017, the National Assembly appointed two new members of SSH's supervisory 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 2016:

	As at 31 December				
	2012	2013	2014	2015	2016
	(€ millions, except for percentages)				
Outstanding general government debt	19,404	25,505	30,199	32,063	31,730
Nominal GDP	36,076	36,239	37,615	38,837	40,418
General government debt as % of nominal GDP	53.8%	70.4%	80.3%	82.6%	78.5%

Source: SORS.

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 2017, there were 524 such public entities, of which 80 had debt outstanding (43 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 (excluding the general government entities) as a percentage of nominal GDP as at 31 December 2013 to 31 December 2016 and as at 30 June 2016 and 2017:

	As at 31 December				As at 30 June	
	2013	2014	2015	2016	2016	2017
	(€ millions, except for percentages)					
Outstanding debt of other public entities (without the general government entities)	5,200.1	4,714.3	4,612.9	4,486.5	4,414.7	4,351.5
Nominal GDP	36,239	37,615	38,837	40,418	40,418	41,625
Outstanding debt of other public entities as % of nominal GDP	14.3	12.5	11.9	11.1	10.9	10.5

Source: Ministry of Finance calculations as at 1 September 2017 (according to the revised GDP data published by SORS on 31 August 2017), SORS.

The following table sets out the debt of these public entities (excluding the general government entities) by currency as at 30 June 2017:

	As at 30 June 2017			
	Short-term	Long-term	Total	As % of total
	(€ millions, except for percentages)			
EUR	31.9	4,289.1	4,321.0	99.3
CHF	0	29.8	29.8	0.7
U.S.$	0	0.7	0.7	0.0
Total	**31.9**	**4,319.6**	**4,351.5**	**100.0**

Source: Ministry of Finance.

Largely due to the expenditures from bank recapitalisations in 2013, general government debt reached 70.4 per cent. of GDP in 2013 and further increased to its peak of 82.6 per cent. in 2015 before falling to 78.5 per cent. in 2016 due to reduced prefinancing for the 2017 and 2018 budgets, compliance with the Stability Growth Pact debt rule and an increase in GDP. Central government debt represented 85.6 per cent. of general government debt as at 31 December 2016, compared to 85.1 per cent., 86.1 per cent., 86.2 per cent. and 86.8 per cent. as at 31 December 2015, 2014, 2013 and 2012, respectively. 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 87.4 per cent. euro-denominated debt, 12.5 per cent. USD-denominated debt and 0.1 per cent. of other currencies as at 31 July 2017.

Central Government Guarantees

The following table sets out the Republic's government guarantees as at 31 December 2012 to 2016 and as at 30 September 2017:

	As at 31 December					As at 30 September
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
	(€ millions)					
Guarantees for the general government entities	560.2	1,568.1	2,092.1	1,477.0	1,437.7	916.3
Guarantees for other public entities	4,391.3	4,748.2	4,480.3	4,087.3	3,863.2	3,623.1
Guarantees for commercial banks under financial crisis programme	200.0	398.9	118.8	–	–	–
Guarantees for debt of privately owned entities	117.7	77.7	31.5	20.5	16.2	14.0
Guarantees to EFSF	1,232.3	1,461.0	1,549.3	1,470.6	1,492.0	1,665.2
Other	4.4	4.0	3.9	3.6	3.9	3.9
Total	**6,505.8**	**8,257.9**	**8,275.7**	**7,059.1**	**6,812.9**	**6,222.6**

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 September 2017 was €6,222.6 million, comprising €3,797.3 million of non-crisis guarantees and €2,425.3 million of crisis guarantees. The amount of outstanding "non-crisis guarantees" for the debt of public and government controlled entities was approximately €3,786.0 million, while the amount of guarantees for the debt of private entities was approximately €9.6 million. For the purpose of facilitating borrowing in the markets under the "*crisis prevention programme*", €2.2 billion of guarantees was extended to four banks: NLB, 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 €7.5 million, the debt of households to €2.3 million, another €1,665.2 million is outstanding in respect of the Republic's proportion of bonds issued under the European Financial Stability Facility ("**EFSF**") and €750.4 million is outstanding in respect of guarantees extended to the BAMC under the measures to strengthen bank stability as at 30 September 2017.

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 2012 to 2016 and as at 30 November 2017:

	As at 31 December					As at 30 November
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
	(€ millions)					
Internal	14,052.3	14,762.9	15,988.3	17,256.4	20,500.4	23,625.4
T bills	1,560.6	1,647.6	1,391.4	1,048.8	489.0	517.5
Long term securities	11,678.7	12,421.8	13,971.6	15,684.0	19,600.7	22,643.2
Special Drawing Rights	29.6	28.4	28.5	32.4	32.4	30.7
Loans	783.4	665.1	596.7	491.1	378.3	433.9
External[(1)]	2,783.8	7,232.6	10,026.9	10,022.7	6,628.7	5,128.6
Long term securities	2,726.9	6,913.6	9,483.4	9,483.4	5,993.8	4,498.4
International financial institutions and official bilateral creditors	56.9	319.0	543.5	539.3	634.9	630.2
Total	**16,836.1**	**21,995.5**	**26,015.1**	**27,279.1**	**27,129.1**	**28,753.9**

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.

Source: Ministry of Finance.

The majority of central government debt instruments since 2008 has been issued in euro under Slovenian law and entered into a local clearing, settlement and depositary institution. For statistical and legal purposes, these instruments are considered internal debt.

The following table sets out central government debt by currency as at 31 December 2012 to 2016 and as at 30 November 2017:

	As at 31 December										As at 30 November	
	2012		**2013**		**2014**		**2015**		**2016**		**2017**	
	(€ 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	32.4	0.1	30.7	0.1
EUR	15,079.6	89.6	17,553.4	79.8	19,003.2	73.0	20,263.3	74.3	22,102.9	81.5	25,224.8	87.7
USD	1,726.9	10.2	4,413.6	20.1	6,983.4	26.8	6,983.4	25.6	4,993.8	18.4	3,498.4	12.2
Total	**16,836.1**	**100.0**	**21,995.5**	**100.0**	**26,015.1**	**100.0**	**27,279.1**	**100.0**	**27,129.1**	**100.0**	**29,606.7**	**100.0**

Source: Ministry of Finance.

Debt Service

The average maturity for the Republic's debt portfolio is nine years as at 30 November 2017 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 2012 to 2016:

	Year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
	(€ millions)				
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 years indicated:

Year ending 31 December[(1)]	Principal Payments	Interest Payments	Total
		(€ millions)	
2017	2,774.2	977.3	3,751.5
2018	2,445.2	828.2	3,273.4
2019	2,409.4	740.8	3,150.2
2020	1,665.0	667.1	2,332.2
2021	2,675.2	598.8	3,274.0
2022	1,394.6	497.8	1,892.4
2023	328.7	444.0	772.8
2024	2,580.6	416.5	2,997.0
2025	2,148.4	327.1	2,475.5
2026	1,523.4	283.3	1,806.7
2027	3,123.4	206.0	3,329.4
2028	23.4	167.6	191.0
2029	173.4	167.1	340.5
2030	23.4	161.9	185.3
2031	23.4	161.5	184.9
2032	2,023.4	161.0	2,184.4
2033	23.4	115.6	139.0
2034	16.1	115.2	131.3
2035	2,016.1	115.0	2,131.1
2036	16.1	84.7	100.8
2037	16.1	84.5	100.6
2038	16.1	84.3	100.4
2039	16.1	84.1	100.2
2040	3,005.4	83.9	3,089.3
2041	5.4	31.3	36.7
2042	0.0	31.3	31.3
2043	0.0	31.3	31.3
2044	0.0	31.3	31.3
2045	1,000.0	31.3	1,031.3

Note:
(1) Debt service projections for the central government budget of Slovenia are calculated on the outstanding debt as at 30 November 2017.
Source: Ministry of Finance.

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 7 December 2017:

Agency	Long term domestic currency	Long term foreign currency	Country ceiling	Outlook
S&P	A+	A+	–	Stable
Moody's Ltd.	Baa1	Baa1	Aa1	Stable
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. The Republic's credit rating trended upwards in 2014 and 2015. S&P upgraded the Republic's rating to A on 17 June 2016 and changed its outlook to positive on 16 December 2016, then on 16 June 2017 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 while affirming its rating of Baa3, and then on 8 September 2017, it upgraded the Republic's rating to Baa1 with a stable outlook. Fitch upgraded its rating of the Republic on 23 September 2016 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 7 December 2017:

Agency	**2012**	**2012**	**2012**	**2013**	**2013**	**2014**	**2015**	**2016**	**2017**
Standard & Poor's Ratings..................	A+	–	A	A-	–	–	–	A	A+
Moody's Ratings[1]...	A1	A2	Baa2	Baa2	Ba1	–	Baa3	–	Baa1
Fitch Ratings	A	–	A-	–	BBB+	–	–	A-	–

Note:
[1] Includes ratings from Moody's Inc. up until 2014 and Moody's Ltd. from 2015.
Source: Respective agency websites.

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 2012 to 2016 and nine months ended 30 September 2016 and 2017.

	Year ended 31 December					Nine months ended 30 September	
	2012	**2013**	**2014**	**2015**	**2016**	**2016**	**2017**
				(€ million)			
Current account	**775.3**	**1,593.9**	**2,178.8**	**1,698.4**	**2,107.6**	**1,764.4**	**2,310.8**
Goods	**(81.3)**	**708.3**	**1,181.3**	**1,476.1**	**1,536.5**	**1,309.9**	**1,365.3**
Export of goods	21,256.1	21,692.1	22,961.1	24,039.0	24,990.5	18,584.0	21,073.6
Import of goods	21,337.3	20,983.8	21,779.7	22,562.8	23,454.0	17,274.1	19,708.3
Services	**1,509.4**	**1,731.9**	**1,696.7**	**1,859.6**	**2,174.1**	**1,648.5**	**1,972.1**
Export of services	5,106.4	5,317.5	5,558.4	5,866.3	6,410.0	4,711.4	5,292.2
Import of services	3,596.9	3,585.6	3,861.7	4,006.6	4,235.9	3,062.8	3,320.1
Primary Income	**(577.6)**	**(481.7)**	**(428.2)**	**(1,262.6)**	**(1,294.1)**	**(935.6)**	**(800.2)**
Receipts	853.3	821.8	1,093.0	1,345.4	1,435.8	1,116.5	1,133.4
Expenditure	1,430.9	1,303.5	1,521.2	2,608.0	2,729.9	2,052.2	1,933.6
Secondary income	**(75.3)**	**(364.5)**	**(271.0)**	**(374.8)**	**(309.0)**	**(258.4)**	**(226.4)**
Receipts	931.0	629.8	709.0	733.0	744.8	528.3	579.7
Expenditure	1,006.4	994.4	980.0	1,107.8	1,053.8	786.7	806.1
Capital account	**40.7**	**161.7**	**78.6**	**411.9**	**(301.9)**	**(196.1)**	**(172.1)**
Financial account	**(142.1)**	**1,003.7**	**2,251.1**	**1,657.8**	**1,129.1**	**973.3**	**1,600.7**
Direct investment	**(465.6)**	**(47.1)**	**(583.9)**	**(1,268.7)**	**(880.0)**	**(980.7)**	**(341.7)**
Assets	(438.9)	23.6	155.1	291.6	431.5	290.0	428.8
Liabilities	26.7	70.7	739.0	1,560.4	1,311.5	1,270.7	770.5
Portfolio investment	**219.6**	**(4,175.6)**	**(3,968.1)**	**2,929.3**	**5,078.6**	**2,385.5**	**966.3**
Assets	(142.8)	(466.8)	426.4	2,015.5	2,073.4	1,256.4	2,201.0
Liabilities	(362.4)	3,708.8	4,394.4	(913.8)	(3,005.1)	(1,129.0)	1,234.7
Financial derivatives	**89.5**	**26.9**	**(50.5)**	**(97.9)**	**(214.9)**	**(170.5)**	**(189.8)**
Other investment	**45.5**	**5,194.2**	**6,764.9**	**208.0**	**(2,758.0)**	**(181.0)**	**1,065.2**
Assets	456.3	599.4	4,799.3	(691.7)	(2,334.8)	(1,651.1)	(1,520.9)
Other equity	154.6	151.8	84.0	10.3	(0.5)	2.0	(0.5)
Currency and deposits	38.5	563.8	5,037.0	(516.3)	(2,205.2)	(1,922.9)	(2,359.4)
Loans	371.5	0.8	(299.4)	(407.9)	(203.5)	(92.5)	(81.0)
Insurance. pension and stand, guarantee schemes	28.3	(9.6)	7.7	(8.2)	10.0	9.4	2.7
Commercial credits	(48.8)	19.3	(15.9)	(4.5)	160.7	362.2	775.7
Other assets	(87.7)	(126.8)	(14.1)	235,9	(96.3)	(9.3)	141.6
Liabilities	**410.9**	**(4,594.8)**	**(1,965.5)**	**(899.6)**	**423.2**	**(1,470.1)**	**(2,586.1)**
Other equity	0.2	(29.2)	6.5	10.6	3.5	3.4	(34.7
Currency and deposits	1,018.7	(4,168.9)	(830.8)	(399.6)	1,174.9	(177.6	(1,146.6)
Loans	(938.3)	(269.4)	(1,246.5)	(314.6)	(817.9)	(1,152.3)	(1,563.0)
Insurance. pension and stand, guarantee schemes	40.6	39.5	(53.7)	2.9	(7.9)	(5.1	10.8
Commercial credits	284.7	(182.3)	(143.5)	(99.9)	137.3	(95.6	191.6
Other liabilities	5.0	15.5	302.4	(99.0)	(66.7)	(43.0	(44.2)
Special drawing rights (SDR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve assets	**(31.2)**	**5.3**	**88.7**	**(112.9)**	**(96.5)**	**(79.9)**	**100.7**
Currency and deposits	59.6	54.5	(93.6)	(20.5)	20.4	(19.5)	(8.7)
Net errors and omissions	(958.1)	(751.9)	(6.4)	(452.5)	(676.6)	(595.0)	(538.0)

Source: Bank of Slovenia.

Current Account

In the period from 2012 to 2016, the current account balance moved from a surplus of €775.3 million in 2012 (which represented 2.2 per cent. of GDP) to a surplus of €2,107.6 million in 2016 (which represented 5.3 per cent. of GDP). This increased surplus was the result of an increase in the positive balance of goods and services. Historically, the services account has positively contributed to the overall current account balance, mainly due to a surplus in tourism activity. From 2012 to 2016, the services account had a surplus which reached €1,859.6 million in 2015 (which represented 4.8 per cent. of GDP) and €2,174.1 in 2016 (which represented 5.5 per cent. of GDP). While the total services surplus grew throughout the period from 2012 to 2016. The goods account moved from a deficit of €81.3 million in 2012 to a surplus of €1,536.5 million in 2016.

In the first nine months of 2017, the current account surplus reached €2,310.8 million, compared to €1,764.4 million in the first nine months of 2016.

Foreign Trade

Foreign trade is the most important item in the Slovenian current account. Its share in all current account credits was 75.5 per cent. in 2012, 76.2 per cent. in 2013, 75.7 per cent. in 2014, 75.2 per cent. in 2015 and 74.4 per cent. in 2016. On the debit side, its share was 78.0 per cent. in 2012, 78.1 per cent. in 2013, 77.4 per cent. in 2014, 74.5 per cent. in 2015 and 74.5 in 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 2016, the Republic steadily increased its market share of exports into EU countries.

In 2016, both exports and imports of goods increased by 4.0 per cent., compared to 2015. From 2014 to 2015, exports of goods increased by 4.7 per cent. and imports increased by 3.6 per cent.

In addition, from 2012 to 2016, exports of goods increased by 17.6 per cent. and imports of goods by 9.9 per cent.

In the first nine months of 2017, exports of goods increased by 13.4 per cent. and imports of goods increased by 14.1 per cent. compared to the first nine months of 2016. Import growth was higher than that of exports due to the growth of all major aggregates of domestic demand – most notably investment and industrial production – as well as due to an increase in oil prices and prices of other commodities on the global markets, which negatively affected the balance of trade.

Imports and Exports of Goods by Region

The geographical breakdown of Slovenian foreign trade has been relatively stable over the last six years, including during the first nine months of 2017. In 2016, EU countries represented 76.4 per cent. of total exports and 81.1 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, Croatia and Austria. 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 2012 to 2016 and nine months ended 30 September 2016 and 2017:

Shares of imports and exports of goods by region

	Year ended 31 December					**Nine months ended 30 September**	
	2012	**2013**	**2014**	**2015**	**2016**	**2016**	**2017**
				(Share (%))			
Exports of goods (fob)							
EU	74.9	74.8	76.4	76.9	76.4	77.0	77.0
of which:							
Austria	8.3	8.7	8.8	8.3	7.7	7.7	7.7
Italy	11.3	11.5	11.9	11.4	11.0	10.8	11.6
Germany	20.8	20.1	19.8	20.4	20.4	20.7	20.1
France	5.5	5.2	5.1	4.9	4.7	4.8	5.2

	Year ended 31 December					Nine months ended 30 September	
	2012	2013	2014	2015	2016	2016	2017
				(Share (%))			
Hungary	2.9	3.1	3.2	3.1	2.9	3.0	2.8
Netherlands	1.9	1.5	1.7	1.8	1.8	1.8	1.9
Czech Republic	2.8	2.7	2.3	2.4	2.4	2.3	2.5
United Kingdom	2.2	2.1	2.1	2.3	2.2	2.2	2.0
Croatia	6.3	6.7	7.8	7.8	8.3	8.4	8.2
Serbia	3.4	3.4	3.1	3.0	3.2	3.2	2.9
Russian Federation	4.5	4.7	4.4	3.3	3.0	2.7	3.0
China	0.6	0.6	0.6	0.6	1.1	1.1	1.1
USA	1.6	1.6	1.9	2.1	2.1	2.1	1.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Imports of goods (fob)							
EU	80.6	78.7	78.3	80.8	81.1	81.1	80.3
of which:							
Austria	11.6	11.6	11.5	11.6	11.3	11.2	10.7
Italy	18.5	16.2	16.4	15.9	15.4	15.6	16.0
Germany	18.7	18.6	18.3	18.9	19.2	19.2	18.8
France	4.7	3.6	3.7	3.6	3.9	3.9	4.1
Hungary	4.5	4.8	4.6	4.4	4.2	4.2	3.8
Netherlands	3.1	3.0	3.5	3.6	3.8	3.8	3.4
Czech Republic	2.5	2.5	2.4	2.7	2.6	2.6	2.6
United Kingdom	1.5	1.9	1.5	1.6	1.7	1.7	1.6
Croatia	4.1	4.8	4.8	5.8	6.2	6.1	5.5
Serbia	1.4	1.7	1.6	1.5	1.6	1.6	1.6
Russian Federation	1.7	2.1	1.8	1.0	1.0	1.0	0.9
China	2.8	2.5	2.8	3.3	3.2	3.3	3.2
USA	1.4	1.8	1.2	1.5	1.4	1.4	1.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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 2012 to 2016 and nine months ended 30 September 2016 and 2017:

Amounts of imports and exports by region

	Year ended 31 December					Nine months ended 30 September	
	2012	2013	2014	2015	2016	2016	2017
				(€ millions)			
Exports of goods (fob)							
EU	15,930	16,228	17,533	18,495	19,086	14,307	16,230
of which:							
Austria	1,757	1,890	2,026	1,986	1,926	1,429	1,612
Italy	2,408	2,488	2,729	2,737	2,742	2,016	2,440
Germany	4,413	4,352	4,545	4,893	5,098	3,856	4,244
France	1,160	1,138	1,172	1,184	1,184	897	1,104
Hungary	606	673	729	734	736	553	580
Netherlands	411	336	389	428	446	333	391
Czech Republic	597	583	535	568	597	430	523
United Kingdom	472	464	484	550	541	409	422
Croatia	1,337	1,460	1,780	1,881	2,073	1,556	1,720
Serbia	719	728	718	725	792	591	604
Russian Federation	951	1,029	1,005	798	758	503	627
China	136	128	140	149	273	201	240
USA	335	358	426	493	527	386	408
Total	**21,256**	**21,692**	**22,961**	**24,039**	**24,991**	**18,584**	**21,074**
Imports of goods (fob)							
EU	17,198	16,518	17,059	18,234	19,018	14,010	15,820
of which:							
Austria	2,470	2,444	2,496	2,621	2,640	1,931	2,104
Italy	3,946	3,389	3,568	3,587	3,623	2,694	3,150

	Year ended 31 December					Nine months ended 30 September	
	2012	2013	2014	2015	2016	2016	2017
				(€ millions)			
Germany	3,981	3,904	3,985	4,274	4,496	3,316	3,710
France	997	754	814	823	923	681	808
Hungary	965	1,001	1,006	1,003	979	729	759
Netherlands	653	635	761	801	896	650	674
Czech Republic	538	522	526	603	606	448	509
United Kingdom	310	395	320	368	390	289	318
Croatia	874	1,003	1,040	1,319	1,444	1,047	1,090
Serbia	303	350	348	341	379	279	324
Russian Federation	372	443	400	225	234	173	184
China	600	523	604	738	744	564	638
USA	291	386	265	328	324	241	273
Total	**21,337**	**20,984**	**21,780**	**22,563**	**23,454**	**17,274**	**19,708**

Source: Bank of Slovenia.

Composition of Trade

The composition of exports and imports of goods by products was relatively stable in the period from 2012 to 30 September 2017. The most significant exports in 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 2012 to 2016 and the nine months ended 30 September 2016 and 2017:

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

	Year ended 31 December					Nine months ended 30 September	
	2012	2013	2014	2015	2016	2016	2017
				(Share (%))			
Exports of goods (fob)							
Food and live animals	3.2	3.4	3.5	3.7	3.8	3.8	3.8
Beverages and tobacco	0.4	0.4	0.5	0.5	0.5	0.5	0.4
Crude materials (except fuels)	3.8	3.9	3.9	3.7	3.5	3.5	3.5
Mineral fuels, lubricants and related materials	6.5	6.6	6.2	5.3	4.5	4.2	4.9
Animal and vegetable oils, fats and waxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Chemicals and related products	17.8	18.7	18.2	17.5	17.3	17.2	16.9
Manufactured goods	21.9	21.0	20.9	21.0	20.5	20.9	20.1
Machinery and transport equipment	35.9	35.6	36.3	37.4	38.4	38.4	39.1
Miscellaneous manufactured articles	10.2	10.1	10.3	10.6	11.2	11.3	10.9
Other commodities and products of trade	0.2	0.2	0.1	0.1	0.2	0.2	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Imports of goods (cif)							
Food and live animals	6.8	7.2	7.2	7.4	7.5	7.4	7.0
Beverages and tobacco	0.8	0.8	0.8	0.9	0.8	0.9	0.8
Crude materials (except fuels)	5.9	5.8	5.7	5.5	5.1	5.1	5.0
Mineral fuels, lubricants and related materials	17.1	15.1	12.9	10.6	8.2	7.8	9.3
Animal and vegetable oils, fats and waxes	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Chemicals and related products	14.4	14.7	15.0	15.2	15.3	15.5	15.3
Manufactured goods	18.4	18.0	18.4	18.8	19.0	19.3	18.9
Machinery and transport equipment	27.2	29.1	30.2	31.3	33.5	33.2	33.1

	Year ended 31 December					Nine months ended 30 September	
	2012	2013	2014	2015	2016	2016	2017
				(Share (%))			
Miscellaneous manufactured articles	8.9	8.8	9.4	9.7	10.3	10.3	10.1
Other commodities and products of trade	0.3	0.2	0.1	0.2	0.2	0.1	0.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bank of Slovenia, SORS.

Capital Account

The capital account recorded a deficit of €301.9 million in 2016, compared to surpluses of €411.9 million in 2015, €78.6 million in 2014 and €161.7 million in 2013. In the first nine months of 2017, the capital account recorded a deficit of €172.1 million. The deficits in 2016 and 2017 were due to lower receipts of investment grants from the EU budget.

Financial Account

The financial account generated a surplus of €1,129.1 million in 2016, compared to surpluses of €1,657.8 million in 2015 and €2,251.1 million in 2014. In 2016, there was a net inflow of direct investment of €880.0 million and currency and deposits of €3,380.1 million. A net outflow of portfolio investment of €5,078.6 million was recorded, which was mainly due to decreased liabilities of €3,005.1 million and increased assets. Loans created the second largest net outflow of €614.4 million, primarily due to the repayment of loans by banks and other financial intermediaries.

In 2015, there was a net inflow of direct investment of €1,268.7 million and net outflow of portfolio investment of €2,929.3 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 €208.0 million.

In 2014, the financial account generated a surplus of €2,251.1 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 €6,764.9 million, mainly due to the net outflows of currency and deposits and loans.

In 2013, the financial account generated a net surplus of €1,003.7 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 €5,194.2 million, primarily due to a decrease of liabilities in currency and deposits.

In the first nine months of 2017, the financial account generated a surplus of €1,600.7 million, compared to a surplus of €973.3 million in the first nine months of 2016.

Amounts and Origins of Foreign Direct Investment

Inward foreign direct investment increased by €1,139.5 million in 2016 compared to an increase of €1,465.2 million in 2015. The increase of inward foreign direct investment in 2016 was mostly a result of acquisitions in the corporate and banking sectors. Reinvested earnings in 2016 were also positive in the amount of €577.4 million. In the first nine months of 2017, inward foreign direct investment increased by €541.5 million, compared to an increase of €1,156.9 million in the same period of 2016 due to a greater number of takeovers in the banking and food and beverage sectors.

In 2015, inward foreign direct investment increased by €1,509.7 million, compared to an increase of €791.3 million in 2014. The increase in 2015 was mainly due to larger positive reinvested earnings amounting to €441.2 million, which was the first increase of reinvested earnings since 2008.

At the end of 2016 the amount of inward foreign direct investment was €12,949.7 million, compared to the end of 2015, when the amount of inward foreign direct investment was €11,612.0 million. At the end of 2014 the amount of inward foreign direct investment was €10,201.6 million. (see "*Public Finance – Consolidated Government Holdings*").

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 2012 to 2016 and for the first nine months of 2016 and 2017:

Inflow of Foreign Direct Investment by Top Countries

	Year ended 31 December					Nine months ended 30 September	
	2012	**2013**	**2014**	**2015**	**2016**	**2016**	**2017**
				(€ million)			
Austria	(64.3)	(217.5)	(150.8)	266.8	133.0	139.3	138.7
Belgium	37.4	20.4	0.7	11.5	16.3	15.5	13.2
Switzerland	150.7	12.2	60.9	164.5	56.8	170.9	60.6
Cyprus	(2.3)	(11.7)	(21.1)	33.9	6.4	2.8	(0.8)
Czech Republic	4.9	24.4	29.5	83.6	42.3	19.5	19.5
Germany	120.9	13.2	378.8	136.7	32.3	25.7	8.6
France	(2.2)	49.4	(33.9)	1.2	(20.0)	1.0	117.5
United Kingdom	(19.3)	(5.4)	(41.6)	65.1	38.0	26.1	(6.6)
Croatia	(14.0)	46.1	247.3	119.0	4.0	8.0	142.8
Italy	7.9	22.8	27.6	56.2	81.9	66.6	(40.7)
Luxembourg	(18.7)	42.3	127.7	200.8	424.7	391.7	18.4
Netherlands	128.6	(63.9)	181.4	293.1	122.7	133.4	9.9
Russian Federation	(2.2)	21.3	(19.4)	(5.9)	7.0	5.3	(4.5)
Other countries	(63.4)	(67.3)	4.3	83.2	194.1	151.1	65.0
Total[(1)]	**264.1**	**(113.9)**	**791.3**	**1,509.7**	**1,139.5**	**1,156.9**	**541.5**

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.
Source: Bank of Slovenia.

Gross External Debt

As at 31 December 2016, gross external debt, which includes both public and private debt, amounted to €44.80 billion, €1.82 billion less than the level as at 31 December 2015 (€46.63 billion). The gross external debt at the end of 2016 was comprised of general government debt (51 per cent.), which was mostly in the form of long term securities, the debt of other sectors (24 per cent.) and banks (9 per cent.). In the period from 2012 to 2016, the ratio of external debt to GDP fluctuated between 119.0 and 112.7 per cent. of GDP. Public and publicly guaranteed debt amounted to €30.40 billion at the end of 2016 and represented 67.8 per cent. of total gross external debt. The share of public and publicly guaranteed debt within total gross external debt at the end of 2012 reached 51.0 per cent. and was 18.0 per cent. higher than in 2011 when it reached 44.5 per cent., or €18.54 billion in absolute terms. This increase was largely due to 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 €13.75 billion at the end of 2015 to €11.73 billion at the end of 2016. During this period the largest reductions of net external debt were registered in the banking sector (€0.9 million) and in the general government sector (€1 billion). Further, the Republic's international net investment position in 2015 reached negative 40.0 per cent. of GDP or €15.44 billion and was reduced to €14.90 billion (37.5 per cent. of GDP) at the end of 2016.

As at 30 September 2017, the gross external debt reached €43.24 billion, which was €2.1 billion less than the gross external debt as at 30 September 2016.

The following table sets out gross external debt by sector as at 31 December 2012 to 2016 and as at 30 September 2016 and 2017:

	As at 31 December										As at 30 September	
	2012		**2013**		**2014**		**2015**		**2106**		**2016**	**2017**
	(€ million)	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*	*(€ million)*	*% GDP*
General Government	11,069	30.7	15,434	43.0	23,317	62.5	24,824	64.4	22,953	57.7	24,377	23,188
Monetary Authority.	6,071	16.9	2,742	7.6	2,083	5.6	2,217	5.7	3,457	8.7	2,105	2,134
Banks	9,892	27.5	7,519	20.9	6,591	17.7	5,195	13.5	4,117	10.4	4,193	3,870
Other Sectors...........	12,697	35.3	12,698	35.4	11,570	31.0	10,839	28.1	10,845	27.3	10,815	10,412
Direct Investment: Intercompany lending................	3,120	8.7	3,240	9.0	3,651	9.8	3,552	9.2	3,433	8.6	3,828	3,636
Total Gross External Debt(1)................	42,850	119.0	41,632	115.9	47,212	126.5	46,627	120.9	44,805	112.7	45,318	43,240

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.

Source: Bank of Slovenia.

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**"). In 2016, the assets of the Slovenian financial sector increased by 2.5 per cent. and stood at €69.5 billion, or 174.7 per cent. of GDP. Banks are the most important financial intermediaries with around 56 per cent. of total financial sector assets (central bank assets included). 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. Income and credit risks reduced in 2016 and 2017, as compared to prior periods, due largely to the resolution of a substantial number of banks' non-performing claims. High impairment charges, which previously had a negative effect on banking profits, were significantly lower in 2016 compared to previous years. This trend continued during the first nine months of 2017 as the banks recorded net releasements of impairments due to 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 Eurozone 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 Eurozone countries. The Eurosystem is responsible for defining and implementing the Eurozone'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 the 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 Eurozone 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 "**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 therefore actively involved in the monetary policy decision-making process. 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 in 2015) 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 Vice Governor of the Bank of Slovenia 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**").

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, being the Bank of Slovenia in the case of the Republic.

The SSM's main aims are to:

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

As at 1 April 2017, the ECB directly supervises the 124 most significant banks of the participating countries, comprising 82 per cent. of the banking assets in the Eurozone. 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 Resolution and Compulsory Dissolution of Credit Institutions Act (*Zakon o reševanju in prisilnem prenehanju bank (ZRPPB)*, the "**ZRPPB**") 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.

In December 2014, the Bank Resolution Authority and Fund Act came into force, giving the Bank of Slovenia the role of the national resolution authority. Since 2015 the Single Resolution Board ("**SRB**") features a member representing the Bank of Slovenia as the national resolution authority of Slovenia. In 2015 the Resolution Unit was established in the Bank of Slovenia. 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. The following contributions from banks in Slovenia have been transferred to the Single Resolution Fund: €15.7 million in January 2016, €12.5 million in June 2016 and €9.3 million in June 2017.

A national 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.

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 2019. 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 Eurozone. The SMP sought to ensure depth and liquidity in the 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.

    To address persistently low inflation in an environment of subdued economic growth and to anchor the medium-to long term inflation expectations in the Eurozone, 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 Eurozone 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 Eurozone governments and agencies as well as European institutions ("**PSPP**"). The purchases commenced on 9 March 2015.

In March 2016, the Governing Council announced an additional comprehensive package of easing measures to increase price stability. 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.

The asset purchase programme was extended several times since its introduction, most recently in October 2017 when the Governing Council decided to run the purchases until at least September 2018. The monthly purchase amount has been gradually lowered since December 2016, as the improving economic and financing conditions permitted a recalibration of the degree of monetary policy accommodation necessary to secure a sustained return of inflation rates toward its objective. From The monthly purchase amount is expected to be reduced from €60 billion in January 2018 to €30 billion until the end of September 2018. Moreover, the Eurosystem will reinvest the principal payments from maturing securities purchased for an extended period of time after the end of its net asset purchases. To enhance the implementation of the bond and asset purchase programmes, as well as to support the market liquidity in the Eurozone, the Eurosystem makes its asset purchase programme holdings available for lending.

(ii) 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.

(iii) In order to stabilise money market interest rates, credit institutions in the Republic, as in the rest of the Eurozone, 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. Excess reserves are remunerated at the lower of either the deposit facility rate, or zero per cent.

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 Eurozone 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 Eurozone 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 Eurozone, 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 at March 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 €77.3 billion, or 214.7 per cent. of GDP. In 2013, the Slovenian financial sector's assets declined by 8.2 per cent. and stood at €70.9 billion, or 197.5 per cent. of GDP. In 2014, the Slovenian financial sector's assets declined by 0.5 per cent. and stood at €70.6 billion, or 189.0 per cent. of GDP. In 2015, the assets of the Slovenian financial sector fell by 3.9 per cent. and stood at €67.8 billion, or 175.8 per cent. of GDP. In 2016, total financial sector's assets increased by 2.5 per cent. and stood at €69.5 billion or 174.7 per cent. of GDP.

Banks were considered the most important financial intermediaries with 56.2 per cent. of total financial sector assets in 2016. 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 (16.9 per cent.). In 2015, insurers were the largest group among non-monetary financial institutions (which accounted for 46.6 per cent. of total non-monetary financial institutions assets). The proportion of leasing companies decreased to 14.8 per cent. of total non-monetary financial institution assets in 2015. In 2016, the largest group among non-monetary financial institutions was insurers (which accounted for 42.2 per cent. of total non-monetary financial institutions assets), followed by pension funds (which accounted for 14.6 per cent.). Both sectors increased their respective share of total assets for all non-monetary financial institution sectors.

Banks are the most important financial intermediaries with 56.2 per cent. of total financial sector assets (central bank assets included). The largest group among non-monetary financial institutions are insurers (which accounted for 42.2 per cent. of total non-monetary financial institutions assets), followed by pension funds (which accounted for 14.6 per cent.). Both sectors increased their shares in the structure of total non-monetary financial institution assets.

The following table sets out certain statistical information about the Slovenian financial system as at 31 December 2015 and 2016:

	As at 31 December							
	Total assets		**As % of total assets**		**As % of GDP**		**Growth, %**	
	2015	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
	(€ millions)				*(%)*			
Monetary financial institutions..............	40,382	39,073	59.6	56.2	104.7	98.2	(4.5)	(3.2)

	As at 31 December							
	Total assets		As % of total assets		As % of GDP		Growth, %	
	2015	2016	2015	2016	2015	2016	2015	2016
	(€ millions)				(%)			
Central bank................	10,275	12,860	15.2	18.5	26.6	32.3	(5.7)	25.2
Non-monetary financial institutions	17,134	17,554	25.3	25.3	44.4	44.1	(1.3)	2.5
Insurance corporations	6,999	7,416	10.3	10.7	18.1	18.6	(0.5)	6.0
Pension Funds............	2,487	2,564	3.7	3.7	6.4	6.4	6.3	3.1
Investment Funds other than MMFs.............	2,393	2,480	3.5	3.6	6.2	6.2	6.6	3.6
Other financial institutions..............	5,255	5,094	7.8	7.3	13.6	12.8	(8.7)	(3.1)
Total..........................	**67,791**	**69,487**	**100.0**	**100.0**	**175.8**	**174.7**	**(3.9)**	**2.5**

Source: Bank of Slovenia.

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. Due to the sale of NKBM, the share of government ownership in the financial sector decreased to 45.6 per cent. in 2016.

Banking System

As at 30 September 2017 the Slovenian banking system comprised 12 banks (including six subsidiary banks), three branches of foreign (Eurosystem) banks and three savings banks. The latest structure is due to the mergers of KBS and NKBM in January 2017, NKBM and PBS in September 2016 and Factor banka and Probanka with the BAMC in February 2016. As at 30 September 2017, the banking system comprised five banks under majority domestic ownership and seven banks under majority foreign ownership.

The largest banks by market share as at 31 December 2016 were as follows:

	Market Share as at 31 December (on a stand-alone basis)		
	2014	2015	2016
		(%)	
NLB..	23.0	23.3	23.7
Abanka..	6.7	10.2	9.8
NKBM...	9.3	9.5	11.5
SID banka	9.2	8.6	6.9
SKB banka (SocGen group)...	6.6	6.9	7.6
Unicredit banka Slovenija..	6.7	6.8	6.9
Banka Intesa Sanpaolo (SanpaoloIMI group)	5.9	6.1	6.3

Source: Bank of Slovenia.

Set forth below is sector data for the seven biggest banks as at 31 December 2016:

	As at 31 December 2016 (on a stand-alone basis)				
	Majority Ownership	Total assets	Return on assets	Operational costs/Average total assets	Capital adequacy
		(€'000)	(%)	(€'000)	(%)
NLB..	Domestic	8,777,966	0.73	2.06	23.39
Abanka..	Domestic	3,612,362	2.03	1.99	26.35

	As at 31 December 2016 (on a stand-alone basis)				
	Majority Ownership	**Total assets**	**Return on assets**	**Operational costs/Average total assets**	**Capital adequacy**
		(€'000)	*(%)*	*(€'000)*	*(%)*
NKBM	Foreign	4,276,121	0.66	2.48	23.98
SID banka	Domestic	2,548,643	0.76	0.42	33.63
SKB banka (SocGen group)	Foreign	2,802,966	2.31	1.87	14.18
Unicredit banka Slovenija	Foreign	2,571,213	0.53	1.52	15.62
Banka Intesa Sanpaolo (SanpaoloIMI group)	Foreign	2,325,664	0.89	1.98	17.40

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, €332.4 million in 2016 and €343.1 million for the nine months ended 30 September 2017 (compared with €290.6 million in September 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. The rate of contraction in total assets slowed during 2016, due to an increase in loans to the non-banking sector in December 2016. As at 31 December 2016, the banking system's total assets amounted to €37 billion, having decreased during 2016 by €331 million, or 0.9 per cent. in year-on-year terms. The banking system's total assets increased by 2.9 per cent. as at 30 September 2017 in year-on-year terms.

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 Eurozone 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 December 2016, the total amount of loans to the non-banking sector was €20.5 billion. Contraction of loans to the non-financial corporate sector decreased at the end of 2016, from 7.9 per cent. as at 30 November 2016 to 1 per cent. as at 31 December 2016 in year-on-year terms. In 2016, loans to the non-financial corporate sector amounted to €8.1 billion, which is a decrease of €84 million. Growth of loans to non-banking sector, which began at the end of 2016, continued in 2017, reaching 6.6 per cent. as at 30 September 2017 in year-on-year terms. Loans to the non-financial corporate sector, which had been decreasing in Slovenian banking system for a substantial period of time, has started to increase since February 2017. Loans to the non-financial corporate sector increased by 8.1 per cent in September 2017 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 December 2016, the growth rate increased to 4.6 per cent. in year-on-year terms. The increase in loans to households also continued in 2017, reaching 7.7 per cent. growth as at 30 September 2017 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 the last three years. In year-on-year terms housing loans and consumer loans increased by 4.1 per cent. and 7.3 per cent., respectively, as at 31 December 2016, and continued to grow in 2017. Their year-on-year growth was 5.3 per cent. and 13.6 per cent., respectively, as at 30 September 2017.

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 and 2016, 11.4 per cent. and 9.5 per cent., respectively, of housing loans were denominated in Swiss francs. In September 2017, this value decreased further to 8 per cent., however, the development of the euro/Swiss franc exchange rate still remains important for part of Slovenian households.

Household loans with a variable interest rate represented 76 per cent. of the total value of new housing loans in 2015. The share of new household loans with variable interest rate decreased to 59 per cent. in December 2016 and further to 45 per cent. in the first nine months of 2017. 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 granted with variable interest rates were 2.2 per cent., which was 0.7 percentage points lower than in December 2014, and higher than the Eurozone average of 2.0 per cent. In December 2016, interest rates on housing loans decreased to 2.0 per cent. and remained unchanged in September 2017. Interest rates on housing loans granted with fixed interest rates declined from 3.2 per cent in December 2015 to 2.6 per cent. in 2016 and increased slightly in September 2017, to 2.9 per cent. Interest rates on consumer loans with variable interest rates also decreased until December 2015 to 4.2 per cent. (compared to 4.8 per cent. in December 2014), remaining lower than the Eurozone average of 4.8 per cent. In December 2016, interest rates on consumer loans remained the same as in December 2015 and stood at 4.2 per cent. Interest rates on consumer loans increased slightly to 4.3 per cent in September 2017.

In 2015, interest rates on corporate loans in Slovenia also declined. In December 2015, they stood at approximately 2.9 per cent. on loans of up to €1 million (a decline from 4.5 per cent. in December 2014) and at 2.2 per cent. on loans of more than €1 million (a decline from 3.4 per cent. in December 2014). In December 2016, interest rates on corporate loans of up to €1 million had declined to 2.5 per cent. and interest on corporate loans of more than €1 million increased to 2.6 per cent. The spread over Eurozone interest rates on corporate loans of more than €1 million reached 0.6 percentage points in December 2015 (1.6 per cent. in the Eurozone) and 1.2 percentage points in December 2016. The spread on corporate loans up to €1 million reached 0.3 percentage points in December 2015 (2.6 per cent. in the Eurozone) and 0.2 percentage points in December 2016. In September 2017, interest rates on corporate loans of up to €1 million had increased slightly to 3.5 per cent. and interest on corporate loans of more than €1 million decreased to 1.3 per cent. The breakdown of loans with regard to maturity does not indicate changes in interest rates in 2017, both for short-term and for long-term loans.

Funding

Slovenian banks have repaid most of their debt obligations to 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 December 2016, the share of wholesale funding declined to 9.9 per cent. and as at the end of September 2017 further declined to 8.0 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. 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. This declined to €4.7 billion at the end of December 2015 and to €3.7 billion at the end of December 2016. As at the end of September 2017, it had declined slightly to €2.9 billion.

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 longer-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 targeted longer-term refinancing operations ("**TLTROs**"), securing which amounted to €707 million as at 31 December 2014. In the year ended 31 December 2016, banks increased liabilities arising from the ECB to €714 million, including €699 million from the ECB's TLTRO. 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 to the Eurosystem in total assets increased in 2017 due to participation in the ECB's TLTROs II, reaching 3.1 per cent. as at the end of September 2017.

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 and 71 per cent. in December 2016. It increased to 72 per cent. in September 2017.

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. 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, by 13.5 per cent. year-on-year in December 2015 and by 8.4 per cent. year-on-year in December 2016.

Growth in household deposits continued in 2016, comprising 44.8 per cent. of total assets and representing the most important source of funding. The stock of household deposits increased by €1,036 million in 2016 to €16.6 billion as at 31 December 2016, resulting in year-on-year growth of 6.7 per cent. This process has continued in the first nine months of 2017. The stock of household deposits increased to €17.3 billion as at 30 September 2017, which has resulted in year-on-year growth of 6.6 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 December 2016, the shares were 63.1 per cent., 14.7 per cent. and 25.1 per cent. respectively. Demand deposits of the non-banking sector continued to grow in the first five months of 2017. In September 2017, the shares were 68.2 per cent., 12.4 per cent. and 19.5 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 Eurozone average. As at 31 December 2016, interest rates on household deposits of up to one year stood at 0.2 per cent. and decreased further to 0.1 per cent. until March, where they stayed unchanged until September. 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 rates decreased further in 2016 and stood at 0.5 per cent. in December 2016. In 2017, interest rates on deposits of more than one year decreased slightly to 0.4 per cent.

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

	Year ended 31 December				
	2012	2013	2014	2015	2016
			(%)		
Maturity breakdown	100.0	100.0	100.0	100.0	100.0
Demand deposits	38.7	41.4	45.7	55.4	63.1
Short term deposits	28.9	28.4	24.2	16.9	14.7
Long term deposits	32.3	30.3	30.1	27.7	22.1
Sector breakdown	100.0	100.0	100.0	100.0	100.0
Non-financial corporations	15.6	18.6	19.0	21.1	22.0
Households[(1)]	63.5	65.0	63.1	63.2	64.8
Government	12.7	7.3	9	8.3	5.9
Other financial institutions	5.3	4.4	4.7	4.2	4.3
Foreigners	3.0	4.6	3.5	3.1	3.0

Note:
(1) Including non-profit institutions serving households.
Source: Bank of Slovenia.

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 127 per cent. at the end of December 2016. As at 31 December 2015, the values of coverage at large and small domestic banks were 133 per cent. and 151 per cent., respectively, which were higher than the corresponding figure for majority foreign-owned banks of 113 per cent. In 2016, the coverage at large domestic banks, small domestic banks and foreign owned banks increased to 137 per cent., 163 per cent. and 117 per cent, respectively.

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 77.7 per cent. at the end of September 2017.

Credit and Income Risk

The Slovenian banking system has been exposed to significant credit risk in previous years, and credit risk remains a substantial systemic risk in the banking system. However, conditions in the Slovenian banking system have been stabilising in recent years. Recently, due to the efforts of the Bank of Slovenia, banks are approaching bad assets portfolios more actively by selling off relevant proportions 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 proportions 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 5.5 per cent. in December 2016, and then to 4.7 as at 30 September 2017.

Claims in arrears over 90 days totalled €3.5 billion as at 31 December 2015, and declined to €1.8 billion as at 31 December 2016 and €1.6 billion as at 30 September 2017, 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 proportion of non-performing loans, totalling €0.4 billion as at 30 September 2017, represents non-performing loans made to non-residents. The total share of non-performing loans to non-residents to total claims to non-residents increased from 12 per cent. prior to the first transfer of non-performing loans to the BAMC to 23.1 per cent. as at 31 December 2015 and declined gradually to 20.0 per cent. as at September 2017. The percentage total share of non-performing loans to non-residents to classified claims to non-residents declined from 18.7 per cent. in November 2013 to 8.2 per cent in September 2017.

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. This further decreased to 3.5 per cent. as at December 2016 and further decreased to 3.1 until September 2017.

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 15.3 per cent. Due to selling off large proportion of bad assets and other bank activities it declined to 7.5 per cent. as at December 2016 and further to 6.2 per cent. as at 31 September 2017.

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 44.0 per cent. As at December 2015, the construction sector's share of non-performing claims decreased to 39.5 per cent., decreased further to 25.1 per cent. as at 31 December 2016 and then to 23.8 as at 30 September 2017.

As at 31 December 2014, non-performing claims in the real estate activities sector, and the wholesale and retail trade sector stood at 30.6 per cent. and 18.8 per cent., respectively. As at December 2015, such claims stood at 38.7 per cent. and 16.2 per cent., respectively. As at December 2016, non-performing claims in the real estate activities sector and the wholesale and retail sector decreased to 13.2 per cent. and 6.7 per cent., respectively. This decreased as at 30 September 2017 to 7.8 per cent. and 5.2 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 15.9 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 4.7 per cent. as at December 2016 and 3.2 per cent. in September 2017.

Non-performing exposures ("**NPEs**"), as defined by the EBA, have seen similar decreasing trends. NPEs, reported on a solo basis, declined from 14.2 per cent. as at 30 June 2015 (the first time it was reported), to 8.5 per cent. as at 31 December 2016 and further to 7.1 per cent. as at 30 September 2017. The share of NPEs of non-financial corporations fell from 16.8 per cent. as at 31 December 2016 to 14.4 per cent. as at 30 September 2017, and of non-residents from 11 per cent. to 8.2 per cent. over the same period. Share of NPEs to households decreased from 3.3 per cent. as at 31 December 2016 to 3.0 per cent. as at 30 September 2017, representing one of the banks' least risky client segments (as defined by the EBA) and the share is expected to fall over the medium term. Due to the short period that the EBA has reported on NPEs, this analysis is primarily based on claims classified as in arrears over 90 days.

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 — 2013 Stress Tests and Restructuring of Slovenian Banking Sector*". 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 year ended 31 December 2016, impairments and provisioning costs decreased by 69 per cent. to €96 million, as compared to the previous year, which contributed to a pre-tax profit of €364 million.

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 December 2016, the net interest income stood at €670 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 by 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. In the first nine months of 2017, the contraction of net interest income continued compared to the same period in 2016, primarily due to lower interest rates on assets and a high share of liquid assets, which lead to a greater decline in interest income than interest expenses. However, the revival of credit activity in 2017 has had a positive effect on the net interest income. In the first nine months of 2017, net interest income remained the same as in the first nine months of 2016 and stood at negative five per cent.. Net interest income increased by five per cent. from 2015 to 2016. In the first nine months of 2017, operating costs were comparable to the same period in 2016. Banks released their net impairment costs in the first nine months 2017, and achieved a pre-tax profit of €369 million.

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 has remained at a satisfactory level since 2014 through the first nine months of 2017. The first bucket liquidity ratio slightly decreased from 1.48 as at 31 December 2015 to 1.45 as at 31 December 2016, while it stood at 1.39 as at 29 September 2017. The interest rate spread decreased from 2.23 as at 31 December 2015 to 2.10 as at 31 December 2016. In 2017 it has increased to 2.23 as at 30 September 2017.

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 18.54 per cent. as at 30 September 2017, which represented a decrease of 0.61 percentage points from 31 December 2016 and an decrease of 0.15 percentage points from 31 December 2015. The common equity tier 1 capital ratio stood at 18.13 per cent. as at 30 September 2017, which was a decrease of 0.54 percentage points from 31 December 2016 and an increase of 0.10 percentage points from 31 December 2015. The share of total capital in total assets increased from 12.35 per cent. at 31 December 2015 to 13.17 per cent. as at 31 December 2016 and increased to 13.23 per cent.

as at 30 September 2017. 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, payment systems and payment services providers.

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

In 2017, amendments to the Bank of Slovenia Act authorised the Court of Auditors to audit certain activities, such as performance and regularity of the activities, of the Bank of Slovenia. However, these amendments did not authorise the Court of Auditors to audit the activities of the Bank of Slovenia within the ESCB and the SSM.

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. Furthermore, an amendment of the 2015 Banking Act was adopted in July 2017 and entered into force on 29 July 2017. The aim of this amendment was mainly to clarify the obligation on safeguarding of confidential data and thus facilitate the work of a parliamentary commission of inquiry and the National Court of Auditors according to their mandates.

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.

Resolution and Compulsory Dissolution of Credit Institutions

The Resolution and Compulsory Dissolution of Credit Institutions Act (*Zakon o reševanju in prisilnem prenehanju bank (ZRPPB)*) entered into force on 25 July 2016. The act implemented the BRRD into the Slovenian legal system. It has introduced a wide scope of instruments for prevention and resolution of future issues regarding unstable or failing banks and other financial institutions. Its final aim is to prevent future needs for another recapitalisation of the banking sector from the state budget.

Central Credit Register Act

In December 2016, the Central Credit Register Act (*Zakon o centralnem kreditnem registru*) came into force. This Act provides the legal framework governing the establishment and operation of a central credit register and an electronic information exchange system by the Bank of Slovenia. The credit register contains information on the credit transactions of individuals and business entities, as well as information on credit risks and other exposures in relation to business entities. The information exchange system, which forms part of the credit register, is an electronic system for the exchange of data and information relating to the indebtedness of business entities and individuals.

The Bank Asset Management Company

The BAMC, a state-owned asset management company, was established in March 2013 under the "*Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability*" *(Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank (ZUKSB),* which came into force in December 2012. The BAMC operates in a manner that ensures 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.

Pursuant to amendments to the ZUKSB that were adopted in 2015 and came into force in 2016, the BAMC will operate until 2022. The assets remaining under BAMC's management at the end of 2022 will be transferred to either the SDH or other institutions.

At the general assembly meeting on 5 January 2017, the Republic appointed Dr. Miha Juhart and Mr. Mitja Križaj as non-executive directors of the Management Board of BAMC, effective from 28 January 2017 until 27 January 2022.

The table below sets out set out the key performance indexes used by the Republic to monitor the BAMC's performance for the periods indicated.

	Year ending 31 December					
	2017	2018	2019	2020	2021	2022
	(€ millions, except for percentages)					
Performance index						
Minimal cumulative income	676	877	1,078	1,279	1,480	1,681
Income/transfer value of assets	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Economic Return on Equity (EROE)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Cost efficiency(1)	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%

Note:
(1) Costs/average value of assets under management.

2013 Stress Tests and Restructuring of Slovenian Banking Sector

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
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**

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.
Source: Bank of Slovenia.

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, but not against the aforementioned banks.

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 plans to sell approximately 75 per cent. minus 1 share of NLB through an initial public offering, as approved by the European Commission, at least 50 per cent. is expected to be sold by the end of 2017 and the remainder by the end of 2018. There is a possibility that the European Commission could extend the deadline for selling the Republic's share in NLB, as the risk stemming from the transferred foreign currency deposits of former Ljubljanska banka is currently an obstacle to the successful completion of the transaction.

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.

2014 Stress Tests

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.

Subsequent EU-wide Stress Tests

None of the Slovenian banks were included in the EU-wide stress tests carried out since 2015.

Legislative Amendments

The Macro-Prudential Supervision of the Financial System Act (*Zakon o makrobonitetnem nadzoru finančnega sistema (ZMbNFS)*, the "**ZMbNFS**") 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 at 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 ("**DGSD**") 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**").

Since the end of 2010, deposits placed in credit institutions in Slovenia 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. Payouts under the deposit insurance scheme are triggered when an institution is placed into bankruptcy. The Bank of Slovenia cannot place an insolvent institution into bankruptcy, though the competent court is mandated to do so solely at the proposal of the Bank of Slovenia.

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. 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. 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 for guaranteed deposits through designated repayment banks which have contractually defined obligations regarding the preparedness for potential payouts and are regularly tested for efficiency.

All banks and savings institutions registered in the Republic of Slovenia contribute to the deposit guarantee scheme. 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 in one year of up to 1.0 per cent. of total covered deposits. As at 30 November 2017, the size of the deposit guarantee fund was €33.1 million. 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 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.

As at 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 Services and 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 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 of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

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 provisions of Directive 2366/2015 of the European Parliament and of the Council of 25 November 2015 on the payment services in the internal market, which is repealing Directive 2007/64/EC, is expected to be transposed into Slovenian legislation by the successor of the PSS Act, the Payment Services, Services of Issuing Electronic Money and Payment Systems Act *(Zakon o plačilnih storitvah, storitvah izdajanja elektronskega denarja in plačilnih sistemih, ZPlaSSIED)*, which is currently in the Parliamentary procedure and is expected to be adopted in the first quarter of 2018.

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, 2016 and 2017).

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 and was amended in January 2017. 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 was amended most recently in 2016 in order to implement Directive 2014/91/EU relating to depositary functions, remuneration policies and sanctions.

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 as at and for the years ended 31 December 2014 to 2016:

	As at and year ended 31 December		
	2014	**2015**	**2016**
	(€ billions, except for percentages)		
Market capitalisation	23.73	24.17	26.11
Share of market capitalisation in GDP (%)	63.6%	62.7%	65.3%
SBI TOP (the Slovenian blue-chip index)	784.12	696.15	717.59
Number of financial instruments	113	107	92
Shares	56	56	47
Bonds	57	55	45
Turnover	0.69	0.39	0.33
Share of turnover in GDP (%)	1.8%	1.0%	0.83%
Share turnover ratio	0.098	0.060	0.062
Bond turnover ratio	0.004	0.003	0.001

Source: Ljubljana Stock Exchange.

The number of long term financial instruments traded on the Ljubljana Stock Exchange slightly decreased from 113 in 2014 to 92 in 2016.

Trading in financial instruments on the Ljubljana Stock Exchange decreased to €334 million in 2016, approximately 52 per cent. less than in 2014. In 2016, the Slovenian blue chip stock index SBI TOP gained 3.1 per cent. in nominal terms compared to 2015, equalling 717.59 points.

The share turnover ratio, calculated as the ratio of annual volume to market capitalisation at the end of the respective period, was 0.098 in 2014 and decreased 36.7 per cent. to 0.062 in 2016. The bond turnover ratio decreased to 0.001 in 2016 from 0.004 in 2014.

Market capitalisation of financial instruments on the Ljubljana Stock Exchange amounted to €26.11 billion at the end of 2016 (Investment Funds excluded), which is an increase of 10.0 per cent. from December 2014.

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

	Year ended 31 December		
	2014	**2015**	**2016**
	(€ billions)		
Shares	0.61	0.33	0.31
Bonds	0.07	0.06	0.02
Investment Funds	0.00	0.00	0.00

	Year ended 31 December		
	2014	2015	2016
		(€ billions)	
Pension coupons	–	–	–
Long term financial instruments	0.68	0.39	0.33
Short-term financial instruments	0.01	0.00	0.00
Total	**0.69**	**0.39**	**0.66**

Source: Ljubljana Stock Exchange.

The volume of trading in financial instruments on the regulated market has slightly decreased by 4.3 per cent. in the last three years. The volume of trading in shares of companies was down by 49.2 per cent. in 2016 compared to 2014, while the volume of trading in bonds decreased by 71.4 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					
	2014		2015		2016	
	(€ millions)	(Share (%))	(€ millions)	(Share (%))	(€ millions)	(Share (%))
Share market	6,214.04	26.18	5,523.22	22.85	4,999.84	19.14
First listing	5,217.09	21.98	4,848.97	20.06	4,563,06	17.47
Standard listing	580.92	2.45	413.94	1.71	118.82	0.45
Entry market	416.03	1.75	260.32	1.08	317.96	1.22
Bond market	17,520.16	73.82	18,645.35	77.15	21,117.22	80.86
IC share market	–	–	–	–	–	–
Total	**23,734.20**	**100.0**	**24,168.58**	**100.00**	**26,117.07**	**100**

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 €26.11 billion at the end of 2016, which is 10.0 per cent. more than in December 2014, when the figure was approximately €23.73 billion. Total market capitalisation of all shares on the stock exchange stood at €5.0 billion at the end of December 2016, which was 19.5 per cent. less than at the end of December 2014. Total market capitalisation of bonds stood at €21.11 billion at the end of December 2016, up 20.5 per cent. from 2014, when it amounted to €17.52 billion.

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, clearing and settlement of securities transactions and maintenance of the Central Register of dematerialised securities (and their holders) in the Republic of Slovenia. Currently KDD's legal status and operation is regulated by the Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 and ZTFI.

The Notes will be issued in accordance with a written request (the "**Registration Order**") by the Republic to 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 the Central Register will be considered as the holder of such a Note.

The Notes will be transferable between accounts held with KDD by registration of such transfers in the Central Register in accordance with the applicable KDD Operations Rules and Regulations. For the purpose of transfers, a Noteholder shall maintain a trading account operated by a KDD member (a stockbroker or a bank). KDD Operations Rules and Regulations and a list of KDD members are 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).

Transfers of the Notes between accounts held with KDD require an instruction for delivery as well as an instruction for receipt to be submitted to KDD by the respective KDD members operating the transferor's and transferee's account. If adequate, the instructions are matched and constitute a transfer order. Specific provisions apply to transfers of the Notes effected within the corporate actions (as defined by the KDD Operating Rules) and transfers of the Notes effected within settlements of the Ljubljana Stock Exchange trades.

Transfers of the Notes between accounts held with KDD will be subject to corresponding transfers being effectuated in Eurosystem's single platform for securities settlement (Target2-Securities). From 6 February 2017 onwards, KDD Operations Rules and Regulations have thus been aligned with the common legal and operational framework applicable for the Target2-Securities settlement platform.

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 Slovenian 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.

Individuals are not liable to Slovenian 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 Joint Lead Managers have, pursuant to a subscription agreement dated 9 January 2018 (the "**Subscription Agreement**") and entered into between the Republic and the Joint Lead 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 Republic has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Joint Lead 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.

In connection with the Notes, certain Joint Lead Managers or certain of their respective affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, certain Joint Lead Managers or their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Republic at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes (notwithstanding that such selected counterparties may also be purchasers of the Notes).

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Republic. Certain of the Joint Lead Managers or their respective affiliates that have a lending relationship with the Republic routinely hedge their credit exposure to the Republic consistent with their customary risk management policies. Typically, such Joint Lead Managers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Republic's securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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 Joint Lead 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 with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation. Each Joint Lead Manager has represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and

(b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

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 Joint Lead 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 Joint Lead 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 Joint Lead 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 Joint Lead 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 Joint Lead 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 Joint Lead 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 third paragraphs of Article 48 of the Republic of Slovenia Budgets for 2018 and 2019 Implementation Act (*Zakon o izvrševanju proračunov Republike Slovenije za leti* 2018 and 2019 *(ZIPRS1819)*).

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 174844852. The ISIN for the Notes is SI0002103776. 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

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